National Australia Bank

Scheme Booklet for the Demerger of CYBG PLC from National Australia Bank Limited

VOTE IN FAVOUR

Your NAB Directors unanimously recommend that you vote in favour of the resolutions to approve the Demerger.

The Independent Expert has concluded that the Demerger is in the best interests of NAB Shareholders.

This is an important document and requires your immediate attention. You should read this Scheme Booklet in its entirety, taking particular notice of the reasons to vote in favour of and the reasons to vote against the Demerger, and the risks of an investment in CYBG Group and in NAB (after the Demerger), prior to deciding whether or not to vote in favour of the resolutions to approve the Demerger.

NAB Shareholders or NAB Tier 1 Securityholders who have any questions in relation to this Scheme Booklet or the Demerger should contact their financial, legal, taxation or other professional adviser. You can also visit **www.clydesdaledemerger.com.au** or contact the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.

National Australia Bank Limited (ABN 12 004 044 937)

Contents

Key dates for NAB securityholders

Event	Indicative date
Latest time and date by which the Scheme Meeting Proxy Form and General Meeting Proxy Form must be received by the NAB Share Registry(1)	2:00pm on 25 January 2016
Time and date for determining eligibility to vote at the Scheme Meeting and General Meeting ("**Voting Record Date**")	7:00pm on 25 January 2016
Scheme Meeting, followed by the General Meeting, to be held at Melbourne Convention and Exhibition Centre	10:00am on 27 January 2016
Announcement of Institutional Offer Price	2 February 2016
Expected commencement of conditional trading of CYBG Shares on the LSE	8:00am (GMT) on 2 February 2016
Expected commencement of deferred settlement trading of CYBG CDIs on ASX	10:00am on 3 February 2016
Latest time and date by which CDI Election Forms, Share Election Forms and Sale Facility Forms must be received by the NAB Share Registry if you wish to make a Security Election or participate in the Sale Facility(1)	5:00pm on 3 February 2016
Scheme Record Date for determining entitlements to CYBG Securities	7:00pm on 5 February 2016
UK Admission of CYBG Shares: CYBG Shares commence trading on an unconditional basis on the LSE	8:00am (GMT) on 8 February 2016
Dispatch of holding statements and certificates	16 February 2016
CYBG CDIs commence trading on a normal settlement basis on ASX	10:00am on 17 February 2016
Anticipated latest date for dispatch of Sale Facility Proceeds to Selling Shareholders (or ShareGift, if a Small Shareholder who is a Selling Shareholder so elects)	4 April 2016

(1) Different closing times may apply in respect of NAB Shares held under a NAB Employee Equity Plan.

This timetable is indicative only and, among other things, is subject to all necessary Court and regulatory approvals, Admission and the satisfaction (or waiver, if applicable) of Conditions Precedent to the Scheme. NAB has the right to vary any or all of these dates and times, subject to the approval of the variation by ASX, ASIC, UKLA/LSE and the Court, where required. Any variation to the timetable set out above will be announced to ASX and notified on the Demerger Website.

What do you need to do?

NAB SHAREHOLDERS ARE STRONGLY ENCOURAGED TO VOTE ON THE DEMERGER RESOLUTIONS AND THE CYBG CAPITAL REDUCTION RESOLUTION. NO OTHER ACTION IS REQUIRED TO PARTICIPATE IN THE DEMERGER UNLESS NAB SHAREHOLDERS WISH TO MAKE A SECURITY ELECTION OR A SALE ELECTION.

☑ Read this Scheme Booklet
☑ Vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution

- ➜ **If you are an Eligible AUSNZ Shareholder, decide whether to make a Share Election**
- ➜ **If you are an Eligible Overseas Shareholder, decide whether to make a CDI Election**
- ➜ **If you are a Small Shareholder, decide whether to make a Sale Election**
- ➜ **If you are an Ineligible Shareholder, you do not need to make any election. Any CYBG Shares to which you would otherwise have been entitled will be sold and the proceeds of sale remitted to you.**

See page 16 for further details. Please also see the Glossary contained in Section 10 for the meanings of capitalised terms and certain abbreviations used in this Scheme Booklet.

Important Notices

General

This Scheme Booklet is important. NAB Shareholders should read this Scheme Booklet in its entirety before making a decision as to how to vote on the resolutions to be considered at the Scheme Meeting and the General Meeting. NAB Tier 1 Securityholders should read this Scheme Booklet in its entirety before making a decision as to how to vote on the NAB Capital Reduction Resolution to be considered at the General Meeting.

NAB Shareholders or NAB Tier 1 Securityholders who are in doubt as to what they should do, should seek independent legal, financial, taxation or other professional advice before voting on those resolutions.

The terms of the NAB Tier 1 Securities permit NAB Tier 1 Securityholders to vote on the NAB Capital Reduction Resolution. However, as NAB Tier 1 Securities are not NAB Shares, NAB Tier 1 Securityholders do not participate in the Scheme, cannot vote at the Scheme Meeting, are not entitled to receive any CYBG Securities under the Demerger and accordingly also do not vote on the CYBG Capital Reduction Resolution. There is no change to the terms of the NAB Tier 1 Securities.

Purpose of this Scheme Booklet

The purpose of this Scheme Booklet is to explain the terms of the Demerger and the manner in which the Demerger will be considered and implemented (if approved), to set out certain information required by law and to provide all other information (other than information previously disclosed to NAB Shareholders and NAB Tier 1 Securityholders) which is known to NAB and which is material to the decision of NAB Shareholders and NAB Tier 1 Securityholders whether or not to vote in favour of the resolutions to be considered at the Meetings.

This Scheme Booklet contains:

- the explanatory statement required by section 412(1) of the *Corporations Act* in relation to the Scheme;
- all the information known to NAB that is material to NAB Shareholders and NAB Tier 1 Securityholders in deciding how to vote on the NAB Capital Reduction Resolution (other than information that is unreasonable to require NAB to disclose because NAB has previously disclosed the information to NAB Shareholders and NAB Tier 1 Securityholders), as required by section 256C(4) of the *Corporations Act*; and
- an explanation of the CYBG Capital Reduction.

Responsibility for information

This Scheme Booklet (other than Sections 7 and 8 and information which CYBG PLC has prepared and/or takes responsibility for as set out in the next paragraph) has been prepared by NAB and is the responsibility of NAB.

CYBG PLC has prepared the information relating to CYBG Group included in the Section entitled "Who is CYBG Group?" in the Overview, Item 4 (other than Items 4.2, 4.3 and 4.4) of Section 1, Section 3, Section 4.6.3 (other than the second and third last sentences) and Annexure G, and takes responsibility for the content of those sections of this Scheme Booklet. CYBG PLC also takes responsibility for the financial information set out in the second column, headed "CYBG HFI 30 September 2015(a)" of Annexure F and any of the other information in Annexure F to the extent that an error or omission in Annexure F is caused by information provided by CYBG PLC being erroneous or incomplete for NAB reporting purposes (being for the purposes of consolidating CYBG PLC and its subsidiaries into the NAB financial reports).

Ernst & Young Transaction Advisory Services Limited has prepared the Independent Limited Assurance Report set out in Section 7 and takes responsibility for that report.

Grant Samuel & Associates Pty Limited has prepared the Independent Expert's Report and the concise version of the Independent Expert's Report set out in Section 8, and takes responsibility for that report (including the concise version). The full Independent Expert's Report from which the concise version has been prepared is available on **www.clydesdaledemerger.com.au** and can be obtained free of charge by calling the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.

ASIC

A copy of this Scheme Booklet has been lodged with ASIC in accordance with section 256C(5) of the *Corporations Act* and registered by ASIC under section 412(6) of the *Corporations Act*. ASIC has been requested to provide a statement in accordance with section 411(17)(b) of the *Corporations Act*, that ASIC has no objection to the Scheme. If ASIC provides the statement, the statement will be produced to the Court at the time of the Second Court Hearing.

Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

As CYBG PLC is incorporated and registered in England and Wales and not an Australian company, its general corporate activities (apart from any offering of securities in Australia) are not regulated by the *Corporations Act* or by ASIC but instead CYBG PLC operates under the UK *Companies Act* 2006 ("***Companies Act (UK)***") and is subject to UK law and regulation, including, if UK Admission becomes effective, the Listing Rules published by the Financial Conduct Authority ("**FCA**") under the UK *Financial Services and Markets Act* 2000 ("**FSMA**") and the Disclosure and Transparency Rules ("**DTRs**") of the FCA and forming part of the FCA's handbook of rules and guidance, in force from time to time.

Important notice associated with Court order under section 411(1) of the *Corporations Act*

The fact that under section 411(1) of the *Corporations Act* the Court has ordered that a meeting be convened does not mean that the Court:

- has formed any view as to the merits of the proposed

Scheme or as to how NAB Shareholders should vote (on this matter, NAB Shareholders must reach their own decision); or

- has prepared, or is responsible for, the content of this Scheme Booklet.

Status of this Scheme Booklet

This Scheme Booklet is not a prospectus lodged under Chapter 6 of the *Corporations Act*. Section 708(17) of the *Corporations Act* provides that disclosure to investors under Part 6D.2 of the *Corporations Act* (as amended by relief obtained from ASIC) is not required for an offer of securities if it is made under a compromise or arrangement under Part 5.1 of the *Corporations Act*, approved at a meeting held as a result of an order made by the court under section 411(1) or (1A) of the *Corporations Act*.

Foreign jurisdictions and shareholders

Ineligible Shareholders will not receive CYBG Securities under the Demerger but will retain their current NAB Shareholding. All of the CYBG Securities to which those shareholders would otherwise have been entitled under the Demerger will automatically be sold by the Sale Agent on their behalf through the Sale Facility, with the Sale Facility Proceeds remitted to them, free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax. Refer to Sections 1 (in particular, Items 6.7 and 6.14) and 4.5 for further information.

NAB Shareholders who are not tax residents of Australia should seek specific tax advice in relation to the Australian and overseas tax implications of the Demerger. For a general discussion of the potential tax implications of the Demerger for NAB Shareholders resident in Australia and New Zealand refer to Section 6.

This Scheme Booklet does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would be unlawful to make such an offer.

This Scheme Booklet is neither an offer to sell nor a solicitation of an offer to buy any securities in the Institutional Offer. CYBG Shares to be offered and sold in the Institutional Offer have not been and will not be registered under the *US Securities Act* or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the *US Securities Act* and in compliance with any applicable state securities laws. The Institutional Offer will be made by means of an offer of CYBG Shares to qualified investors in certain EEA member states, including to institutional investors in the UK and to certain other institutional investors outside the United States in reliance on Regulation S and to QIBs in the United States in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the *US Securities Act*. Any purchase of CYBG Shares by eligible investors in the Institutional Offer should be made solely on the basis of the information contained in the prospectus that is expected to be prepared by CYBG PLC in connection with the Institutional Offer, which will contain detailed information about CYBG Group and CYBG Shares.

CYBG Shares to be distributed under the Demerger are expected to be exempt from the registration requirements of the *US Securities Act* pursuant to an exemption from such requirements provided by section 3(a)(10) of the *US Securities Act*.

For the purpose of qualifying for the exemption from the registration requirements of the *US Securities Act* provided by section 3(a)(10) of the *US Securities Act* with respect to the CYBG Shares distributed pursuant to the Scheme (as described above), NAB will advise the Court that its sanctioning of the Scheme will be relied upon as an approval of the Scheme following a court hearing on its fairness to NAB Shareholders, at which court hearing all such holders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme, and with respect to which notification has been given to all such holders.

None of the U.S. Securities and Exchange Commission ("**SEC**"), any United States state securities commission or any other United States regulatory authority has passed comment upon, approved or disapproved, or endorsed the merits of the Scheme, CYBG Securities or the accuracy, adequacy or completeness of this Scheme Booklet. Any representation to the contrary is a criminal offence in the United States. Refer to Section 9.17 for information about selling restrictions in foreign jurisdictions.

Admission

CYBG PLC will apply to the United Kingdom Listing Authority ("**UKLA**") for CYBG Shares to be admitted to the premium listing segment of the UKLA Official List and to the London Stock Exchange ("**LSE**") for such shares to be admitted to trading on the LSE's main market for listed securities. CYBG PLC will also apply for admission to the ASX Official List as an ASX foreign exempt listing and for official quotation of the CYBG CDIs on ASX. If UK Admission does not become effective, it is intended that CYBG PLC will apply to ASX for a standard listing rather than a foreign exempt listing. There is no guarantee that ASX will grant CYBG PLC either a standard listing or a foreign exempt listing. The Demerger is not conditional on UK Admission becoming effective or Australian Admission being granted.

A copy of this Scheme Booklet has been lodged with ASX. Neither the FCA, the LSE, ASX nor any of their respective officers takes any responsibility for the contents of this Scheme Booklet. The fact that the LSE, the UKLA and ASX may admit CYBG Shares or CYBG CDIs (as applicable) does not make any statement regarding, and should not be taken in any way as an indication of, the merits of an investment in CYBG Group.

Financial information

Other than as noted in this Scheme Booklet:

- financial information contained in this Scheme Booklet for NAB (after the Demerger) for the year ended

Important Notices

30 September 2015 has been prepared in accordance with NAB's accounting policies as disclosed in its financial report for the year ended 30 September 2015 (contained in its 2015 annual financial report); and

- financial information contained in this Scheme Booklet for CYBG Group has been prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the *Companies Act (UK)*.

NAB's accounting policies comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board and IFRS as issued by the International Accounting Standards Board.

NAB uses certain performance measures that are not statutory financial measures such as Cash Earnings and Underlying Profit as it better reflects what NAB considers to be the underlying performance of NAB. These measures are collectively referred to as non-IFRS financial measures and are not presented in accordance with Australian Accounting Standards. Further information regarding non-IFRS measures can be found in NAB's annual financial report for the year ended 30 September 2015, including how these measures are defined and a full reconciliation of cash earnings to statutory net profit attributable to owners.

CYBG Group also presents income statement data on a Management Basis and certain key non-statutory performance indicators as they reflect what CYBG Group considers to be useful supplementary information to assist in evaluating the underlying operating performance of CYBG Group. Refer to Section 3 for further details including the reconciliation of the CYBG HFI to the Management Basis.

This Scheme Booklet contains pro forma historical financial information for both NAB (after the Demerger) and CYBG Group. In preparing the pro forma historical financial information, certain adjustments were made to the historical financial information of NAB and CYBG Group which NAB and CYBG Group (as applicable) considered appropriate to illustrate the effect of the Demerger and directly related transactions, as described in this Scheme Booklet. The financial information contained in this Scheme Booklet is historical only. Past financial performance is not necessarily a guide to future financial performance.

The pro forma historical information does not comply, and does not purport to be in compliance with Article 11 of Regulation S-X of the SEC. Certain financial data included in this Scheme Booklet are non-GAAP financial measures under the *US Securities Exchange Act*. The disclosure of certain non-GAAP financial measures in the manner included in this Scheme Booklet would not be permissible under regulations of the SEC.

Investment decisions

This is an important document and should be read in its entirety, including the risks outlined in Sections 1 (Items 1.8, 3.6, 3.7 and 4.11), 2.9 and 3.15 and Part One of Annexure G. However, information in this Scheme Booklet is general information only and does not take into account the investment objectives, financial situation or particular needs of any NAB Shareholder, NAB Tier 1 Securityholder or any other person. This Scheme Booklet should not be relied upon as the sole basis for any investment decisions in relation to NAB Shares, CYBG Securities or any other securities. You should consider whether the information in this Scheme Booklet is appropriate for you in light of your objectives, financial situation and needs and consult your financial, legal, taxation or other professional adviser before making any investment decision.

Forward looking statements

Certain statements in this Scheme Booklet relate to the future. These statements may include, without limitation, any statements preceded by, followed by or including words such as "target", "believe", "expect", "aim", "intend", "may", "anticipate", "estimate", "plan", "project", "will", "can have", "likely", "should", "would", "could" and other words and terms of similar meaning or the negative thereof. While NAB and CYBG Group (as appropriate) believe there is a reasonable basis for these forward looking statements, they do involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of NAB and/or CYBG Group to be materially different from the future results, performance or achievements expressed or implied by such statements. Such forward looking statements are based on numerous assumptions regarding present and future business strategies, an assessment of present economic and operating conditions and the environment in which NAB or CYBG Group will operate in the future, and which may prove to be incorrect. Certain important factors that could cause actual results, performance or achievements to differ materially from those in the forward looking statements include, among others, the risk factors described in this Scheme Booklet, and other unknown risks and uncertainties. Forward looking statements should, therefore, be construed in light of such risk factors. You are cautioned not to place undue reliance on these statements.

Other than as required by law, none of NAB, CYBG PLC, their officers or any other person, gives any representation, assurance or guarantee that the occurrence of the events, results and outcomes expressed or implied in any forward looking statements in this Scheme Booklet will actually occur.

The forward looking statements in this Scheme Booklet reflect views held only at the date of this Scheme Booklet. Subject to any continuing obligations under law or the ASX Listing Rules or as contemplated by Section 9.13, NAB and CYBG PLC and their respective directors and officers disclaim any obligation or undertaking to disseminate, after the date of this Scheme Booklet, any updates or revisions to any forward looking statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

Estimates

Unless otherwise indicated, all references to estimates and derivations of the same in this Scheme Booklet are references to estimates by NAB management or CYBG Group management, as appropriate. NAB and CYBG Group management estimates are based on views at the date of this Scheme Booklet and actual facts or outcomes may be materially different from those estimates.

Interpretation

Capitalised terms and certain abbreviations used in this Scheme Booklet have the defined meanings set out in the Glossary contained in Section 10.

Figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Scheme Booklet.

All references to currency or "$", "$A", "A$", "$AUD", "dollar" and "cent" are references to the currency of Australia unless otherwise indicated.

All references to "£", "GBP", "Great British pounds", "British Pounds", "Pounds Sterling" and "pence" are references to the currency of Great Britain, unless specified otherwise.

All references to years are references to NAB's financial years or CYBG Group's financial years (as the case may be), ending or ended 30 September, unless otherwise indicated.

Unless otherwise stated, all references in this Scheme Booklet to time are to Australian Eastern Daylight Saving Time. All dates following the date of the Scheme Meeting are indicative only and are subject to Court or, where relevant, UK Court approval, NAB Shareholder approval, UKLA/LSE approval, ASIC approval, ASX approval and/or the satisfaction or, where applicable, waiver of other Conditions Precedent to the implementation of the Scheme.

Privacy and personal information

NAB and CYBG PLC and their respective share registries may collect personal information, including from each other, in the process of implementing the Scheme and the Demerger and administering the shareholdings arising from the Demerger. The personal information may include the names, addresses, other contact details and details of the shareholdings of NAB Shareholders, and the names of individuals appointed by NAB Shareholders or NAB Tier 1 Securityholders as proxies, corporate representatives or attorneys at the Scheme Meeting and/or the General Meeting.

NAB Shareholders and NAB Tier 1 Securityholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. Such individuals should contact Computershare Investor Services Pty Limited on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) on Business Days between 8:00am and 7:30pm in the first instance, if they wish to request access to that personal information. NAB's privacy policy contains information about seeking access and correction and making complaints, and how NAB will deal with them.

The personal information is collected for the primary purpose of implementing the Scheme and the Demerger and administering the shareholdings arising from the Demerger. The personal information may be disclosed to NAB's and CYBG PLC's share registries, to securities brokers, to print and mail service providers and to any other service providers and advisers engaged by NAB, CYBG PLC or their respective share registries for this purpose. The personal information of Selling Shareholders may also be disclosed to the Sale Agent for the purposes of operating the Sale Facility.

The main consequence of not collecting the personal information outlined above would be that NAB and CYBG PLC may be hindered in, or prevented from, conducting the Meetings and implementing the Demerger.

NAB Shareholders and NAB Tier 1 Securityholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meeting and/or the General Meeting should inform such individual of the matters outlined above.

Supplementary information

Refer to Section 9.20 for information about the steps NAB will take if information about the Scheme needs to be updated.

Date of this Scheme Booklet

This Scheme Booklet is dated 7 December 2015. Unless otherwise indicated, all information included in this Scheme Booklet (including views, recommendations and statements of intention) is current as at that date.

Timetable and indicative dates

All timetables and dates set out in this Scheme Booklet are indicative only and, among other things, subject to all necessary Court and regulatory approvals. NAB has the right to vary any or all of these dates and times, subject to the approval of the variation by ASX, ASIC, UKLA/LSE and the Court, where required.

Further information

NAB Shareholders and NAB Tier 1 Securityholders who have any questions or require further information should visit **www.clydesdaledemerger.com.au** or contact the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.

For legal reasons, the NAB Shareholder Information Line will not provide advice on the merits of the Demerger, the CYBG Securities or any of the available elections or give any financial, legal or taxation advice. NAB Shareholders and NAB Tier 1 Securityholders should seek their own independent legal, financial, taxation or other professional advice.

Any information provided through the NAB Shareholder Information Line will not override the contents of this Scheme Booklet.

Overview

NAB is seeking to exit its investment in CYBG Group, a UK based banking group, by demerging 75% of the CYBG Shares to NAB Shareholders. The demerger is proposed to occur by way of a scheme of arrangement and capital reduction which will result in approximately 75% of the CYBG Shares being distributed to, or for the benefit of, NAB Shareholders ("**Demerger**"). It is proposed that NAB's share capital be reduced with the reduction of capital being satisfied by the distribution of CYBG Securities under the scheme of arrangement. NAB Shareholders will be entitled to one CYBG Security for every four NAB Shares they hold as at the Scheme Record Date.

The remaining CYBG Shares are proposed to be divested by NAB under the Institutional Offer. However, the Demerger is not conditional on the Institutional Offer proceeding. If the Institutional Offer does not proceed or does not proceed in full, NAB will retain up to 25% of the CYBG Shares on issue immediately following the Demerger (in which case it intends to sell those retained CYBG Shares as soon as practicable after the Demerger having regard to market conditions and the price it can obtain[(1)]).

CYBG Securities will be able to be traded on ASX as CYBG CDIs (ASX: CYB) and on the LSE as CYBG Shares (LSE: CYBG), in each case if Australian Admission is approved and UK Admission becomes effective. If UK Admission does not become effective, it is intended that CYBG PLC will apply to ASX for a standard listing rather than a foreign exempt listing. There is no guarantee that ASX will grant CYBG PLC either a standard listing or a foreign exempt listing. The Demerger is not conditional on UK Admission becoming effective or Australian Admission being granted.

CYBG CDIs are a depositary interest which provide the holder with beneficial ownership of the underlying CYBG Shares. Each CYBG CDI will represent a beneficial interest in one CYBG Share. A holder of CYBG CDIs will be able to request to convert their holdings of CYBG CDIs to CYBG Shares or vice versa at any time after 8 February 2016 by contacting their broker or the CYBG Share Registry.

Immediately after the Demerger is implemented, each NAB Shareholder who receives a CYBG Security pursuant to the Demerger will:

- retain the same NAB Shareholding; and
- hold new securities (either CYBG Shares or CYBG CDIs) which represent 75% of their previous indirect economic interest in CYBG Group.

Entitlements to CYBG Securities will be rounded down to the nearest whole number.

No NAB Shareholder's holding of NAB Shares will change as a result of the Demerger. Fractional entitlements to CYBG Securities arising from rounding down will be aggregated and sold under the Sale Facility and the proceeds remitted to NAB.

Certain NAB Shareholders will not receive CYBG Securities under the Demerger. Those Ineligible Overseas Shareholders and Small Shareholders (Eligible NAB Shareholders who individually hold 2,000 NAB Shares or less who elect to participate in the Sale Facility) will have the CYBG Securities to which they would otherwise have been entitled under the Demerger automatically sold through the Sale Facility, and will have the proceeds of the sale remitted to them (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax). Small Shareholders can elect to donate these proceeds to ShareGift, as described in Section 4.5.2. ShareGift is a not-for-profit organisation that gives shareholders an easy and cost effective way to donate shares or cash proceeds to the community.

In order to approve the Demerger, the Scheme Resolution will be considered at the Scheme Meeting by the NAB Shareholders and the NAB Capital Reduction Resolution will be considered at the General Meeting by NAB Shareholders and NAB Tier 1 Securityholders. The Scheme Resolution and the NAB Capital Reduction Resolution are referred to as the Demerger Resolutions.

In addition, the CYBG Capital Reduction Resolution will be considered at the General Meeting, but only by the NAB Shareholders.[(2)]

NAB Shareholders as at 7:00pm on 25 January 2016 are entitled to vote on the Demerger Resolutions and, therefore, whether the Demerger should proceed. In addition, they are also entitled to vote on the CYBG Capital Reduction Resolution. Those NAB Shareholders can vote in person or by proxy, by attorney or, in the case of a corporation, by corporate representative. Details of how to vote are set out on pages 21 to 22 and in Annexures C and D.

(1) Subject to certain agreed lock up arrangements if the Institutional Offer proceeds, but not for the full 25%.

(2) The purpose of the CYBG Capital Reduction is to create distributable reserves on the balance sheet of CYBG PLC which will provide CYBG PLC with flexibility to pay dividends in the future if appropriate or to absorb any impairments in the value of its assets should this occur.

NAB Tier 1 Securityholders as at 7:00pm on 25 January 2016 are entitled to vote on the NAB Capital Reduction Resolution only. Those NAB Tier 1 Securityholders can vote in person or by proxy, by attorney or, in the case of a corporation, by corporate representative. Details of how to vote are set out on pages 21 to 22 and in Annexure D.

As NAB Tier 1 Securities are not NAB Shares, NAB Tier 1 Securityholders do not participate in the Scheme, cannot vote at the Scheme Meeting, are not entitled to receive any CYBG Securities under the Demerger and accordingly cannot vote on the CYBG Capital Reduction Resolution. There is no change to the terms of the NAB Tier 1 Securities.

The NAB Directors unanimously believe that the Scheme is in the best interests of NAB Shareholders as a whole. The NAB Directors are also of the view that, taking into account all relevant matters, the NAB Capital Reduction is fair and reasonable to the members of NAB as a whole and will not materially prejudice the ability of NAB to pay its creditors.

The Independent Expert, Grant Samuel, has also concluded that the Demerger is in the best interests of NAB Shareholders and that the NAB Capital Reduction will not materially prejudice NAB's ability to pay its creditors.

The NAB Directors unanimously recommend that NAB Shareholders and NAB Tier 1 Securityholders vote in favour of ALL the resolutions to be considered at the General Meeting, and that NAB Shareholders vote in favour of the resolution to be considered at the Scheme Meeting, as the NAB Directors intend to do in respect of the NAB Shares and NAB Tier 1 Securities controlled by them.

WHAT IS THIS SCHEME BOOKLET FOR?

This Scheme Booklet provides:

- NAB Shareholders with information to consider in relation to the Demerger before voting on the resolution to be considered at the Scheme Meeting scheduled for 10:00am on 27 January 2016; and
- NAB Shareholders and NAB Tier 1 Securityholders with information to consider before voting on the resolutions to be considered at the General Meeting scheduled for 10:15am or immediately after the conclusion of the Scheme Meeting (whichever occurs later), on 27 January 2016.

It also provides information in relation to CYBG Group as a standalone business and in relation to CYBG Shares and CYBG CDIs.

SUMMARY OF THE DEMERGER

Who is eligible to participate in the Demerger?

You are eligible to receive CYBG Securities under the Demerger if you are a NAB Shareholder whose registered address on the NAB Share Register as at the Scheme Record Date is in:

- Australia or New Zealand ("**Eligible AUSNZ Shareholder**"); or
- the UK, United States (excluding California), Singapore, Hong Kong, Japan, Ireland or Canada ("**Eligible Overseas Shareholder**").

NAB Shareholders with registered addresses outside the above mentioned jurisdictions on the Scheme Record Date will be ineligible to receive CYBG Securities under the Demerger ("**Ineligible Shareholder**") and will be treated as Selling Shareholders. CYBG Securities to which Ineligible Shareholders would otherwise have been entitled under the Demerger will be sold through the Sale Facility for the benefit of those Ineligible Shareholders.

If you are an Eligible AUSNZ Shareholder or Eligible Overseas Shareholder who holds 2,000 NAB Shares or less as at the Scheme Record Date, you will qualify as a Small Shareholder. Small Shareholders can elect to sell all (but not only some) of the CYBG Securities to which they are entitled under the Demerger through the Sale Facility.

As NAB Tier 1 Securities are not NAB Shares, NAB Tier 1 Securityholders do not participate in the Scheme, cannot vote at the Scheme Meeting, are not entitled to receive any CYBG Securities under the Demerger and accordingly cannot vote on the CYBG Capital Reduction Resolution. There is no change to the terms of the NAB Tier 1 Securities.

Overview

What will NAB Shareholders receive if the Demerger is implemented?

If the Demerger is implemented, each NAB Shareholder will retain their current NAB Shareholding and be entitled to receive **one** CYBG Security for every **four** NAB Shares that they hold on the Scheme Record Date (expected to be 7:00pm on 5 February 2016) in the following form:

- Eligible AUSNZ Shareholders (other than Selling Shareholders) will receive CYBG CDIs (unless they make a Share Election);
- Eligible Overseas Shareholders (other than Selling Shareholders) will receive CYBG Shares (unless they make a CDI Election); and
- Selling Shareholders will receive the proceeds of the sale of the CYBG Securities that they would otherwise have been entitled to under the Demerger through the Sale Facility. Note, Selling Shareholders will not receive a CGT discount. Refer to Section 6 for further details.

The Sale Facility Proceeds (calculated on a volume weighted average basis so that all Selling Shareholders receive the same price for each CYBG Security sold on their behalf) will be distributed to Selling Shareholders, free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax. It is anticipated that the Sale Facility Proceeds will be dispatched to Selling Shareholders no later than 4 April 2016. Small Shareholders can also elect to donate these proceeds to the charity ShareGift, as described in Section 4.5.2.

If the number of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of CYBG Securities. The remaining fractional entitlements will be aggregated and transferred to the Sale Agent to be sold in the Sale Facility, the proceeds of which will be remitted to NAB.

There is no guarantee of, and the Demerger is not conditional on, UK Admission becoming effective or Australian Admission being granted. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date any Share Election will be disregarded and be of no effect, and it is proposed that Eligible Overseas Shareholders will receive CYBG CDIs instead of CYBG Shares under the Demerger.

What elections can NAB Shareholders make?

The table to the right summarises the elections NAB Shareholders can make and what NAB Shareholders receive as part of the Demerger based on those elections. Eligible Shareholders can only make an election in relation to all (but not only some) of the CYBG Securities to which they are entitled under the Demerger.

Table 1: Summary of elections NAB Shareholders can make

Type of NAB Shareholder				What will the NAB Shareholder receive?		
				CYBG CDIs traded on ASX[1]	**CYBG Shares traded on LSE**[2]	**Sale Facility Proceeds**
Type of NAB Shareholder	**Eligible AUSNZ Shareholder**	Eligible AUSNZ Shareholder who is **not** a Small Shareholder	Does not make a Share Election **(CDI Receiving Shareholder)**	✓		
			Makes a Share Election **(Share Receiving Shareholder)**		✓	
		Eligible AUSNZ Shareholder who is a Small Shareholder[4]	Does not make a Share Election or a Sale Election **(CDI Receiving Shareholder)**	✓		
			Makes only a Share Election **(Share Receiving Shareholder)**		✓	
			Makes a Sale Election **(Selling Shareholder)**			✓[3]
	Eligible Overseas Shareholder	Eligible Overseas Shareholder who is **not** a Small Shareholder	Does not make a CDI Election **(Share Receiving Shareholder)**		✓	
			Makes a CDI Election **(CDI Receiving Shareholder)**	✓		
		Eligible Overseas Shareholder who is a Small Shareholder[4]	Does not make a CDI Election or a Sale Election **(Share Receiving Shareholder)**		✓	
			Makes only a CDI Election **(CDI Receiving Shareholder)**	✓		
			Makes a Sale Election **(Selling Shareholder)**			✓[3]
	Ineligible Shareholder	NAB Shareholder who is **not** an Eligible Shareholder	Ineligible to receive CYBG Securities under the Demerger and will be treated as a **Selling Shareholder**			✓

(1) Assuming ASX grants CYBG PLC an ASX Listing. There is no guarantee of, and the Demerger is not conditional on, UK Admission becoming effective or Australian Admission being granted.

(2) Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date. CYBG Shares will be distributed to Share Receiving Shareholders in certificated form unless the Share Receiving Shareholder provides their CREST account details on their Share Election Form or their CREST Details Form (as applicable). If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, then any Share Election will be disregarded and be of no effect and it is proposed that Eligible Overseas Shareholders (other than Selling Shareholders) will receive CYBG CDIs instead of CYBG Shares under the Demerger. There is no guarantee of, and the Demerger is not conditional on, UK Admission becoming effective or Australian Admission being granted.

(3) Unless the Selling Shareholder elects to donate the Sale Facility Proceeds to the charity ShareGift.

(4) An Eligible Shareholder who individually holds 2,000 NAB Shares or less as at the Scheme Record Date.

If you make a Sale Election, you should not make a Share Election or CDI Election. If you make both a Sale Election and a Share Election or a CDI Election, the Sale Election will take precedence and the Share Election or CDI Election (as applicable) will be disregarded.

Overview

Rationale and background to the Demerger

In October 2014 NAB signalled it was considering exiting its CYBG Group operations as part of NAB's strategy to focus on its core Australia and New Zealand franchises, which has historically delivered higher returns on equity and higher capital generation. Following the successful completion of NAB's full divestment of Great Western Bank ("**GWB**") in July 2015, CYBG Group is now NAB's only significant standalone business operating outside its core market in Australia and New Zealand. CYBG Group represented 8.8% of NAB's total assets as at 30 September 2015, and excluding the effect of legacy conduct charges, CYBG Group contributed 3.3% of NAB's cash earnings before tax and distributions for the financial year ended 30 September 2015. Due to legacy conduct charges of $1,052m, CYBG Group incurred a significant loss of $737m for the year ended 30 September 2015, reducing NAB's cash earnings before tax and distributions.

Decision to exit CYBG Group

The NAB Directors believe that the benefits of operating a retail and SME banking business in multiple geographies are becoming more limited and difficult to achieve given the growing complexity and differences in regulation and operating environments.

CYBG Group is such a business, operating within a different geography, macroeconomic environment, economy and regulatory regime to NAB's core Australia and New Zealand franchises. Increasingly, NAB's core business and the CYBG Group business have operated separately, with different banking products, marketing & branding, infrastructure and operational functions. As such, this has limited the extent of any synergies between NAB's core Australia and New Zealand franchises and the CYBG Group business, and has led to the CYBG Group business consuming a disproportionate share of NAB Board and management resources.

For these reasons, the NAB Directors believe that the Demerger will reduce the risk and complexity of managing NAB, and accordingly, reduce the risk for investors associated with an investment in NAB.

Separating the businesses into two independent corporate groups will allow each group to focus more on improving performance in its own home markets, local strategy, business operations and growth objectives and to pursue its own value maximising priorities. In addition, the separation of the two businesses will allow both NAB and CYBG Group to adopt independent capital structures, dividend policies and financial policies best suited to their individual regulatory and operating requirements and business performance.

Demerger (with the opportunity to undertake an Institutional Offer) is the best exit option

The NAB Directors consider that the Demerger (in conjunction with the opportunity to undertake the Institutional Offer) is the best exit option for NAB Shareholders in comparison to other exit alternatives, as it enables NAB to accelerate its exit from CYBG Group and represents a more certain outcome for NAB. In addition, the Demerger provides NAB Shareholders with the opportunity to hold separate investments in each business and the flexibility to determine their own investment level in each business.

The NAB Directors propose to pursue the Institutional Offer contemporaneously with the Demerger to support the development of an active and liquid market in CYBG Shares on the LSE, broaden the investor base of CYBG PLC by allowing new investors to participate in the listing of CYBG PLC (including institutional investors who are typically more focused on investing in the UK equity markets and in UK banks), and help transition trading in CYBG Securities to CYBG PLC's proposed primary market on the LSE, aligned with the location and currency of CYBG Group's business and the financial and regulatory environments in which CYBG Group operates. In addition, in recent times, the UK market has seen a number of initial public offerings of UK retail and SME banks (including TSB, Virgin Money, OneSavings Bank, Aldermore and Shawbrook). The net proceeds of the Institutional Offer will be retained and will further strengthen NAB's capital position.

Other alternative exit options considered by the NAB Board included a trade sale and a full or standalone partial initial public offering. Since 2009, NAB has been approached by and has engaged in a number of discussions with potential buyers of CYBG Group, however, no proposal to purchase CYBG Group has emerged from these discussions on terms and conditions acceptable to NAB. The NAB Directors note that the Demerger does not preclude CYBG Group considering, and if appropriate participating in, any industry consolidation once it is established as a listed group. Further, the NAB Board considers a full or standalone partial initial public offering would have increased market risk and may have required NAB to retain for a period of time a significant stake in CYBG Group (in excess of the approximately 25% which could potentially be retained if the Institutional Offer does not proceed as planned), and as such may not have provided the desired separation.

CYBG Group is now in a position to operate as a standalone banking group

The NAB Directors are of the view that CYBG Group is now in a position to be demerged to NAB Shareholders and listed (in the UK and Australia) as a standalone retail and SME banking group with a strong franchise across its core regional UK markets, a strong balance sheet and capital position, a robust business plan and operating platform, as well as an experienced management team.

In recent years, NAB has undertaken a number of steps and initiatives to strengthen CYBG Group's standalone position. These include:

- Transferring the majority of CYBG Group's UK commercial real estate loan portfolio to NAB in 2012 in light of UK economic conditions and deterioration in the asset quality of the portfolio;
- Simplifying CYBG Group's business model to focus on residential mortgages and SME lending;
- Capital injections to strengthen CYBG Group's capital base in response to regulatory change and the cost of making redress in respect of issues arising from the sale of certain financial products;
- Improving the cost profile of CYBG Group;
- Assisting CYBG Group to enhance its banking technology platform;
- Reducing reliance on NAB for senior funding support;
- Establishing standalone credit ratings for CYBG PLC, with CYBG PLC expected to have a senior standalone investment grade credit rating;
- Establishing CYBG Group's standalone derivative capability to reduce its reliance on NAB for such services;
- Considerably de-risking CYBG Group's defined pension benefit scheme; and
- Appointing a new senior management team for CYBG Group, including the appointment of David Duffy as Chief Executive Officer of CYBG Group on 5 June 2015.

Some of these steps are also supported by NAB and CYBG PLC entering into Transitional Services Agreements to progress to a full separation over time.

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's current interest in CYBG Group's existing AT1 Notes and Tier 2 Notes, with an equivalent amount of new AT1 Notes and Tier 2 Notes, to be issued by CYBG PLC on the Demerger Date and initially held by NAB. The arrangements for the new instruments will be effected (at CYBG Group's option in respect of the AT1 Notes only) on market terms, with the pricing agreed and terms and conditions substantially agreed between NAB and CYBG Group on 4 November 2015. The effect of these arrangements is intended to allow CYBG Group to optimise its regulatory position in respect of its issuances of AT1 Notes and Tier 2 Notes and to provide a single issuing entity for CYBG Group's capital securities following the Demerger.

It is NAB's intention to re-market and sell the new AT1 Notes and Tier 2 Notes it will hold in CYBG Group following the Demerger to third party investors during 2016, and NAB and CYBG Group have agreed that CYBG Group will assist NAB in the re-marketing and sale of the new AT1 Notes and Tier 2 Notes. The key terms of the proposed new AT1 Notes and Tier 2 Notes and other information relating to the re-marketing and sale are set out in Section 4.10.2.3.

NAB Directors and the Independent Expert believe the Demerger is in the best interests of NAB Shareholders

The NAB Directors are of the view that the Demerger is likely to enhance value for NAB Shareholders over the long term, through a combination of improved return on equity and capital generation, given the higher profitability and returns currently generated from NAB's core Australia and New Zealand franchises.

It is the current intention of each of the NAB Directors, including NAB's CEO, to hold the CYBG Securities that they personally receive under the Demerger for at least the first 12 months following the Effective Date.

The Independent Expert, Grant Samuel, has also concluded that the Demerger is in the best interests of NAB Shareholders.

Overview

Reasons to vote for or against the Demerger

There are various reasons to vote for or against the Demerger. NAB Shareholders and NAB Tier 1 Securityholders should carefully consider the reasons summarised below (and described further in Item 2 of Section 1).

NAB Shareholders and NAB Tier 1 Securityholders should also carefully consider the potential risks associated with a continuing investment in NAB (after the Demerger) described in Section 2.9, and the potential risks associated with an investment in CYBG Group described in Section 3.15 (and set out in further detail in Part One of Annexure G).

Reasons to vote for the Demerger

- Allows NAB to focus on its core priorities within its strong Australia and New Zealand franchises, without the attention required to manage a bank operating within a complex UK regulatory environment.
- Will lead to increased direct management focus on each of the separate businesses.
- Provides the CYBG Board and CYBG Group's management team with full autonomy to pursue their own strategic objectives, priorities and opportunities, which may not have otherwise been pursued (or not to the same extent) under NAB ownership, due to competing capital requirements and strategic priorities across NAB.
- Allows both NAB and CYBG Group to adopt independent capital structures and dividend policies.
- Provides Eligible Shareholders with separate investments in the NAB (after the Demerger) and CYBG Group businesses and the flexibility to determine their own investment level in each business, including the ability to retain their CYBG Securities and to benefit from any improvement in the UK economy and CYBG Group's strategy and performance going forward.
- Provides certainty surrounding NAB's maximum exposure relating to CYBG Group's historic conduct issues under the Conduct Indemnity Deed. Under the Conduct Indemnity Deed, NAB has agreed to provide CYBG PLC with the Capped Indemnity, which provides indemnity protection for certain historic conduct issues up to the Capped Indemnity Amount. NAB has been granted a full release of any other conduct related claims by any member of CYBG Group against any member of NAB (after the Demerger). A summary of these arrangements is set out in Section 4.9.
- The NAB Directors believe that NAB Shareholder value over the long term is more likely to be enhanced by focussing on the Australia and New Zealand business which has historically delivered higher returns on equity and higher capital generation.
- The Independent Expert, Grant Samuel, has also concluded that the Demerger is in the best interests of NAB Shareholders.

Reasons to vote against the Demerger

- CYBG Group has no track record operating on a standalone basis which may reduce its ability to access funding and capital markets or impact the trading price of the CYBG Securities.
- CYBG Group has an experienced, but relatively newly appointed management team.
- CYBG Group will incur additional operating costs operating on a standalone basis.
- NAB will incur one-off costs and an accounting loss associated with the Demerger. NAB will have incurred a substantial portion of these one-off costs prior to the Meetings.
- In connection with the Demerger, and as a term of the sale arrangements for CYBI with CYBG PLC, NAB is required to enter into the Conduct Indemnity Deed. While this provides a maximum limit for NAB's potential exposure to legacy conduct costs, NAB is required to collateralise its obligations under the Capped Indemnity by placing a cash deposit with The Bank of England, and take a CET1 deduction for the Capped Indemnity Amount. In addition, NAB will indemnify CYBG PLC for any tax payable by CYBG PLC on payments received under the Capped Indemnity (or subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments). However, no such tax is anticipated to be payable as it is not expected that payments under the Capped Indemnity will be taxable. Further information in relation to these arrangements is set out in Section 4.9.
- NAB and CYBG Group will continue to have residual exposure to each other through ongoing arrangements (and through NAB's retained equity stake in CYBG PLC if the Institutional Offer does not proceed in full).
- There may be delays and unexpected costs in establishing a clean separation of NAB (after the Demerger) and CYBG Group.
- As there has been no public trading market for the CYBG Securities, an active trading market for the CYBG Securities may not develop, or if it develops, may not be sustained.
- The aggregate value of NAB Shares and CYBG Securities following the Demerger may be less than the value of NAB Shares before the Demerger.
- Eligible Shareholders will have more direct exposure to foreign exchange risk through their holding of CYBG Securities (as compared to simply holding NAB Shares).
- NAB Tier 1 Securityholders will not receive any CYBG Securities under the Demerger and will not have access to the assets of CYBG Group to satisfy any claims they may have on a winding up of NAB.

NAB Shareholders should also note that there is no guarantee of, and the Demerger is not conditional on, UK Admission becoming effective or Australian Admission being granted.

Reasons to vote for the CYBG Capital Reduction Resolution

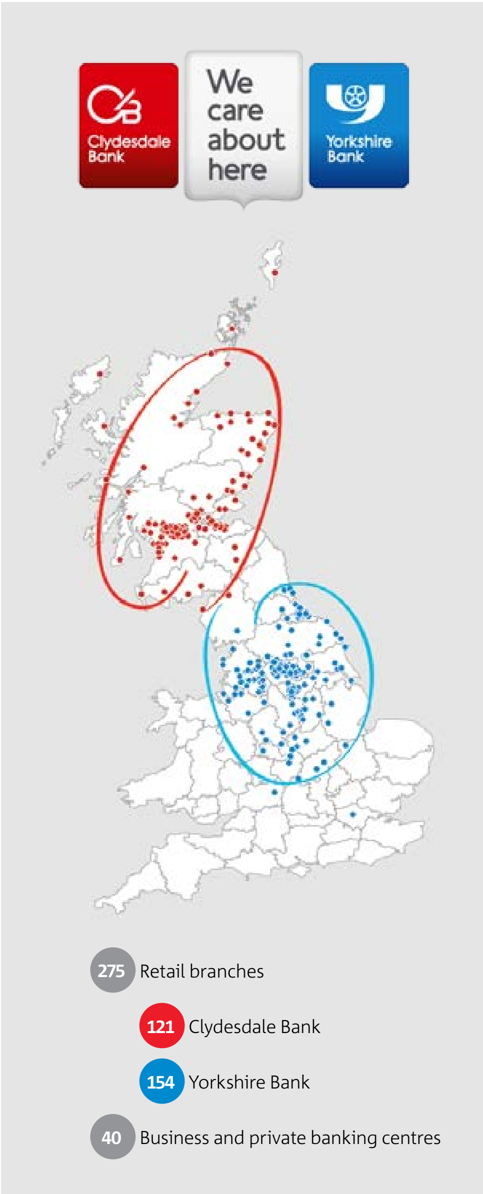
The CYBG Capital Reduction Resolution is a resolution to provide confirmatory approval for the CYBG Capital Reduction. The purpose of the CYBG Capital Reduction is to create distributable reserves on the balance sheet of CYBG PLC which will provide CYBG PLC with flexibility to pay dividends in the future if appropriate or to absorb any impairments in the value of its assets should this occur. The CYBG Capital Reduction Resolution must be approved by a simple majority of votes cast by NAB Shareholders (either in person or by proxy) on the resolution at the General Meeting in order to be passed. The CYBG Capital Reduction is conditional, amongst other things, on the CYBG Capital Reduction Resolution being passed, the Demerger being implemented and confirmation of the CYBG Capital Reduction by the UK Court. The Demerger is not, however, conditional on the CYBG Capital Reduction Resolution being passed. If the CYBG Capital Reduction Resolution is not passed then it is expected that the CYBG Capital Reduction would not become effective and this could materially restrict the ability of CYBG PLC to pay dividends in the future if appropriate.

Who is CYBG Group?

With over 175 years of history, CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, CYBG Group offers through its strong local community brands, Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services. Clydesdale Bank is also one of only a small number of banks in the world that issues banknotes.

CYBG Group's long established retail and SME franchises have significant scale and strong market shares in personal current accounts, business current accounts, SME business lending and mortgages in its core regions. As at 30 September 2015, CYBG Group had 2.8 million retail and business customers, with £26,349 million of customer deposits and a £28,783 million customer loan portfolio, of which £20,504 million were mortgage loans, £7,061 million was business lending and the remainder of the portfolio was comprised of unsecured personal lending (including credit cards and overdrafts).

CYBG Group has a standalone operating platform, with limited ongoing support required from NAB under transitional arrangements until CYBG Group's planned separation is fully implemented. CYBG Group's operating platform supports its full service customer proposition and enables CYBG Group to provide services to customers through multiple distribution channels. As at 30 September 2015, these distribution channels included 275 retail branches (121 Clydesdale Bank-branded branches and 154 Yorkshire Bank-branded branches) and 40 business and private banking centres (including 28 centres integrated with retail branches), strong and well-established relationships with leading third-party mortgage intermediaries, a rapidly evolving digital platform (including proprietary website and mobile offerings as well as participation in third-party aggregator sites), access to certain banking services through the Post Office's over 11,800 branches, telephony and voice services, and an ATM network. CYBG Group's distribution platform continues to develop to allow Clydesdale Bank and Yorkshire Bank customers to complete their retail and SME banking needs across multiple distribution channels with an emphasis on digital and non-branch channel usage, which reflects changing customer behaviour and preferences for omni-channel interactions.



Overview

The CYBG Directors believe that CYBG Group has the following key strengths:

- Long established franchise in its core regional and selected national markets
- Strong local community brands
- Standalone, scalable and full-service operating platform
- Profitable with a resilient and strongly capitalised balance sheet
- Experienced leadership team

The CYBG Directors' goal for CYBG Group is to be a strong, customer-centric franchise that proactively responds to changes in its customers' needs and builds long-standing customer relationships. The CYBG Group plans to build on its existing strengths to continue the delivery of customer-driven product and service propositions across both retail and SME banking in addition to leveraging its position as a strong regional bank with established retail and SME franchises. The CYBG Group plans to continue to take advantage of national opportunities by focusing on growth in selected products and sectors.

WHAT YOU NEED TO DO

NAB SHAREHOLDERS ARE STRONGLY ENCOURAGED TO VOTE ON THE DEMERGER RESOLUTIONS AND THE CYBG CAPITAL REDUCTION RESOLUTION. NO OTHER ACTION IS REQUIRED TO PARTICIPATE IN THE DEMERGER UNLESS NAB SHAREHOLDERS WISH TO MAKE A SECURITY ELECTION OR A SALE ELECTION.

☑ **Read this Scheme Booklet**

You should read and carefully consider the information included in this Scheme Booklet to help you make an informed decision as to how to vote in relation to the Demerger.

☑ **Vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution**

If you are a NAB Shareholder on the Voting Record Date, you are entitled to vote on the Demerger Resolutions and, therefore, whether the Demerger should proceed. You are also entitled to vote on the CYBG Capital Reduction Resolution. You can vote in person or by proxy, by attorney or, in the case of a corporation, by corporate representative. Details of how to vote are set out on pages 21 to 22 and in Annexures C and D.

If you are a NAB Tier 1 Securityholder on the Voting Record Date, you are entitled to vote on the NAB Capital Reduction Resolution only. You can vote in person or by proxy, by attorney or, in the case of a corporation, by corporate representative. Details of how to vote are set out on pages 21 to 22 and Annexure D. As NAB Tier 1 Securities are not NAB Shares, NAB Tier 1 Securityholders do not participate in the Scheme, cannot vote at the Scheme Meeting, are not entitled to receive any CYBG Securities under the Demerger and accordingly cannot vote on the CYBG Capital Reduction Resolution.

➜ **If you are an Australian or New Zealand NAB Shareholder ("Eligible AUSNZ Shareholder"), decide whether to make a Share Election**

If you are an Eligible AUSNZ Shareholder (other than a Selling Shareholder) and do not make a Share Election you will receive one CYBG CDI for every four NAB Shares that you hold on the Scheme Record Date (expected to be 7:00pm on 5 February 2016). Entitlements to CYBG CDIs will be rounded down to the nearest whole number.

You can make a Share Election to receive CYBG Shares[3] instead of CYBG CDIs by completing a Share Election Form and returning it to the NAB Share Registry by 5:00pm on the Election Date (3 February 2016). You can obtain a Share Election Form by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days. Alternatively, you can download a Share Election Form online at **www.clydesdaledemerger.com.au**.

If you make a Share Election, you will receive your CYBG Shares in certificated form unless you provide your CREST account details on your Share Election Form.

(3) Assuming UK Admission becomes effective. If UK Admission does not become effective, any Share Election will be disregarded and be of no effect.

➜ If you are an Eligible Overseas Shareholder, decide whether to make a CDI Election

If you are an Eligible Overseas Shareholder (other than a Selling Shareholder) you will receive one CYBG Share(4) for every four NAB Shares that you hold on the Scheme Record Date (expected to be 7:00pm on 5 February 2016). Entitlements to CYBG Shares will be rounded down to the nearest whole number.

You can make a CDI Election to receive CYBG CDIs instead of CYBG Shares by completing a CDI Election Form and returning it to the NAB Share Registry by 5:00pm on the Election Date (3 February 2016). You can obtain a CDI Election Form or a CREST Details Form by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days. Alternatively, you can download a CDI Election Form or CREST Details Form online at **www.clydesdaledemerger.com.au**.

If you do not make a CDI Election, you will receive your CYBG Shares in certificated form unless you provide your CREST account details by completing a CREST Details Form and returning it in accordance with the instructions on the CREST Details Form so that it is received by the NAB Share Registry by 5:00pm on the Election Date (3 February 2016).

➜ If you are a Small Shareholder, decide whether to make a Sale Election

If you are a Small Shareholder, you may elect to have all (but not only some) of the CYBG Securities to which you are entitled under the Demerger sold by the Sale Agent and the Sale Facility Proceeds:

- remitted to you; or
- if you so elect, donated to the charity ShareGift,

(free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax).

It is anticipated that the Sale Facility Proceeds will be remitted to Small Shareholders who make a Sale Election or to ShareGift (if applicable) no later than 4 April 2016. Selling Shareholders who have elected to donate all of their Sale Facility Proceeds to ShareGift may be liable for any capital gains tax arising from the sale of CYBG Securities, the proceeds of which were donated. However, Selling Shareholders may generally be entitled to a tax deduction for the proceeds donated. See Section 6.2.3.2 for further details for the tax consequences of donating the Sale Facility Proceeds to ShareGift.

To make a Sale Election, you must either lodge a Sale Election online through the Demerger Website (follow the instructions and prompts) or complete and return the enclosed Sale Facility Form so that it is received by the NAB Share Registry by 5:00pm on 3 February 2016. The Sale Election must be made by 5:00pm on 3 February 2016. If you wish to donate your Sale Facility Proceeds to ShareGift, please ensure you tick the “Sell and Donate to ShareGift” box.

If you make a Sale Election, you should not make a Share Election or CDI Election. If you make both a Sale Election and a Share Election or CDI Election, the Sale Election will take precedence and the Share Election or CDI Election will be ignored.

Refer to Section 4.5.2 for further information applicable to Small Shareholders.

➜ If you are an Ineligible Shareholder, you do not need to make any election. Any CYBG Shares to which you would otherwise have been entitled will be sold and the proceeds of sale remitted to you

If you are an Ineligible Shareholder, and the Demerger proceeds, CYBG Shares to which you would otherwise have been entitled under the Demerger will automatically be sold by the Sale Agent and the Sale Facility Proceeds remitted to you (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax). It is anticipated that the Sale Facility Proceeds will be remitted to Ineligible Shareholders no later than 4 April 2016.

Refer to Section 4.5.1 for further information applicable to Ineligible Shareholders.

(4) Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, it is proposed that Eligible Overseas Shareholders will receive CYBG CDIs instead of CYBG Shares under the Demerger.

Timetable of Key Dates and Times

Before securityholder vote to approve the Demerger

Event	Indicative date
Date of the First Court Hearing at which the Court ordered the convening of the Scheme Meeting	7 December 2015
Latest time and date by which the Scheme Meeting Proxy Form must be received by the NAB Share Registry(1)	2:00pm on 25 January 2016
Latest time and date by which the General Meeting Proxy Form must be received by the NAB Share Registry(1)	2:00pm on 25 January 2016
Time and date for determining eligibility to vote at the Scheme Meeting and General Meeting (“**Voting Record Date**”)	7:00pm on 25 January 2016
Scheme Meeting to be held at Melbourne Convention and Exhibition Centre	Starting at 10:00am on 27 January 2016
General Meeting to be held at Melbourne Convention and Exhibition Centre	10:15am or immediately after the conclusion of the Scheme Meeting (whichever occurs later), on 27 January 2016

Following securityholder approval of the Demerger

Event	Indicative date
Date of the Second Court Hearing at which the Court orders the approval of the Scheme	1 February 2016
Effective Date and last day of trading in NAB Shares cum-Capital Reduction Portions on ASX	2 February 2016
Announcement of Institutional Offer Price	2 February 2016
Expected commencement of trading of CYBG Shares on the LSE on a conditional basis(2)	8:00am (GMT) on 2 February 2016
Expected commencement of trading of CYBG CDIs on ASX on a deferred settlement basis(3)	3 February 2016
NAB Shares commence trading on ASX on an ex CYBG Securities basis	3 February 2016
Latest time and date by which CDI Election Forms, Share Election Forms and Sale Facility Forms must be received by the NAB Share Registry if you wish to make such a Security Election or to participate in the Sale Facility(1)	5:00pm on 3 February 2016
Scheme Record Date for determining entitlements to CYBG Securities	7:00pm on 5 February 2016
Last day of conditional trading for CYBG Shares on LSE	5 February 2016

(1) Different closing times may apply in respect of NAB Shares held under a NAB Employee Equity Plan.
(2) Assuming UK Admission becomes effective.
(3) Assuming Australian Admission is granted.

Event	Indicative date
Demerger Date	8 February 2016
UK Admission of CYBG Shares: CYBG Shares commence trading on an unconditional basis	8:00am (GMT) on 8 February 2016
CYBG Capital Reduction becomes effective	11 February 2016(4)
Dispatch of holding statements and certificates	16 February 2016
Last day of deferred settlement trading for CYBG CDIs	16 February 2016
CYBG CDIs commence trading on a normal settlement basis on ASX	17 February 2016
CYBG Securities sold by the Sale Agent on behalf of Selling Shareholders	8 February 2016 - 21 March 2016
Anticipated latest date for dispatch of Sale Facility Proceeds to Selling Shareholders (or ShareGift, if a Small Shareholder who is a Selling Shareholder so elects)	4 April 2016

(4) This date is indicative only and is subject to UK Court approval and the Demerger being implemented.

Other than the date of the First Court Hearing, this timetable is indicative only and, among other things, is subject to all necessary Court and regulatory approvals, Admission and the satisfaction (or waiver, if applicable) of Conditions Precedent to the Scheme. NAB has the right to vary any or all of these dates and times, subject to the approval of the variation by ASX, ASIC, UKLA/LSE and the Court, where required. Any variation to the timetable set out above will be announced to ASX and notified on the Demerger Website.

Scheme Meeting, General Meeting and Voting on the Demerger

Scheme Meeting

On 7 December 2015 at the First Court Hearing, the Court ordered that a meeting of NAB Shareholders be convened to consider and, if thought fit, approve the Scheme, with or without modifications or conditions ("**Scheme Meeting**"). The Scheme Meeting is scheduled to be held at 10:00am on 27 January 2016 at Melbourne Convention and Exhibition Centre.

The terms of the Scheme are contained in Annexure A and the Notice of Scheme Meeting is set out in Annexure C. Each NAB Shareholder who is registered on the NAB Share Register as the holder of a NAB Share at 7:00pm on the Voting Record Date (25 January 2016) is entitled to attend and vote at the Scheme Meeting.

In order to proceed, the Scheme Resolution must be approved at the Scheme Meeting by:

- a majority in number of NAB Shareholders present (either in person or by proxy) and voting at the Scheme Meeting; and
- a majority representing in aggregate at least 75% of the total number of votes cast (either in person or by proxy) on the Scheme Resolution.

If both these thresholds are met, and all Conditions Precedent to the Scheme are satisfied or waived and the Court approves the Scheme, all NAB Shareholders will be bound by the Scheme, including those who voted against the Scheme and those who did not cast a vote. If all the Conditions Precedent to the Scheme are not satisfied or waived by 31 August 2016 (or such other date as may be determined by NAB), then the Scheme will lapse and be of no effect and the Demerger will not proceed. That means that NAB Shareholders will not receive any CYBG Securities.

The Conditions Precedent to the Scheme are outlined in Section 4.3 and include that the NAB Capital Reduction Resolution is approved by NAB Shareholders. This means that if the NAB Capital Reduction Resolution is not passed, the Scheme will not become Effective and the Demerger will not proceed. If the Demerger does not proceed, the Institutional Offer will not proceed.

The NAB Directors unanimously believe that the Scheme is in the best interests of NAB Shareholders as a whole. The NAB Directors unanimously recommend that NAB Shareholders vote in favour of the Scheme Resolution, as they intend to do in respect of their own holdings of NAB Shares.

As NAB Tier 1 Securities are not NAB Shares, NAB Tier 1 Securityholders do not participate in the Scheme and cannot vote at the Scheme Meeting.

General Meeting

The NAB Board has convened the General Meeting to consider and, if thought fit, approve the NAB Capital Reduction Resolution and the CYBG Capital Reduction Resolution.

NAB has proposed the:

- NAB Capital Reduction Resolution to permit NAB to reduce its share capital on the Demerger Date. Entitlements under the NAB Capital Reduction will not be distributed in cash; rather, Scheme Participants (other than Selling Shareholders) will receive CYBG Shares or CYBG CDIs (as appropriate to the relevant Scheme Participant) under the Demerger; and
- CYBG Capital Reduction Resolution to seek confirmatory approval of the CYBG Capital Reduction given all NAB Shareholders as of the Scheme Record Date (other than Selling Shareholders) will become holders of CYBG Securities if the Demerger is implemented.

Details of the NAB Capital Reduction Resolution and the CYBG Capital Reduction Resolution are described below and set out in the Notice of General Meeting in Annexure D.

The General Meeting is scheduled to be held at 10:15am or immediately after the conclusion of the Scheme Meeting (whichever occurs later), on 27 January 2016 at Melbourne Convention and Exhibition Centre.

At the General Meeting, the NAB Capital Reduction Resolution and the CYBG Capital Reduction Resolution will be considered.

NAB Capital Reduction Resolution

The NAB Capital Reduction Resolution is a resolution to approve the reduction of NAB's Share capital on the Demerger Date by the NAB Capital Reduction Aggregate Amount. Scheme Participants (other than Selling Shareholders) will receive CYBG Shares or CYBG CDIs (as appropriate to the relevant Scheme Participant) in satisfaction of their Capital Reduction Portion(s) under the Demerger. The NAB Capital Reduction Resolution must be approved by a simple majority of votes cast by NAB Shareholders and NAB Tier 1 Securityholders (either in person or by proxy) on the resolution in order to be passed.

If the NAB Capital Reduction Resolution is approved by the relevant majority, the NAB Capital Reduction will still be subject to and conditional on the Scheme becoming Effective. This means that NAB will not undertake the NAB Capital Reduction unless the Scheme becomes Effective.

The terms of the NAB Tier 1 Securities permit NAB Tier 1 Securityholders to vote on the NAB Capital Reduction Resolution.

The NAB Directors are of the view that, taking into account all relevant matters, the NAB Capital Reduction is fair and reasonable to the members of NAB as a whole and will not materially prejudice the ability of NAB to pay its creditors. The NAB Directors unanimously recommend that NAB Shareholders and NAB Tier 1 Securityholders vote in favour of the NAB Capital Reduction Resolution, as they intend to do in respect of the NAB Shares and NAB Tier 1 Securities controlled by them.

CYBG Capital Reduction Resolution

The CYBG Capital Reduction Resolution is a resolution to provide confirmatory approval for the CYBG Capital Reduction. The purpose of the CYBG Capital Reduction is to create distributable reserves on the balance sheet of CYBG PLC which will provide CYBG PLC with flexibility to pay dividends in the future if appropriate or to absorb any impairments in the value of its assets should this occur. Further details on why the CYBG Capital Reduction is required are contained in Section 3.8. The CYBG Capital Reduction Resolution must be approved by a simple majority of votes cast by NAB Shareholders (either in person or by proxy) on the resolution in order to be passed. The CYBG Capital Reduction is conditional, amongst other things, on the CYBG Capital Reduction Resolution being passed, the Demerger being implemented and confirmation of the CYBG Capital Reduction by the UK Court. The Demerger is not, however, conditional on the CYBG Capital Reduction Resolution being passed.

The NAB Directors unanimously recommend that NAB Shareholders vote in favour of the CYBG Capital Reduction Resolution, as they intend to do in respect of the NAB Shares controlled by them.

As NAB Tier 1 Securities are not NAB Shares, NAB Tier 1 Securityholders do not participate in the Scheme, are not entitled to receive any CYBG Securities under the Demerger and accordingly cannot vote on the CYBG Capital Reduction Resolution.

Voting by poll

Voting at both the Scheme Meeting and the General Meeting will be conducted by way of a poll.

At the Scheme Meeting, NAB Shareholders will have one vote for every NAB Share.

At the General Meeting:

- NAB Shareholders and NAB Tier 1 Securityholders will have one vote on the NAB Capital Reduction Resolution for every NAB Share or NAB Tier 1 Security held; and
- NAB Shareholders will have one vote on the CYBG Capital Reduction Resolution for every NAB Share held.

Entitlement to vote

Each NAB Shareholder who is registered on the NAB Share Register as the holder of a NAB Share at 7:00pm on the Voting Record Date (25 January 2016) is entitled to vote at both the Scheme Meeting and the General Meeting.

Each NAB Tier 1 Securityholder who is registered on a NAB Tier 1 Security Register as the holder of a NAB Tier 1 Security at 7:00pm on the Voting Record Date (25 January 2016) is entitled to vote on the NAB Capital Reduction Resolution at the General Meeting only.

In the case of joint NAB Shareholders, all holders may attend the Meetings but only one holder may vote at a Meeting in respect of the relevant NAB Shares (including by proxy). If more than one joint holder is present, and more than one of the joint holders vote in respect of the relevant NAB Shares, only the vote of the joint holder whose name stands first in the register in respect of the relevant NAB Share is counted. A corporate NAB Shareholder may appoint one or more persons to act as its representative(s), but only one representative may exercise the corporate NAB Shareholder's powers at any one time. NAB requires appropriate evidence of the appointment.

In the case of joint NAB Tier 1 Securityholders, all holders may attend the General Meeting but only one holder may vote on the NAB Capital Reduction Resolution at the General Meeting in respect of the relevant NAB Tier 1 Securities (including by proxy). If more than one joint holder is present, and more than one of the joint holders vote in respect of the relevant NAB Tier 1 Securities, only the vote of the joint holder whose name stands first in the register in respect of the relevant NAB Tier 1 Securities is counted. A corporate NAB Tier 1 Securityholder may appoint one or more persons to act as its representative(s), but only one representative may exercise the corporate NAB Tier 1 Securityholder's powers at any one time. NAB requires appropriate evidence of the appointment.

Proxy votes

You can appoint a proxy to attend and vote for you at a Meeting in accordance with the directions on the relevant Proxy Form – there are separate proxy forms for the Scheme Meeting and the General Meeting. If you are eligible to vote at both Meetings, you must complete both proxy forms if you want to appoint a proxy to attend and vote for you at both Meetings. If no directions as to voting are given to the proxy on the relevant form, the proxy may vote as he or she thinks fit, to the extent permitted by law.

If you are entitled to cast two or more votes, you may appoint not more than two proxies to attend and vote for you at a Meeting and specify the proportion or number of votes each proxy may exercise.

If you appoint a body corporate as a proxy, that body corporate must appoint an individual as its corporate representative to exercise its powers at a Meeting and provide satisfactory evidence of the appointment of its corporate representative prior to the commencement of the Meeting.

A corporate NAB Shareholder or NAB Tier 1 Securityholder must sign a Proxy Form in accordance with the NAB constitution or otherwise in accordance with the

Scheme Meeting, General Meeting and Voting on the Demerger

Corporations Act. Where a Proxy Form is signed by a duly authorised person or persons of a corporate NAB Shareholder or NAB Tier 1 Securityholder, such authorisation must have been sighted at NAB's Share Registry.

NAB's constitution and the *Corporations Act* require that, to be effective, a Proxy Form together with any power of attorney under which it is executed or a certified copy of the relevant authority, must be received by the NAB Share Registry, by post, by facsimile, by delivering in person or by being submitted online (as detailed further below) no later than 2:00pm on 25 January 2016.

A proxy does not need to be a NAB Shareholder, or a NAB Tier 1 Securityholder, and may be an individual or a body corporate.

A proxy who is not the Chairman of the relevant Meeting need not vote in that capacity on a poll of the relevant Demerger Resolution or the CYBG Capital Reduction Resolution. If the proxy's appointment specifies the way to vote on the relevant Demerger Resolution or the CYBG Capital Reduction Resolution and the proxy decides to vote in that capacity on the relevant Demerger Resolution or the CYBG Capital Reduction Resolution, the proxy must vote the way specified (subject to the other provisions of this Scheme Booklet).

If the proxy's appointment specifies the way to vote on the relevant Demerger Resolution or the CYBG Capital Reduction Resolution, and the proxy does not attend the Meeting or does not vote on the relevant Demerger Resolution or the CYBG Capital Reduction Resolution, then such directed proxies will default to the Chairman of the Meeting who must vote the proxies as directed.

If the Chairman of the Meeting is appointed, or taken to be appointed, as proxy, but the appointment does not specify the way to vote on the relevant Demerger Resolution or the CYBG Capital Reduction Resolution, then the Chairman of the Meeting intends to exercise the relevant NAB Shareholder's votes in favour of the relevant Demerger Resolution and the CYBG Capital Reduction Resolution (subject to any other provisions of this Scheme Booklet) and NAB Tier 1 Securityholder's votes in favour of the NAB Capital Reduction Resolution.

Online Proxy

You may submit your proxy online by using your smartphone or by visiting the Demerger Website **www.clydesdaledemerger.com.au.**

To use this option, you will need your Securityholder Reference Number ("**SRN**") or Holder Identification Number ("**HIN**"). You will be taken to have signed a Proxy Form if you lodge it in accordance with the instructions on the website. To use your smartphone voting service, scan the QR code which appears on the top of your Proxy Form and follow the instructions provided. To scan the code you need to have already downloaded a free QR code reader app to your smartphone.

When scanned, the QR code will take you directly to the Demerger Website. A proxy cannot be appointed electronically if they are appointed under a Power of Attorney or similar authority. The online proxy facility may not be suitable for NAB Shareholders or NAB Tier 1 Securityholders who wish to appoint two proxies with different voting directions. Please read the instructions for online proxy submissions carefully before you lodge your proxy.

Custodians and other intermediaries may submit their proxy online by visiting **www.intermediaryonline.com** (subscribers only).

To be effective, a Proxy Form submitted online must be received by the NAB Share Registry no later than 2:00pm on 25 January 2016.

Proxy by post, facsimile or delivery in person

A General Meeting Proxy Form, a Scheme Meeting Proxy Form (if applicable) and a pre-addressed envelope are enclosed. Additional information on proxies is included on each form, including how to appoint proxies, specifying the proportion of votes per proxy where two proxies are appointed, and instructions on voting by proxies.

A completed Proxy Form must be received by the NAB Share Registry no later than 2:00pm on 25 January 2016 by fax on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia) or by post or delivery in person at the following addresses:

By post

Share Registry
National Australia Bank Limited
GPO Box 2333
Melbourne Victoria 3001
AUSTRALIA

In person

Share Registry
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
AUSTRALIA

For further information

If you have any questions after reading this Scheme Booklet, please contact your financial, legal, taxation or other professional adviser. You can also visit **www.clydesdaledemerger.com.au** or call the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.

Section One
Demerger Overview

Section One: Demerger Overview

Topic	Summary	Further Information
1. OVERVIEW OF THE DEMERGER		
1.1 Overview	**Exit from UK banking** NAB is seeking to exit its investment in CYBG Group primarily by demerging 75% of CYBG Group to NAB Shareholders and separating CYBG Group's operations from the remaining NAB businesses to form two independent businesses (each held under a separate listed company). In conjunction with the Demerger, NAB intends to divest its remaining holding in CYBG Group (25%) via the Institutional Offer. The net proceeds from the Institutional Offer will be retained by NAB and will further strengthen its capital position. Immediately after the Demerger is implemented, each NAB Shareholder who receives a CYBG Security pursuant to the Demerger will: • retain the same NAB Shareholding; and • hold new securities (either CYBG Shares or CYBG CDIs) which represent 75% of their previous indirect economic interest in CYBG Group. In addition, if the Institutional Offer proceeds, all NAB Shareholders will hold an indirect economic interest in the proceeds of the Institutional Offer by virtue of retaining their NAB Shareholding. In certain circumstances, NAB may choose not to proceed with the Institutional Offer or choose to only proceed with a partial Institutional Offer. If NAB chooses not to proceed with the Institutional Offer, NAB will retain 25% of the CYBG Shares on issue at the Demerger Date and seek to sell those retained CYBG Shares as soon as reasonably practicable having regard to market conditions and the price it can obtain. NAB may also proceed with a partial Institutional Offer only, in which case NAB will retain the balance of the CYBG Shares which are not sold under the Institutional Offer. Those CYBG Shares will be subject to a lock up period commencing on the first day of conditional trading of CYBG Shares on the LSE until the date falling 90 days after UK Admission. NAB will seek to sell those CYBG Shares as soon as practicable after the expiry of the lock up period having regard to market conditions and the price it can obtain. Refer to Item 5 of this Section 1 for further details about the Institutional Offer. The result of the Demerger (and the proposed Institutional Offer, if it proceeds) will be that CYBG Group will operate its business separately from NAB. CYBG PLC, which will become the holding company of the CYBG Group, will be a publicly listed company with its head office in Glasgow and listings in the UK and Australia (if UK Admission becomes effective and Australian Admission is approved). CYBG PLC will apply to the UKLA for CYBG Shares to be admitted to the premium listing segment of the UKLA Official List and to the LSE for such shares to be admitted to trading on the LSE's main market for listed securities. CYBG PLC will also apply for admission to the ASX Official List as an ASX foreign exempt listing and for official quotation of the CYBG CDIs	Section 4

Topic	Summary	Further Information
	on ASX. If Admission becomes effective, CYBG Shares will trade on the LSE's main market for listed securities (LSE: CYBG) and CYBG CDIs will be quoted on ASX (ASX: CYB). NAB will continue to operate its other existing businesses and remain listed on ASX (ASX: NAB). If UK Admission does not become effective, it is intended that CYBG PLC will apply to ASX for a standard listing rather than a foreign exempt listing. There is no guarantee that ASX will grant CYBG PLC either a standard listing or a foreign exempt listing. The Demerger is not conditional on receipt of approval for Australian Admission or UK Admission becoming effective. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, then: • any Share Election made by Eligible AUSNZ Shareholders will be disregarded and be of no effect; and • it is proposed that Eligible Overseas Shareholders will receive CYBG CDIs instead of CYBG Shares. **What will NAB Shareholders receive if the Demerger proceeds?** As a result of the Demerger, NAB Shareholders will retain their NAB Shares. NAB Shareholders will also receive, for every four NAB Shares they hold at the Scheme Record Date: • if they are Eligible AUSNZ Shareholders (other than Selling Shareholders), one CYBG CDI (unless they make a Share Election); or • if they are Eligible Overseas Shareholders (other than Selling Shareholders and unless they make a CDI Election), one CYBG Share provided UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date. If the number of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of CYBG Securities. The remaining fractional entitlements will be aggregated and transferred to the Sale Agent to be sold in the Sale Facility, the proceeds of which will be remitted to NAB. Refer to Section 4.5.4 for information on the treatment of any fractional entitlements. The Demerger does not require any NAB Shareholder to pay cash for CYBG Securities. Ineligible Shareholders, and Small Shareholders who elect to participate in the Sale Facility, will have all of their CYBG Securities distributed to the Sale Agent and sold on their behalf. It is expected that the Sale Facility Proceeds will be transferred to those shareholders (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax) no later than 4 April 2016. Small Shareholders can also elect to have all (but not only some) of their Sale Facility Proceeds donated to the charity ShareGift. This will occur in accordance with the terms of the Scheme. Refer to Sections 4.4 - 4.6 for further detail. The Capital Reduction Portions should not be treated as assessable dividends. However, NAB Shareholders, including Selling	

Section One:
Demerger Overview

Topic	Summary	Further Information
	Shareholders, who sell their CYBG Securities within the first 12 months after the Demerger Date will not receive a CGT discount. Refer to Item 8.1 for further details. **Conduct issues and the Conduct Mitigation Package** In common with the wider UK retail banking sector, CYBG Group has been required by the Financial Conduct Authority ("**FCA**") to redress customer complaints arising from historic sales of Payment Protection Insurance ("**PPI**"), the historic sale of certain Interest Rate Hedging Products ("**IRHP**") (which comprise standalone interest rate hedging products ("**Standalone IRHP**") and certain tailored business loans, with additional features such as interest rate protections, functionality, structured collars, collars or caps ("**Voluntary Scope TBLs**")) to small and medium-sized businesses, and other conduct-related matters. In addition, CYBG Group has undertaken a complaints-led review of certain Fixed Rate Tailored Business Loans ("**FRTBL**") and paid redress where appropriate. As announced by NAB on 7 May 2015, to achieve the Demerger, the UK Prudential Regulation Authority ("**PRA**") requires that there be a capital support package for potential losses related to legacy conduct costs not covered by existing provisions, to a total cap of £1.7 billion ("**Conduct Mitigation Package**"). The £1.7 billion cap was determined by the PRA having regard to severe stresses to provision assumptions as at 30 September 2014 and was substantially in excess of NAB and CYBG's assessment of CYBG Group's potential liability in a severe conduct stress scenario. As part of the Demerger arrangements, and as a term of the Sale and Purchase Agreement, NAB and CYBG PLC have entered into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide CYBG PLC with an indemnity in respect of certain historic conduct liabilities ("**Capped Indemnity**") up to a specified cap ("**Capped Indemnity Amount**"). As at the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion (and will not be more than this amount). This amount represents the £1.7 billion of capital support to be provided under the Conduct Mitigation Package less (i) £465 million of CYBG Group provisions for conduct matters recognised in the year ended 30 September 2015 (covered by NAB through a capital injection into CYBG Group in September 2015) and (ii) £120 million for which CYBG Group will take responsibility as part of the Loss Sharing Arrangement. Should there be any further amounts paid by NAB to CYBG Group in respect of any additional provisions for conduct matters before the Demerger Date, then the Capped Indemnity Amount, and thus NAB's remaining exposure under the Conduct Mitigation Package, will be reduced by such amounts. The support provided by the Capped Indemnity is in addition to CYBG Group's unutilised provisions for conduct liabilities. As at 30 September 2015 there were £986m of such unutilised provisions comprising: • £774 million in respect of PPI; • £192 million in respect of IRHP (Standalone IRHP and Voluntary Scope TBLs) and FRTBLs; and • £20 million of other items.	

Topic	Summary	Further Information
	From the Demerger Date, NAB is required to collateralise its obligations under the Capped Indemnity by placing a cash deposit with The Bank of England in an amount equal to the Unutilised Indemnity Amount, and take a CET1 deduction for the Capped Indemnity Amount. The Capped Indemnity will be accounted for as a contingent liability by NAB, with any potential future losses incurred under the indemnity expensed within discontinued operations. The Capped Indemnity is perpetual in nature and will only terminate in certain limited circumstances. See Section 4.9 for further details on the Capped Indemnity. **Capital injections** NAB made capital injections of £205 million in the 6 months ended 30 September 2015 (in addition to the £465 million injection for conduct provisions described above), to strengthen CYBG Group's capital position and to ensure that it has a prudent buffer to minimum regulatory capital requirements upon separation, resulting in CYBG Group having a CET1 Ratio of 13.2% as at 30 September 2015. **Funding repayments and intercompany settlements** In anticipation of the Demerger, the amounts due to NAB from CYBG Group have been reduced with CYBG Group having repaid to NAB £741 million of senior debt funding over the course of the year ended 30 September 2015. In addition, since the end of September 2015 a further £100 million of senior notes were repaid by CYBG Group to NAB, and £101 million of amounts outstanding in relation to historic (pre 31 March 2015) IRHP/FRTBL conduct charges were paid by NAB to CYBG Group. **Transitional Services Agreements and CYBG Group capital securities** For a limited period of time after implementation of the Demerger, NAB and CYBG Group will provide agreed services to each other, including under the Transitional Services Agreements which are described in Section 4.8.5. In addition, NAB will own various securities of CYBG Group including AT1 Notes, Tier 2 Notes and residential mortgage backed securities of the Lannraig Programme. NAB and CYBG Group have also previously entered into various derivative transactions which will continue to exist for contractual periods after the separation of the two businesses. Refer to Section 4.10 for further details.	
1.2 What alternatives did the NAB Board consider?	The NAB Board considered various alternatives to the Demerger, including retaining CYBG Group, a potential trade sale of CYBG Group and a standalone initial public offer of some or all of CYBG Group. These alternatives were considered by the NAB Board in consultation with professional advisers. The NAB Directors believe a demerger of 75% of CYBG Group (with the opportunity to undertake a sale of the remaining portion to new investors by way of the Institutional Offer) provides the best opportunity to maximise value for NAB Shareholders and is preferable to the other alternatives even if the Institutional Offer does not proceed.	

Section One: Demerger Overview

Topic	Summary	Further Information
	Status quo CYBG Group and NAB operate in different markets and are subject to the jurisdictions of separate regulators and to separate laws, rules and regulations. Following a comprehensive review of CYBG Group, the NAB Directors believe CYBG Group will be better placed to maximise its strengths and opportunities under independent ownership and management. **Trade sale** Since 2009, NAB has been approached and has engaged in a number of discussions with potential buyers of CYBG Group. However, no proposal to purchase CYBG Group has emerged from these discussions on terms and conditions acceptable to NAB. The NAB Directors note that the Demerger does not preclude CYBG Group considering, and if appropriate participating in, any industry consolidation once it is established as a listed group. **Full or partial initial public offering** The NAB Board considers the Demerger (whether combined with the immediate execution of the Institutional Offer or not) to be a better public market alternative than an attempted standalone full or partial sale of CYBG Group by initial public offer only, for the following reasons: • the Demerger allows NAB to accelerate its exit from CYBG Group and represents a more certain outcome for NAB than a full or partial standalone initial public offering (as this alternative would be subject to greater market risk); and • the Demerger provides NAB Shareholders with the opportunity to retain an exposure to the UK banking sector. Given the expected market size of CYBG Group on a fully distributed basis, should a full standalone initial public offering have been pursued by NAB, it is likely a full selldown of CYBG Group would have been difficult to achieve in a single transaction, and would have required NAB to undertake a staged selldown over a significant period of time, and therefore it would have been likely that NAB would have had to retain for a period of time a significant stake in CYBG Group (in excess of the 25% which could potentially be retained if the Institutional Offer does not proceed as planned). The sale of a minority interest in CYBG Group would not provide the desired separation or enable NAB to achieve its desired regulatory capital position to allow it to focus on its core franchises in Australia and New Zealand.	
1.3 What is the NAB Board's recommendation?	The NAB Directors believe a demerger of 75% of CYBG Group provides the best opportunity to maximise value for NAB Shareholders and is preferable to the other alternatives even if the Institutional Offer does not proceed. The NAB Directors are also of the view that, taking into account all relevant matters, the NAB Capital Reduction is fair and reasonable to the members of NAB as a whole and will not materially prejudice the ability of NAB to pay its creditors.	

Topic	Summary	Further Information
	The NAB Directors unanimously recommend that NAB Shareholders and NAB Tier 1 Securityholders vote in favour of all the resolutions to be considered at the General Meeting, and that NAB Shareholders vote in favour of the resolution to be considered at the Scheme Meeting, as the NAB Directors intend to do in respect of the NAB Shares and NAB Tier 1 Securities controlled by them.	
1.4 What is the Independent Expert's conclusion?	The Independent Expert has concluded that the Demerger is in the best interests of NAB Shareholders. The Independent Expert has also concluded that the NAB Capital Reduction will not materially prejudice NAB's ability to pay its creditors. A copy of the concise Independent Expert's Report is contained in Section 8. The full Independent Expert's Report from which the concise version has been prepared is available on the Demerger Website **www.clydesdaledemerger.com.au** or can be obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.	Section 8
1.5 What restructuring steps have been undertaken to implement the Demerger?	As the operations which will form CYBG Group are currently fully owned by NAB, various internal transactions and arrangements exist between CYBG Group and NAB, consistent with a consolidated group structure. To facilitate the separation of CYBG Group from NAB, internal restructuring has been undertaken to separate and align the relevant businesses, assets and liabilities of NAB (after the Demerger) and CYBG Group with the appropriate group prior to the Demerger. The restructure has been completed so that: • the Clydesdale Bank and Yorkshire Bank brands form part of an identifiable and separate corporate group, capable of operating on a standalone basis (other than in respect of certain transitional arrangements); and • all subsidiaries, assets and liabilities which do not relate directly to the CYBG Group business will continue to be held by NAB (after the Demerger). One of the restructuring steps involved the acquisition by CYBG Group of the Insurance Intermediary Business, comprising CYB Intermediaries Holdings Limited (formerly National Wealth Management Europe Holdings Limited) and its subsidiary CYB Intermediaries Limited (formerly National Australia Insurance Services Limited) ("**Insurance Intermediary Business**"), from NAB ("**Insurance Intermediary Business Restructure**"). Refer to Item 4.9 in this Section for further details.	
1.6 What arrangements will continue between NAB (after the Demerger) and CYBG Group?	NAB and CYBG PLC have entered into the Demerger Deed to facilitate the orderly separation of CYBG Group from NAB and the transition of CYBG Group to an independent group. The terms of the Demerger Deed reflect the general principle that the assets and liabilities relating to CYBG Group will be held by CYBG Group and the remaining assets and liabilities relating to NAB (after the Demerger) businesses will be held by NAB. The Demerger Deed also imposes various obligations on the parties in respect of separation arrangements and ongoing risk allocation to give effect to that principle.	Sections 4.8 – 4.10

Section One:
Demerger Overview

Topic	Summary	Further Information
	NAB has also agreed to provide support to CYBG PLC in relation to historic Conduct Matters in the form of the Conduct Indemnity Deed. This is discussed in Item 1.7 in this Section 1 below. NAB and Clydesdale Bank will also enter into Transitional Services Agreements with each other to formalise the terms upon which: • NAB will provide, or procure the provision of, certain services to CYBG Group for a transitional period following the Demerger, pending the implementation of a standalone solution by CYBG Group; and • Clydesdale Bank will provide, or procure the provision of, certain other services to NAB for a transitional period following the Demerger, pending the implementation of a standalone solution by NAB. A summary of other inter-group capital, funding and derivative transactions outstanding between NAB and CYBG Group as at 30 September 2015 is set out below:	

Amounts due to NAB by CYBG Group	**AUD**
Senior debt funding	$216m
NAB investment in residential mortgage backed securities of Lannraig Programme	$826m
NAB investment in Tier 2 Notes of CYBG Group	$1,034m
NAB investment in AT1 Notes of CYBG Group	$973m
Net fair value of derivative financial instruments	$678m
Other amounts receivable by NAB from CYBG Group	$83m
Total	**$3,810m**

Amounts due by NAB to CYBG Group	**AUD**
Deposits held by NAB as collateral for derivative financial instruments and CYBG Group securitisation funding structures	$1,456m
Other payables mainly relating to amounts outstanding in relation to historic (pre 31 March 2015) IRHP/FRTBL conduct charges	$244m
Total	**$1,700m**

Topic	Summary	Further Information
	As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's current interest in CYBG Group's existing AT1 Notes and Tier 2 Notes, with an equivalent amount of new AT1 Notes and Tier 2 Notes, to be issued by CYBG PLC on the Demerger Date and initially held by NAB. The arrangements for the new instruments will be effected (at CYBG Group's option in respect of the AT1 Notes only) on market terms, with the pricing agreed and terms and conditions substantially agreed between NAB and CYBG Group on 4 November 2015. The effect of these arrangements is intended to allow CYBG Group to optimise its regulatory position in respect of its issuances of AT1 Notes and Tier 2 Notes and to provide a single issuing entity for CYBG Group's capital securities following the Demerger. It is NAB's intention to re-market and sell the new AT1 Notes and Tier 2 Notes it will hold in CYBG Group following the Demerger to third party investors during 2016, and NAB and CYBG Group have agreed that CYBG Group will assist NAB in the re-marketing and sale of the new AT1 Notes and Tier 2 Notes. The key terms of the proposed new AT1 Notes and Tier 2 Notes and other information relating to the re-marketing and sale are set out in Section 4.10.2.3. In addition, on 26 October 2015, £100 million of senior notes were repaid by CYBG Group to NAB, and £101 million of amounts outstanding in relation to historic (pre 31 March 2015) IRHP/FRTBL conduct charges were paid by NAB to CYBG Group. Otherwise, NAB expects its contractual funding and other transactions with CYBG Group to mature in accordance with their contractual terms. Further details on these inter-group transactions are outlined in Section 4.10.	
1.7 What is the Conduct Indemnity Deed?	As part of the Demerger arrangements, and as a term of the Sale and Purchase Agreement, NAB and CYBG PLC have entered into the Conduct Indemnity Deed, under which NAB has agreed, subject to certain limitations, to provide CYBG PLC with a Capped Indemnity in respect of certain historic conduct liabilities up to the Capped Indemnity Amount. The Capped Indemnity Amount is £1.115 billion (and will not be more than this amount at the Demerger Date). This amount represents the £1.7 billion of capital support to be provided under the Conduct Mitigation Package less (i) £465 million of CYBG Group provisions for conduct matters recognised in the year ended 30 September 2015 (covered by NAB through a capital injection into CYBG Group) and (ii) £120 million for which CYBG Group will take responsibility as part of the Loss Sharing Arrangement. Should there be any further amounts paid by NAB to CYBG Group in respect of any additional provisions for Conduct Matters before the Demerger Date, then the Capped Indemnity Amount, and thus NAB's remaining exposure under the Conduct Mitigation Package, will be reduced by such amounts. In order to align the interests of NAB and CYBG PLC with respect to each claim under the Capped Indemnity, CYBG PLC will be responsible for a fixed percentage of the relevant conduct liabilities forming part of the relevant provision. Based on an anticipated Capped Indemnity Amount of £1.115 billion, CYBG's loss share will be 9.7%.	Section 4.9

Section One: Demerger Overview

Topic	Summary	Further Information
	The Capped Indemnity provides CYBG Group with economic protection against certain conduct costs (including financial penalties imposed by a regulator) resulting from conduct issues relating to (i) PPI, IRHP (comprising Standalone IRHP and Voluntary Scope TBLs) and FRTBL; and (ii) other conduct matters, measured by reference to certain minimum thresholds (as detailed in Section 4.9). Claims may be made by CYBG PLC under the Capped Indemnity at such time as any member of CYBG Group raises a new provision or increases an existing provision in respect of relevant conduct liabilities covered by the Capped Indemnity. Any amount paid to CYBG PLC will be deposited in a Designated Account to be held at a member of the CYBG Group (Clydesdale Bank). Any funds paid into a Designated Account can only be used to pay conduct costs that fall within the scope of the Capped Indemnity. The Conduct Indemnity Deed sets out processes for the further re-application and or release to NAB of amounts which were held against provisions subsequently released by the CYBG Group. CYBG PLC will use reasonable endeavours to ensure that the PRA undertakes a periodic reassessment of the potential remaining exposure of CYBG Group to conduct costs in conjunction with the submission of Clydesdale Bank's Internal Capital Adequacy Assessment Process ("**ICAAP**") to the PRA. NAB has the benefit of certain information and audit rights in relation to Conduct Matters and claims made under the Capped Indemnity. In addition, NAB will have oversight of matters to which the Capped Indemnity relates through a joint committee between NAB and CYBG PLC ("**Conduct Review Committee**") that will meet on a quarterly basis and at a committee member's request following certain specified events. The Capped Indemnity is perpetual in nature, and will only terminate in certain circumstances which are described in detail in Section 4.9. It is not expected that payments under the Capped Indemnity (or subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments) will be taxable in the hands of CYBG Group. In the event that tax were to be payable, the Conduct Indemnity Deed contains provisions whereby NAB has agreed to compensate CYBG PLC for any actual tax suffered as a consequence of receiving payments under the Capped Indemnity ("**Tax Indemnity Provisions**" (as further defined in the Glossary)). Compensation will be paid when tax is paid which would not otherwise be payable but for the receipt of payments under the Capped Indemnity. Save for the Capped Indemnity and the Tax Indemnity Provisions, CYBG PLC has agreed to release NAB from liability for any other conduct related claims by any member of CYBG Group against any member of NAB. Further details of the Conduct Indemnity Deed are set out in Section 4.9.	
1.8 What are the main risks which may prevent the Demerger from being implemented?	**NAB securityholders do not approve the Demerger Resolutions** There is a risk that the relevant NAB securityholders do not approve either or both of the Demerger Resolutions by the requisite majorities. **Court approval may not be obtained or may be delayed** There is a risk that the Court may not approve the Scheme or that the approval of the Court is delayed.	

Topic	Summary	Further Information
2. RATIONALE AND REASONS TO VOTE FOR OR AGAINST THE DEMERGER		
2.1 What is the rationale of and background to the Demerger?	In October 2014 NAB signalled it was considering exiting its CYBG Group operations as part of NAB's strategy to focus on its core Australia and New Zealand franchises, which has historically delivered higher returns on equity and higher capital generation. Following the successful completion of NAB's full divestment of GWB in July 2015, CYBG Group is now NAB's only significant standalone business operating outside its core market in Australia and New Zealand. CYBG Group represented 8.8% of NAB's total assets as at 30 September 2015, and excluding the effect of legacy conduct charges, CYBG Group contributed 3.3% of NAB's cash earnings before tax and distributions for the financial year ended 30 September 2015. Due to legacy conduct charges of \$1,052m, CYBG Group incurred a significant loss of \$737m for the year ended 30 September 2015, reducing NAB's cash earnings before tax and distributions. **Decision to exit CYBG Group** The NAB Directors believe that the benefits of operating a retail and SME banking business in multiple geographies are becoming more limited and difficult to achieve given the growing complexity and differences in regulation and operating environments. CYBG Group is such a business, operating within a different geography, macroeconomic environment, economy and regulatory regime to NAB's core Australia and New Zealand franchises. Increasingly, NAB's core business and the CYBG Group business have operated separately, with different banking products, marketing and branding, infrastructure and operational functions. As such, this has limited the extent of any synergies between NAB's core Australia and New Zealand franchises and the CYBG Group business, and has led to the CYBG Group business consuming a disproportionate share of NAB Board and management resources. For these reasons, the NAB Directors believe that the Demerger will reduce the risk and complexity of managing NAB, and accordingly, reduce the risk for investors associated with an investment in NAB, whilst leading to increased direct management focus on each of the separate businesses. Separating the businesses into two independent corporate groups will allow each group to focus more on improving performance in its own home markets, local strategy, business operations and growth objectives and to pursue its own value maximising priorities. In addition, the separation of the two businesses will allow both NAB and CYBG Group to adopt independent capital structures, dividend policies and financial policies best suited to their individual regulatory and operating requirements and business performance. **Demerger (with the opportunity to undertake an Institutional Offer) is the best exit option** The NAB Directors consider that the Demerger (in conjunction with the opportunity to undertake the Institutional Offer) is the best exit option for NAB Shareholders in comparison to other exit alternatives, as it enables NAB to accelerate its exit from CYBG Group and represents a more certain outcome for NAB. In addition, the Demerger provides NAB Shareholders with the opportunity to hold separate investments in each business and the flexibility to determine their own investment level in each business.	

Section One: Demerger Overview

Topic	Summary	Further Information
	The NAB Directors propose to pursue the Institutional Offer contemporaneously with the Demerger to support the development of an active and liquid market in CYBG Shares on the LSE, broaden the investor base of CYBG PLC by allowing new investors to participate in the listing of CYBG PLC (including institutional investors who are typically more focused on investing in the UK equity markets and in UK banks), and help transition trading in CYBG Securities to CYBG PLC's primary market on the LSE, aligned with the location and currency of CYBG Group's business and the financial and regulatory environments in which CYBG Group operates. In addition, in recent times, the UK market has seen a number of initial public offerings of UK retail and SME banks (including TSB, Virgin Money, OneSavings Bank, Aldermore and Shawbrook). The net proceeds of the Institutional Offer will be retained and will further strengthen NAB's capital position. Other alternative exit options considered by the NAB Board included a trade sale and a full or standalone partial initial public offering. Since 2009, NAB has been approached by and has engaged in a number of discussions with potential buyers of CYBG Group, however, no proposal to purchase CYBG Group has emerged from these discussions on terms and conditions acceptable to NAB. The NAB Directors note that the Demerger does not preclude CYBG Group considering, and if appropriate participating in, any industry consolidation once it is established as a listed group. Further, the NAB Board considers a full or standalone partial initial public offering would have increased market risk and may have required NAB to retain a significant stake in CYBG Group (in excess of the approximately 25% which could potentially be retained if the Institutional Offer does not proceed as planned) for a period of time, and as such may not have provided the desired separation. **CYBG Group is now in a position to operate as a standalone banking group** The NAB Directors are of the view that CYBG Group is now in a position to be demerged to NAB Shareholders and listed (in the UK and Australia) as a standalone retail and SME banking group with a strong franchise across its core regional UK markets, a strong balance sheet and capital position, a robust business plan and operating platform, as well as an experienced management team. In recent years, NAB has undertaken a number of steps and initiatives to strengthen CYBG Group's standalone position. These include: • Transferring the majority of CYBG Group's UK commercial real estate loan portfolio to NAB in 2012 in light of UK economic conditions and deterioration in the asset quality of the portfolio; • Simplifying CYBG Group's business model to focus on residential mortgages and SME lending; • Capital injections to strengthen CYBG Group's capital base in response to regulatory change and the cost of making redress in respect of issues arising from the sale of certain financial products; • Improving the cost profile of CYBG Group; • Assisting CYBG Group to enhance its banking technology platform; • Reducing reliance on NAB for senior funding support;	

Topic	Summary	Further Information
	• Establishing standalone credit ratings for CYBG PLC, with CYBG PLC expected to have a senior standalone investment grade credit rating; • Establishing CYBG Group's standalone derivative capability to reduce its reliance on NAB for such services; • Considerably de-risking CYBG Group's defined pension benefit scheme; and • Appointing a new senior management team for CYBG Group, including the appointment of David Duffy as Chief Executive Officer of CYBG Group on 5 June 2015. Some of these steps are also supported by NAB and members of the CYBG Group entering into Transitional Services Agreements to progress to a full separation over time. In the 6 months ended 30 September 2015, NAB strengthened CYBG Group's capital position through capital injections, resulting in CYBG Group having a CET1 Ratio of 13.2% as at 30 September 2015. As part of the Demerger arrangements and as a term of the Sale and Purchase Agreement, NAB and CYBG PLC will also enter into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide CYBG PLC with an indemnity in respect of certain historic conduct liabilities up to a specified cap. In addition, as part of separation and in order to optimise CYBG Group's regulatory capital and provide a single issuing entity for CYBG Group's capital securities following the Demerger, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's current interest in CYBG Group's existing AT1 Notes and Tier 2 Notes with an equivalent amount of new AT1 Notes and Tier 2 Notes, to be issued by CYBG PLC on the Demerger Date, and initially held by NAB. Further, NAB and CYBG Group have agreed that CYBG Group will assist NAB in the re-marketing and sale of the proposed new AT1 Notes and Tier 2 Notes to third party investors. **NAB Directors and the Independent Expert believe the Demerger is in the best interests of NAB Shareholders** The NAB Directors are of the view that the Demerger is likely to enhance value for NAB Shareholders over the long term, through a combination of improved return on equity and capital generation, given the higher profitability and returns currently generated from NAB's core Australia and New Zealand franchises. It is the current intention of each of the NAB Directors, including NAB's CEO, to hold the CYBG Securities that they personally receive under the Demerger for at least the first 12 months following the Effective Date. The Independent Expert, Grant Samuel, has also concluded that the Demerger is in the best interests of NAB Shareholders. There are various reasons to vote for or against the Demerger. NAB Shareholders and NAB Tier 1 Securityholders should carefully consider the reasons described further below.	

Section One:
Demerger Overview

Topic	Summary	Further Information
2.2 What are the reasons to vote for the Demerger?	**Allows NAB to focus on its core priorities within its strong Australia and New Zealand franchises, without the attention required to manage a bank operating within a complex UK regulatory environment** The NAB Directors are of the view that the separation of CYBG Group as a result of the Demerger will allow NAB to focus on its core priorities within its strong Australia and New Zealand franchises, without the attention required to manage a bank operating within a complex UK regulatory environment. In turn, the NAB Directors believe that this reduced risk and increased focus on its higher returning core businesses in Australia and New Zealand is likely to give the best opportunity for improved valuations of NAB Shares. Specifically, the NAB Directors see: • Materially less exposure to a complex and challenging UK regulatory environment for operating UK banks (other than through the specific arrangements under the Capped Indemnity and Tax Indemnity Provisions). • Materially less exposure to earnings volatility associated with the Great British pound/Australian dollar exchange rate. • Less exposure to the requirement to hold more capital for UK banking activities that have historically generated lower returns on capital than NAB's Australia and New Zealand franchises. • Less attention required for NAB (after the Demerger) to manage its liquidity and funding, technology, human resources and other areas of operating a bank in multiple jurisdictions. **Will lead to increased direct management focus on each of the separate businesses** The Demerger will create two separate banking groups that operate in different markets: Australia and New Zealand (NAB's core franchises) and the UK (CYBG Group's primary focus). These markets have their own industry dynamics, business characteristics and opportunities and risks. Following the Demerger, both businesses will benefit from their respective independent boards and management teams being directly focussed on their own respective business operations, geographical markets and growth objectives. Specifically, it will allow NAB's senior executive team to focus on its higher returning Australia and New Zealand franchises without the need to also be involved in the management of CYBG Group's business. The CYBG Board and management team of CYBG Group will be able to make independent decisions and pursue their own strategic objectives and priorities without the additional oversight and operational complexity which arises in decision making as a result of being part of a wider corporate group such as NAB. Both NAB and CYBG Group management teams should be able to respond with greater flexibility to opportunities (including for CYBG Group the ability to evaluate any participation in potential industry consolidation) and challenges as they emerge in their respective businesses and markets.	

Topic	Summary	Further Information
	Provides the CYBG Board and CYBG Group's management team with full autonomy to pursue their own strategic objectives, priorities and opportunities, which may not have otherwise been pursued (or not to the same extent) under NAB ownership, due to competing capital requirements and strategic priorities across NAB Separating the CYBG Group business from NAB will improve CYBG Group's ability to independently attract capital for its own growth objectives and strategic priorities, which may not otherwise be pursued (or not to the same extent) under NAB's ownership, due to competing capital requirements, a preference to deploy capital in higher return opportunities in Australia and New Zealand and other strategic priorities across NAB. **Allows both NAB and CYBG Group to adopt independent capital structures and dividend policies** Following the Demerger, both NAB and CYBG Group will be able to adopt independent capital structures, dividend policies and financial policies which best meet their respective regulatory needs, operational requirements and strategic growth objectives in order to maximise value for their respective shareholders. For example, NAB has a target CET1 Ratio of 8.75% to 9.25% and a target dividend payout ratio of 70% to 75%. In contrast, CYBG Group will have a target CET1 Ratio of 12% to 13%[5] after the Demerger and it is the CYBG Directors' current intention that CYBG Group's inaugural dividend on the CYBG Shares be in respect of the financial year ending 30 September 2017 and reflect only a modest percentage of CYBG Group's earnings. Details of the proposed capital structures of NAB (after the Demerger) and CYBG Group are set out in Sections 2 and 3 respectively. The capital structure and financial policies of NAB (after the Demerger) and CYBG Group will be at the discretion of their respective boards of directors and are subject to change or alteration as circumstances require. **Provides Eligible Shareholders with separate investments in the NAB (after the Demerger) and CYBG Group businesses and the flexibility to determine their own investment level in each business, including the ability to retain their CYBG Securities and to benefit from any improvement in the UK economy and CYBG Group's strategy and performance going forward** The core markets, operating characteristics and financial profiles of NAB and CYBG Group are different and may appeal to different types of investors. The Demerger will provide Eligible Shareholders with separate investments in NAB and CYBG Group, and give Eligible Shareholders (and new investors) the flexibility to determine their own investment levels in each business, having regard to their own investment objectives. The combination of the two businesses within a single group does not provide this choice for investors. Separating the businesses into two listed entities not part of the same corporate group may, over time, generate additional investor demand from new investors who are attracted to the individual investment profiles of either of the two companies; for example, investors who are attracted to investing in a UK-based financial institution. In addition, CYBG CDIs are expected to qualify for S&P/ASX100 index inclusion at the implementation of the Demerger, and both CYBG Shares and CYBG CDIs are expected to qualify for FTSE250 index inclusion in due course.	

(5) Capital targets are based on regulatory requirements for each jurisdiction. As a result, capital ratios between different jurisdictions are not directly comparable.

Topic	Summary	Further Information
	Separation will also provide NAB Shareholders who receive, and retain, CYBG Securities as part of the Demerger (and new investors in CYBG Group) the opportunity to participate directly in any potential upside from a recovery of the UK banking sector, the UK economy and CYBG Group and to more easily participate in any industry consolidation. As a separate group with a listing on the LSE and ASX (assuming approval is received for Australian Admission and UK Admission becomes effective), CYBG Group will directly make its own market disclosures, undertake separate investor marketing activities and have its own research analyst coverage. This increased transparency of CYBG Group's activities and performance should increase investor awareness and understanding of CYBG Group's business. Accordingly, investors will be able to independently and appropriately value each of NAB (after the Demerger) and CYBG Group to reflect the underlying performance of the two businesses. This improved transparency is also expected to enable closer alignment between management and employee incentives, the underlying business performance and shareholder value of each of NAB (after the Demerger) and CYBG Group. **Provides certainty around NAB's maximum exposure relating to CYBG Group's historic conduct issues under the Conduct Indemnity Deed** Under the Conduct Indemnity Deed, NAB (after the Demerger) has agreed, subject to certain limitations, to provide CYBG PLC with the Capped Indemnity in respect of certain historic Conduct Matters up to the Capped Indemnity Amount. Save for the Capped Indemnity and the Tax Indemnity Provisions, CYBG Group has agreed to release NAB from any other conduct related claims by any member of CYBG Group against any member of NAB. Accordingly, the Conduct Indemnity Deed gives NAB (after the Demerger) certainty surrounding its maximum exposure relating to certain CYBG Group historic Conduct Matters. It is not expected that payments under the Capped Indemnity (or subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments) will be taxable in the hands of CYBG Group but if tax were to be payable, then the Conduct Indemnity Deed contains provisions pursuant to which NAB has also agreed, as a term of the Sale and Purchase Agreement, to compensate CYBG PLC for any actual tax (when incurred) that would not have been incurred but for the receipt of amounts by CYBG PLC under the Capped Indemnity, taking into account whether payments under the Capped Indemnity are taxable and whether the underlying customer compensation payments and related costs and expenses give rise to tax relief. Details of the Conduct Indemnity Deed are set out in Section 4.9. Assuming NAB continued to support CYBG Group if the Demerger did not proceed, at a high level, the ultimate impact of past conduct issues for NAB may not materially differ whether the Demerger is implemented or not. However, it may be the case that the ultimate cost of Conduct Matter redress exceeds the amount of CYBG Group's existing provisions plus the capital support provided under the Capped Indemnity, in which case the increment, following the Demerger, will be met by CYBG Group instead of NAB.	

Topic	Summary	Further Information
	The NAB Directors believe that NAB Shareholder value over the long term is more likely to be enhanced by focussing on the Australia and New Zealand business which has historically delivered higher returns on equity and higher capital generation NAB has consistently generated higher profitability and returns from its core Australia and New Zealand franchises than from the CYBG Group business, reflecting a range of factors including competitive positioning, scale and the regulatory environment in the different markets. The NAB Directors believe that the growth opportunities and returns available in the Australian and New Zealand markets are sufficiently compelling for NAB to further enhance its focus on these core markets. NAB is expected to benefit from being able to allocate more capital to fund additional growth in its higher return core markets. **The Independent Expert, Grant Samuel, has also concluded that the Demerger is in the best interests of NAB Shareholders** The Independent Expert has also concluded that the NAB Capital Reduction will not materially prejudice NAB's ability to pay its creditors. A copy of the concise Independent Expert's Report is contained in Section 8. The full Independent Expert's Report from which the concise version has been prepared is available on the Demerger Website **www.clydesdaledemerger.com.au** or can be obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.	
2.3 What are the reasons to vote against the Demerger?	**CYBG Group has no track record operating on a standalone basis which may reduce its ability to access funding and capital markets or impact the trading price of CYBG Securities** CYBG Group has no track record of operating as a standalone listed entity, which will require CYBG PLC to comply with its obligations as a listed entity on both the LSE and ASX (assuming approval is received for Australian Admission and UK Admission becomes effective). CYBG Group will also need to procure funding and capital from the market without the benefit of being owned by NAB, which has a higher credit rating. This may reduce CYBG Group's ability to access capital markets on the same terms, cost and through the same diverse range of sources as it currently does as part of NAB, including sourcing funding directly from NAB. **CYBG Group has an experienced, but relatively newly appointed management team** CYBG Group has an experienced, but relatively newly appointed management team that will no longer be supported by NAB management. This may impact CYBG Group's ability to execute its strategy and operate its business. Details of CYBG Group's management are set out in Part 3 of Annexure G. **CYBG Group will incur additional costs operating on a standalone basis** Following the Demerger, CYBG Group will operate on a standalone basis, CYBG PLC will be listed on the LSE and ASX (assuming approval is received	

Topic	Summary	Further Information
	for Australian Admission and UK Admission becomes effective), and CYBG Group will incur standalone corporate operating costs that it does not currently incur as a subsidiary of NAB. Those costs include share registry costs, company secretariat costs and various other costs. CYBG Group will also incur additional costs associated with certain corporate functions, services and internal management systems that have previously been provided by or in conjunction with NAB, such as information technology, insurance, accounting, treasury, investor relations, legal, human resources and marketing. Details of the impact of these additional costs on CYBG Group's operating costs are set out in Item 4.10 of this Section 1. **NAB will incur one-off costs and an accounting loss associated with the Demerger** The total one-off costs comprising transaction, execution and separation costs to implement the Demerger and to complete the full Institutional Offer are estimated to be approximately $379 million pre-tax ($353 million post-tax), excluding any costs associated with the Capped Indemnity. Approximately $165 million (pre-tax) of one-off Demerger-related transaction, execution and separation costs are expected to have been incurred prior to the Meetings. The Demerger is also expected to result in a significant one off accounting loss for NAB equal to the difference between: • the carrying amount of the net assets of CYBG Group on the Loss of Control Date; and • the fair value of the CYBG Securities distributed to NAB Shareholders, any cash proceeds associated with the Institutional Offer and the fair value of any retained equity interests in CYBG PLC. The Demerger will result in the transfer of NAB's foreign currency translation reserve ("**FCTR**") relating to CYBG Group to the income statement. The expected total accounting loss will not impact NAB (after the Demerger)'s Cash Earnings and will be reported as discontinued operations in NAB's income statement. The accounting for the Demerger is explained further in Section 2.8.6, including illustrative loss amounts from the Demerger based on hypothetical fair values of CYBG Securities and exchange rates. **In connection with the Demerger, and as a term of the sale arrangements for CYBI with CYBG PLC, NAB is required to provide indemnity protection under the Capped Indemnity** As set out in Item 1.7 of this Section 1, NAB has agreed to provide CYBG PLC with indemnity protection under the Capped Indemnity in respect of certain historic Conduct Matters up to the Capped Indemnity Amount. To support its obligations under the Capped Indemnity, NAB will collateralise its obligation under the Capped Indemnity by placing, as from the Demerger Date, a cash deposit with The Bank of England in an amount equal to the Unutilised Indemnity Amount. If the Demerger does not proceed, NAB may not need to enter into a formal binding commitment to provide this level of capital support to CYBG Group for legacy conduct issues, but may still potentially incur costs and liabilities in connection with the funding and expensing of CYBG Group's future and legacy conduct costs as they are incurred over time.	

Topic	Summary	Further Information
	This commitment to provide capital support for legacy conduct issues will be treated by APRA as a CET1 deduction for NAB. Assuming the Demerger is implemented, NAB is estimated to have a pro-forma CET1 Ratio as at 30 September 2015 of 9.83% (adjusted for the Demerger, the Capped Indemnity and assuming completion of the full Institutional Offer), above its target CET1 Ratio range of 8.75% to 9.25%. **NAB and CYBG Group will continue to have residual exposure to each other through ongoing arrangements (and through NAB's retained equity stake in CYBG Group if the Institutional Offer does not proceed in full)** The Demerger seeks to achieve economic and legal separation of CYBG Group from NAB. However, following the Demerger, there is a risk that shareholders in NAB may be impacted by future events which affect CYBG Group and vice versa. NAB and CYBG Group will continue to provide certain services to each other after the Demerger for a period of time as part of the arrangements under the Transitional Services Agreements. Accordingly, there will be some ongoing exposure for NAB (after the Demerger) and CYBG Group to each other's operations post the Demerger. Furthermore, NAB (after the Demerger) and CYBG Group will continue to have ongoing involvement under the Conduct Indemnity Deed entered into between the two entities. Refer to Section 4.9. In addition, NAB will have exposures to CYBG Group in the form of derivatives, less any collateral posted by CYBG Group (see Section 4.10.1.3), and ownership of residential mortgage backed securities of the Lannraig Programme, and AT1 Notes and Tier 2 Notes of CYBG Group. The value of the exposures may be impacted by the financial performance of CYBG Group and its subsidiaries or the ability of CYBG Group to repay any liabilities to NAB either through refinancing when they are due or other means (refer to Section 4.10), and the price which can be obtained for any of them may depend on the timing and circumstances of any sale. There is the possibility that, following the Demerger, NAB will retain a holding of CYBG Shares on issue through which NAB would continue to have exposure to CYBG Group (excluding any CYBG Shares held by NAB and/or its associates as a result of wealth management, custody or other ordinary course business activities). NAB and CYBG PLC have entered into the Relationship Agreement to ensure that, where NAB retains a holding of more than 10% of the issued share capital of CYBG PLC, certain prescribed relationship matters between them are dealt with in such circumstances (refer to Section 5.3). **There may be delays and unexpected costs in establishing a clean separation of NAB (after the Demerger) and CYBG Group** CYBG Group is currently supported by NAB's services infrastructure, including treasury, risk, finance and marketing functions. These services are currently being replaced through the establishment of internal CYBG Group capabilities or through third party providers, or will continue to be provided for a period of time as part of the transitional services arrangements with NAB. There is a risk that there may be delays, unexpected costs or other issues in implementing these arrangements.	

Topic	Summary	Further Information
	As there has been no public trading market for the CYBG Securities, an active trading market for the CYBG Securities may not develop, or if it develops, may not be sustained No assurance can be given that an active trading market for CYBG Securities will develop or, if it develops, can be sustained following the closing of the Institutional Offer (if it proceeds). **The aggregate value of NAB Shares and CYBG Securities following the Demerger may be less than the value of NAB Shares before the Demerger** The combined market value of NAB Shares and CYBG Securities after the Demerger may be lower than the market value of NAB Shares before the Demerger. It is not possible for the NAB Directors to predict the market value of NAB Shares or CYBG Securities with certainty, as share prices are impacted by a range of market factors and, in particular, the value of CYBG Group is likely to be impacted by whether or not the Institutional Offer proceeds and the price at which institutional investors participate in the Institutional Offer. **Eligible Shareholders will have more direct exposure to foreign exchange risk through their holding of CYBG Securities (as compared to simply holding NAB Shares)** Following the Demerger, holders of CYBG Securities who are based outside the UK and retain their CYBG Securities will be affected (favourably or unfavourably) by changes in the exchange rate for the Great British pound to their local currency. This will impact the price of CYBG Securities in their local currency and the value of any future dividends which may be paid by CYBG PLC in their local currency. **NAB Tier 1 Securityholders will not receive any CYBG Securities under the Demerger and will not have access to the assets of CYBG Group to satisfy any claims they may have on a winding up of NAB** As NAB Tier 1 Securities are not NAB Shares, NAB Tier 1 Securityholders do not participate in the Scheme, cannot vote at the Scheme Meeting and are not entitled to receive any CYBG Securities under the Demerger. NAB Tier 1 Securityholders will therefore not have access to the assets of CYBG Group to satisfy any claims they may have on a winding up of NAB.	
2.4 What are the reasons to vote for the CYBG Capital Reduction Resolution?	The CYBG Capital Reduction Resolution is a resolution to provide confirmatory approval for the CYBG Capital Reduction. The purpose of the CYBG Capital Reduction is to create distributable reserves on the balance sheet of CYBG PLC which will provide CYBG PLC with flexibility to pay dividends in the future if appropriate or to absorb any impairments in the value of its assets should this occur. The CYBG Capital Reduction Resolution must be approved by a simple majority of votes cast by NAB Shareholders (either in person or by proxy) on the resolution at the General Meeting in order to be passed. The CYBG Capital Reduction is conditional, amongst other things, on the CYBG Capital Reduction Resolution being passed, the Demerger being implemented and confirmation of the CYBG Capital Reduction by the UK Court. The Demerger is not, however, conditional on the CYBG Capital Reduction Resolution being passed. See further details in Section 3.8. If the CYBG Capital Reduction Resolution is not passed then it is expected that the CYBG Capital Reduction would not become effective and this could materially restrict the ability of CYBG PLC to pay dividends in the future if appropriate.	Section 3.8

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<tr><th>Topic</th><th>Summary</th><th>Further Information</th></tr>
<tr><td colspan="3">3. OVERVIEW OF NAB (AFTER THE DEMERGER)</td></tr>
<tr><td>3.1 What will NAB look like after the Demerger?</td><td>NAB (after the Demerger) will continue to be a major financial services organisation primarily based in its core markets of Australia and New Zealand but it will also continue to have a presence in Asia, the UK and the US, in each case predominately for wholesale banking and institutional markets business and treasury activity. The London branch of NAB will continue to operate for this purpose in the UK market.

NAB (after the Demerger) will have around 10 million customers and 35,000 employees, operating more than 1,000 retail branches and business banking centres.</td><td>Section 2.1</td></tr>
<tr><td>3.2 What will be the business model and strategic priorities of NAB after the Demerger?</td><td>NAB's strategy after the Demerger for its continuing businesses will remain unchanged. It will continue to focus on the following priorities, with the goal of improving NAB Shareholder returns by closing the ROE gap to peers and enhancing strong Australia and New Zealand franchises:
• focusing resources on the priority customer segments in Australia and New Zealand;
• improving the customer experience;
• reshaping the operating model for the future environment through technology simplification, process excellence and a footprint for a digital world;
• continuing to build a performance culture through accountability, clarity, transparency and passion for customers; and
• maintaining a strong balance sheet, managing risk and investing in technology.</td><td>Section 2.2</td></tr>
<tr><td>3.3 What products and services will NAB provide and to whom after the Demerger?</td><td>NAB (after the Demerger) will continue to operate the following divisions and offer the following products and services to customers:
• Australian Banking: offers a range of banking and investment products and services to retail and business customers, ranging from personal and consumer, small and medium enterprises through to Australia's largest corporate and financial services institutions. Australian Banking comprises the Personal and Business Banking franchises, FICC, Specialised Finance, Debt Markets, Asset Servicing and Treasury. NAB will continue to maintain a wholesale banking and institutional markets business, and conduct treasury activity, in the UK through its London branch, and the other markets in which it operates. These businesses will report into Australian Banking.
• NAB Wealth: provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. NAB Wealth operates across a range of brands including MLC and JBWere and provides financial advisory services through one of the largest networks of financial advisers in Australia.

On 28 October 2015, NAB announced it had agreed to sell 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company ("Nippon Life"), with NAB retaining the remaining 20%. As part of the partnership with Nippon Life, NAB will enter into a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. Completion of the sale is expected in the second half of calendar year 2016.</td><td>Section 2.2</td></tr>
</table>

Topic	Summary	Further Information
	• **NZ Banking**: provides retail, business, agribusiness, corporate and insurance products and services to New Zealand customers, operating under the BNZ brand. It excludes BNZ's market operations, which form part of Australian Banking.	
3.4 What are the key financials of NAB (after the Demerger)?	**NAB (after the Demerger) pro forma financial profile - FY14 and FY15** The pro forma financial information below has been prepared in line with the basis of preparation detailed in Section 2.8.2 to illustrate the effect of the Demerger, the Institutional Offer (as if completed in full) and the Capped Indemnity.	Sections 2.4 and 2.8

NAB pro forma income statement data – Cash Earnings basis(1)

	FY15 AUD	FY14 AUD
Net interest income	$12,497m	$12,062m
Non-interest income	$5,008m	$4,745m
Total operating income	$17,505m	$16,807m
Total operating expenses	$7,448m	$7,992m
Charge to provide for bad and doubtful debts	$749m	$725m
Cash Earnings	$6,457m	$5,401m
Net profit attributable to owners of NAB (continuing operations only) – Statutory basis	$6,879m	$5,526m

(1) The pro forma income statement data is presented on a Cash Earnings basis, unless otherwise stated. Cash Earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian peers with similar business portfolios. Further information regarding non-IFRS measures can be found in NAB's annual financial report for the year ended 30 September 2015, including how these measures are defined and a full reconciliation of cash earnings to statutory net profit attributable to owners.

NAB pro forma balance sheet data and selected pro forma metrics

	FY15
Total assets	$880.3bn
Net assets	$50.0bn
CET1 Ratio	9.83%
Risk-weighted assets	$350.3bn
Cash Earnings return on equity(1)(2)(3)	15.0%
Net interest margin(1)	1.82%
Banking cost to income(1)	41.1%

(1) Pro forma metrics presented on a Cash Earnings basis.

(2) Refer to Section 2.4 for further information on NAB (after the Demerger) Cash Earnings ROE.

(3) Pro forma adjustments have been made on a spot basis against average balances.

Topic	Summary	Further Information
3.5 What will be the dividend policy of NAB (after the Demerger)?	The amounts of future dividends will be subject to NAB's future performance, capital requirements and NAB Board policy after the Demerger. NAB has a target dividend payout ratio range of 70% to 75%.	Section 2.5
3.6 What are the risks associated with an investment in NAB (after the Demerger)?	The NAB Directors are of the view that separation of CYBG Group from NAB and its establishment as a standalone banking group as a result of the Demerger will allow NAB to focus on managing its Australia and New Zealand franchises without the attention required to manage a bank operating within a complex UK regulatory environment and reduce the risks associated with investing in NAB Shares. However, there will be a number of risks associated with NAB (after the Demerger) that will be similar to risks associated with NAB prior to the Demerger. Some of the key risks associated with NAB (after the Demerger) include: • NAB's financial position may be adversely impacted by macroeconomic risks and financial market conditions. • Regulatory changes may adversely impact NAB's operations, financial performance and capital position. • Intense competition, which may adversely impact NAB's financial performance and position. • Exposure to credit risk, which may adversely impact NAB's financial performance and position. • NAB may suffer losses due to its exposure to operational risks. • Non-compliance with laws or standards which may adversely impact NAB's reputation, financial performance and position. • Disruption of technology systems or breaches of data security may adversely impact NAB's operations, reputation and financial position.	Section 2.9
3.7 Will NAB (after the Demerger) still be exposed to the risks associated with an investment in CYBG Group?	NAB will be significantly less exposed to the risks associated with an investment in CYBG Group after the Demerger other than: • NAB may still retain some direct exposure to the risks associated with CYBG Group if the Institutional Offer does not proceed (in whole or in part) and NAB retains CYBG Shares. • NAB will have continuing ownership of residential mortgage backed securities of the Lannraig Programme and AT1 Notes and Tier 2 Notes in CYBG Group, as well as derivative exposures. • NAB will still remain exposed to certain conduct liabilities, which relate to activities undertaken by CYBG Group whilst under NAB ownership (refer below and to Section 3.9 for further details). CYBG Group will continue to provide certain services to NAB (after the Demerger) for a transitional period as part of the arrangements under the Transitional Services Agreements. Accordingly, there will be some ongoing exposure for NAB (after the Demerger) to CYBG Group's operations.	

Section One:
Demerger Overview

Topic	Summary	Further Information
	Under the Conduct Indemnity Deed, NAB will be required to provide CYBG PLC with a Capped Indemnity in respect of certain historic conduct liabilities, up to the Capped Indemnity Amount (subject to the Loss Sharing Arrangement). NAB has also agreed, pursuant to the Tax Indemnity Provisions, to compensate CYBG PLC for any actual tax (when incurred) that would not have been incurred but for the receipt of amounts by CYBG PLC under the Capped Indemnity (or by members of CYBG Group pursuant to subsequent subscriptions for equity with members of CYBG Group using the proceeds of such payments), taking into account whether the payments under the Capped Indemnity are taxable and whether the underlying customer compensation payments and related costs and expenses give rise to tax relief. To the extent that actual tax is paid, NAB will reimburse CYBG PLC when the tax is paid. Further information in relation to the Capped Indemnity and Tax Indemnity Provisions is set out in Section 4.9.	
3.8 What will NAB (after the Demerger)'s share price be?	There is no certainty as to the price of NAB Shares after the Demerger is implemented. However, the price of NAB Shares is likely to change when NAB Shares first trade ex CYBG Group which is expected to be on 3 February 2016 to reflect the proposed Demerger if Effective at that date. NAB Shareholders will also receive value through their holding of CYBG Securities or their entitlement to the proceeds from the sale of CYBG Securities if they are a Selling Shareholder. In addition, they will benefit indirectly from the proceeds received by NAB from the Institutional Offer if it proceeds or from the value of the CYBG PLC stake retained by NAB if it does not proceed in full or at all.	
4. OVERVIEW OF CYBG GROUP		
4.1 Who is CYBG Group?	With over 175 years of history, CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, CYBG Group offers through its strong local community brands, Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services. Clydesdale Bank is also one of only a small number of banks in the world that issues banknotes. CYBG PLC is incorporated in England and Wales and, following Demerger, holders of CYBG Securities will have the rights and privileges attaching to the relevant securities set out in the *Companies Act (UK)* and the Articles. CYBG PLC is or will (assuming UK Admission becomes effective) be subject to the requirements of the *Companies Act (UK)*, UK Listing Rules, Disclosure and Transparency Rules and the UK Takeover Code. A summary of certain key elements of such requirements is set in Section 9.8.	Section 3.1

Topic	Summary	Further Information
4.2 Where will CYBG PLC be listed?	CYBG PLC will apply to the UKLA for CYBG Shares to be admitted to the premium listing segment of the UKLA Official List and to the LSE for such shares to be admitted to trading on the LSE's main market for listed securities. Admission to trading on the LSE's main market for listed securities constitutes admission to trading on a regulated market. CYBG PLC will also apply for admission to the ASX Official List as an ASX foreign exempt listing and for official quotation of the CYBG CDIs on ASX. If Admission becomes effective, CYBG Shares will trade on the LSE's main market for listed securities (LSE: CYBG) and the CYBG CDIs will be quoted on ASX (ASX: CYB). NAB (after the Demerger) will continue to operate its other existing businesses and remain listed on ASX (ASX: NAB). If UK Admission does not become effective, it is intended that CYBG PLC will apply to ASX for a standard listing rather than a foreign exempt listing. There is no guarantee that ASX will grant CYBG PLC a standard listing or if it does, the timeframe in which this may occur. The Demerger is not conditional on receipt of approval for Australian Admission or UK Admission becoming effective.	
4.3 When will CYBG Shares and CYBG CDIs commence trading separately on the LSE and ASX?	CYBG Shares are expected to commence trading on the LSE on 2 February 2016, initially on a conditional basis. CYBG CDIs are expected to commence trading on ASX on 3 February 2016, on a deferred settlement basis. It is the responsibility of each Eligible Shareholder to confirm their holding by calling the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days, before trading in CYBG Securities. Trading of CYBG Shares on an unconditional basis is expected to commence at 8:00am on 8 February 2016 (GMT) and of CYBG CDIs on a deferred settlement basis at 9:00am on 3 February 2016. Listing on the LSE is not expected to be confirmed until 8:00am on 8 February 2016 (GMT).	
4.4 What will the CYBG Share price be?	Assuming the Institutional Offer proceeds, a price for the CYBG Shares will be announced on 2 February 2016 (in the UK) under the Institutional Offer following a period of investor marketing and a bookbuild process. However, there is no certainty as to the price of CYBG Securities once they trade on the LSE or ASX.	
4.5 Key investment highlights	The CYBG Directors believe that CYBG Group has the following key strengths: • Long established franchise in its core regional and selected national markets • Strong local community brands • Standalone, scalable and full-service operating platform • Profitable with a resilient and strongly capitalised balance sheet • Experienced leadership team	Section 3.2

Section One:
Demerger Overview

Topic	Summary	Further Information
4.6 What will be CYBG PLC's dividend policy and will dividends be franked?	In the near term, as CYBG Group seeks to grow its earnings and balance sheet, the CYBG Directors will have particular regard to the need to invest in the franchise as a driver for future growth and the need to preserve capital to support the business. Taking this into account and subject to regulatory requirements, it is the CYBG Directors' current intention that CYBG Group's inaugural dividend on the CYBG Shares be in respect of the financial year ending 30 September 2017 and reflect only a modest percentage of CYBG Group's earnings. The CYBG Directors intend to review on an ongoing basis the expected timing and quantum of any dividend payments in the context of progress on the delivery of CYBG Group's strategy and the broader operating environment. The CYBG Directors believe that CYBG Group will, in time, be able to support a dividend distribution of up to approximately 50% of earnings (after paying AT1 Notes distributions).	Section 3.3
4.7 Who will the CYBG Directors be after the Demerger?	Assuming the Institutional Offer proceeds for the full IPO Percentage, after the Demerger the CYBG Directors will be: James Pettigrew – Chairman, Non-Executive CYBG Director David Duffy – CYBG Group Chief Executive Officer Ian Smith – CYBG Group Chief Financial Officer Debbie Crosbie – CYBG Group Chief Operating Officer David Bennett – Deputy Chairman, Independent Non-Executive CYBG Director Richard Gregory OBE – Senior Independent Non-Executive CYBG Director David Allvey – Independent Non-Executive CYBG Director David Browne – Independent Non-Executive CYBG Director Adrian Grace – Independent Non-Executive CYBG Director Barbara Ridpath – Independent Non-Executive CYBG Director Teresa Robson-Capps – Independent Non-Executive CYBG Director Alex Shapland – Independent Non-Executive CYBG Director Richard Sawers is currently a CYBG Director. It is proposed that Richard Sawers will resign from the CYBG Board prior to pricing and placing of the Institutional Offer. If the Institutional Offer does not proceed or it proceeds but NAB retains an interest in CYBG Shares by way of Retained Stake Shares which is at least 20% of the CYBG Shares on issue, Richard Sawers will be re-appointed to the CYBG Board as a Non-Executive CYBG Shareholder Director in accordance with NAB's rights under the Relationship Agreement. Further information regarding the Relationship Agreement is set out in Section 5.3.	Section 3.10
4.8 What are the key financials of CYBG Group?	**CYBG Group financial profile – FY15, FY14, FY13 and FY12** The financial information below consists of: • CYBG Group's historical income statement data presented on the Management Basis(1), without any pro forma adjustments;	Section 3.13

Topic	Summary	Further Information
	• Selected pro forma balance sheet data which has been prepared in line with the basis of preparation detailed in Section 3.13.6.1 to illustrate CYBG Group's balance sheet following the Demerger; and • Selected pro forma metrics derived based on CYBG Group's historical income statement data and CYBG Group's pro forma balance sheet as appropriate. The CYBG Group's historical income statement data below does not include the profit contribution of the Insurance Intermediary Business, future additional corporate costs CYBG Group will incur as a standalone group or the effect of the arrangements to replace existing AT1 Notes and Tier 2 Notes with new AT1 Notes and Tier 2 Notes. These are described in Items 1.6, 4.9 and 4.10 of this Section 1. A pro forma income statement for the CYBG Group has not been presented.	

CYBG Group income statement data – Management Basis[1]

	FY15 GBP	FY14 GBP	FY13 GBP	FY12 GBP
Net interest income	£787m	£785m	£768m	£806m
Non-interest income	£177m	£197m	£190m	£120m
Total operating income	£964m	£982m	£958m	£926m
Total operating expenses	£727m	£686m	£683m	£715m
Charge to provide for doubtful debts	£78m	£74m	£144m	£173m
Underlying profit on ordinary activities before tax	£159m	£222m	£131m	£38m
Net (loss)/profit attributable to owners of CYBG Group	(£225m)	(£190m)	(£44m)	(£647m)

(1) The Management Basis information includes adjustments to present items that CYBG Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the CYBG HFI Income Statement to the Management Basis information presented in Section 3.13.5 and discussed in Section 7.9 in Part 5 of Annexure G.

Section One: Demerger Overview

<table>
<tr><th>Topic</th><th>Summary</th><th>Further Information</th></tr>
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CYBG Group selected pro forma balance sheet data and selected metrics

	FY15
Total assets (GBP)	£38.6bn
Net assets (GBP)	£3.4bn
Net tangible assets (GBP)	£2.7bn
CET1 Ratio	13.2%
Total Capital Ratio	18.9%
Risk-weighted assets (GBP)	£18.2bn
Return on tangible equity – statutory basis(3)	(10.3%)
Return on tangible equity(2)(3)(4)	5.1%
Net interest margin	2.20%
Cost to income(2)(4)	75%

(2) This data is presented based on the Management Basis.

(3) Key performance indicators include return on tangible equity, which is defined as profit/(loss) after tax less preference share dividends, non-controlling interest distributions and Additional Tier 1 distributions as a percentage of average tangible equity (total equity less intangible assets, excluding non-controlling interest, Additional Tier 1 Capital instruments and preference shares) for a given period. Average tangible equity has been calculated using tangible equity spot balances at each of the month ends of the applicable period.

(4) Refer to Section 3.13.4.2 for further information on Management Basis return on tangible equity and cost to income.

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4.9 What is the Insurance Intermediary Business Restructure and what are the key financials of the Insurance Intermediary Business?

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NAB and CYBG Group entered into a sale and purchase agreement on 30 September 2015 pursuant to which NAB sold to CYBG Group its entire shareholding in the Insurance Intermediary Business for cash consideration of approximately £4 million.

The Insurance Intermediary Business acts as an intermediary for a number of third party providers of insurance and investment products, specialising in home insurance, motor insurance and personal lines. CYBG Group distributes these products through its retail mortgage and retail banking advisors to its customers in the United Kingdom.

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Topic	Summary	Further Information
	The key financials of the Insurance Intermediary Business are summarised below:	

	FY15 GBP	FY14 GBP	FY13 GBP	FY12 GBP
Total operating income	£22m	£23m	£31m	£41m
Total operating expenses	£6m	£8m	£9m	£11m
Underlying profit on ordinary activities before tax	£16m	£15m	£22m	£30m
Tax	£3m	£3m	£5m	£8m
Net profit attributable to owners	£13m	£12m	£17m	£22m

The results for the Insurance Intermediary Business set out above comprise the gross income and expenses of the business, which includes an expense for existing income share arrangements with CYBG Group of £5 million in the financial year ending 30 September 2015 (2014: £6 million, 2013: £7 million, 2012: £10 million). Accordingly, the impact to CYBG Group's results arising from the consolidation of the Insurance Intermediary Business would have been additional income of £17 million in the financial year ending 30 September 2015 (2014: £17 million, 2013: £24 million, 2012: £31 million) additional operating expenses of £1 million (2014: £2 million, 2013: £2 million, 2012: £1 million) and a tax charge of £3 million (2014: £3 million, 2013: £5 million, 2012: £8 million).

As the Insurance Intermediary Business formed part of the consolidated CYBG Group from 30 September 2015:

- the assets and liabilities of the Insurance Intermediary Business have been consolidated within the CYBG Group Balance Sheet as at 30 September 2015; and
- the CYBG Group HFI Income Statement does not reflect the income, expenses and net earnings of the Insurance Intermediary Business for the year ended 30 September 2015 (as over the course of the year it was not yet part of the consolidated CYBG Group).

The earnings of the Insurance Intermediary Business should be taken into account when assessing CYBG Group's future earnings.

Topic	Summary	Further Information
4.10 What additional corporate costs will CYBG Group have as a standalone listed group?	Following the Demerger, CYBG PLC will be a standalone entity, proposed to be listed on the LSE and ASX, and will incur additional corporate operating costs, which CYBG Group did not incur as part of NAB. These costs principally include share registry costs, company secretariat costs, and other costs. CYBG Group will also incur additional costs associated with certain corporate functions, services and internal management systems that have previously been provided by or in conjunction with NAB, such as information technology, insurance, accounting, treasury, investor relations, legal, human resources and marketing. Overall, CYBG Group estimates these additional costs will have an incremental net impact on CYBG Group's total operating costs of between approximately £15 million and £25 million per year. These additional costs include estimated costs to be incurred under the TSAs between CYBG Group and NAB, less the net corporate costs currently being recharged from NAB to CYBG Group. The effect of these additional costs should be taken into account when assessing CYBG Group's future earnings.	Section 3.14
4.11 What are the risks associated with an investment in CYBG Group?	CYBG Group's business will be subject to different risks to the current broader NAB group (or NAB (after the Demerger)) because it operates in the UK only and on a smaller scale than the broader NAB group. A summary of the risks which CYBG Group's business faces are set out below. A more detailed list of risks to which CYBG Group is exposed is contained in Section 3.15 and details of those risks are outlined in Part 1 of Annexure G. **CYBG Group is subject to risks arising from macro-economic conditions in the UK** – CYBG Group's business is subject to inherent risks arising from macro-economic conditions in the UK, and levels of retail and business borrowing are heavily dependent on consumer confidence, the UK property and mortgage market, employment trends, market interest rates and the broader state of the UK economy. As CYBG Group's customer base is predominantly based in the UK, CYBG Group is significantly exposed to the condition of the UK economy particularly house prices, levels of employment, interest rate levels and volatility of consumers' disposable income. Any deterioration or uncertainty and/or volatility in relation to these factors or conditions could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects. **CYBG Group faces risks related to volatility in UK house prices** – CYBG Group's primary activity is providing banking services to retail customers and to SMEs, including mortgage lending in the UK secured against residential property. The value of that security is influenced by UK house prices. As at 30 September 2015, 71.2% of CYBG Group's customer loans by value were mortgages. A fall in property prices could result in an increase in customer defaults leading to higher impairment provisions and losses being incurred by CYBG Group which could reduce CYBG Group's capital and ability to engage in lending and other income generating activities. In addition, a significant increase in house prices could reduce the affordability of homes and could result in a reduction in demand for new mortgages, thereby limiting CYBG Group's ability to grow its mortgage portfolio. **CYBG Group faces risks associated with interest rate levels and volatility** – The performance of CYBG Group is affected by interest rates, which are outside of its control. First, interest rates affect the cost and availability	Section 3.15

Topic	Summary	Further Information
	of the principal sources of CYBG Group's funding, which is largely provided by customer deposits. The sustained low interest rate environment in recent years has reduced incentives for consumers to save and reduced the amount of funding from customer deposits that could be provided to banks. Secondly, interest rates impact CYBG Group's mortgage impairment levels as they affect customer affordability, as well as the ability of individuals and SMEs to service loans. An increase in interest rates could lead to an increase in default rates among customers, reduce demand for mortgages and other loans generally and reduce CYBG Group's lending and related income. Thirdly, interest rates affect CYBG Group's net interest income and margins and the recent low interest rate environment has put pressure on net interest margins. If CYBG Group is unable to manage its exposure to interest rate volatility, it could have a material adverse effect on CYBG Group's reputation, business, financial condition and results of operations. **CYBG Group faces risks associated with compliance with a wide range of laws and regulations** – CYBG Group's operations are heavily regulated and it must comply with numerous laws and regulations and may face action from regulators for failures to comply. Regulatory enforcement actions pose a number of risks to CYBG Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. CYBG Group may be subject to other penalties or litigation and may settle litigation or regulatory proceedings prior to a final judgement or determination to avoid the costs of continuing to contest liability. Failure to manage these risks adequately could have a material adverse effect on CYBG Group's reputation, business, results of operations, financial condition and prospects. **CYBG Group's business is subject to risks relating to the cost and availability of liquidity and funding** – CYBG Group accesses domestic and global capital markets to help fund its businesses. Any dislocation in these funding markets or a reduction in investor appetite for holding CYBG Group's securities may adversely affect CYBG Group's ability to access funds or require CYBG Group to access funds at a higher cost or on unfavourable terms or result in it obtaining funding that does not efficiently match the maturity profile of its assets. **The amount and quality of CYBG Group's capital is subject to regulatory requirements and market influence** – CYBG Group is required to maintain minimum levels of capital and reserves of sufficient quality relative to the balance sheet size and risk profile of its operations to meet current and future prudential regulatory requirements including CRD IV, loss-absorbing capacity and potentially higher risk weighting of assets, achieve its strategic plans and objectives, cover the risks to which it is exposed or protect against unexpected losses. An actual or perceived shortage of capital could have a material adverse effect on CYBG Group's business, which could, in turn, affect the Company's capacity to pay future dividends or implement its business strategy, impacting future growth potential. **CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses** – CYBG Group faces both financial and reputational risks as a result of legal	

Topic	Summary	Further Information
	and regulatory proceedings, and complaints made to it directly or to the FOS or other relevant regulatory bodies, both against CYBG Group and against members of the UK banking industry more generally. As part of the Demerger, NAB and CYBG PLC have entered into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide CYBG PLC with the Capped Indemnity. The conduct issues covered by the Capped Indemnity are referred to as "**Relevant Conduct Matters**". Claims may be made by CYBG PLC under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter. Although the Capped Indemnity provides significant economic protection with respect to historical conduct issues it is subject to the following principal risks: (i) claims may exceed the Capped Indemnity Amount, (ii) the Capped Indemnity is subject to the Loss Sharing Arrangement and therefore CYBG PLC is only able to claim for the proportion of the provision or increase that falls within the scope of the Capped Indemnity after deduction of the Loss Share, (iii) provisions relating to historical conduct matters must satisfy certain materiality thresholds, other than existing known Conduct Matters in relation to PPI, IRHP (comprising Standalone IRHP and Voluntary Scope TBLs) and FRTBLs, (iv) claims arising from any retrospective changes in laws and regulations fall outside the scope of the Capped Indemnity, (v) in the event that a duly appointed expert determines that there is a continuing material non-compliance by CYBG PLC with its obligations under the Conduct Indemnity Deed, being principally, to cooperate in assessments by the PRA and to provide information to NAB, NAB may suspend or withhold certain payments to CYBG PLC and in addition, CYBG Group would be restricted from withdrawing certain amounts from the account in which payments under the Capped Indemnity are held, and (vi) the PRA may undertake a reassessment of the pre-Demerger conduct risks to which CYBG Group is exposed on an annual basis and may determine (at its sole discretion) that the amount of support provided by the Capped Indemnity can be reduced. Any such reduction as a result of such PRA reassessment would be permanent even if there were to be a subsequent increase in exposure to Relevant Conduct Matters after such a reduction. The above factors and other factors may result in CYBG Group being required to fund the costs of claims relating to certain historical conduct matters from its own capital resources or, where available, other protection arrangements which may not be sufficient to settle or discharge some or all of any such claims. Further, while the Capped Indemnity provides CYBG Group with economic protection relating to certain conduct matters, it does not cover all possible impacts of historic conduct issues and CYBG Group may be materially adversely impacted by other risks such as reputational damage to its brand names. Estimates of future redress payments are calculated based on costs from existing cases and there is a risk that the cases to date are not representative of future cases and therefore the existing provisions for PPI, IRHP, FRTBL and other conduct matters and the protections afforded by the Capped Indemnity may not cover all potential losses and/or may result in CYBG Group incurring significant costs pursuant to the Loss Sharing Arrangement.	

Topic	Summary	Further Information
	No assurances can be given that CYBG Group will not incur liability and/or fines in connection with any non-compliance with legislation, any conduct-related legal or regulatory proceedings and/or any claims from customers. Notwithstanding the support provided by the Capped Indemnity, any such non-compliance or legal or regulatory proceedings or claims may not be covered by the Capped Indemnity and could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects. **CYBG Group's reliance on transitional services arrangements with NAB (after the Demerger) exposes CYBG Group to a range of potential operational and regulatory risks** – CYBG Group will be reliant on NAB (after the Demerger) under the TSA for the provision of certain key services supporting elements of the risk, treasury, human resources and finance functional areas, which will require ongoing support from NAB (after the Demerger) to allow CYBG Group time to develop its own replacement systems and supporting processes. The systems and infrastructure that NAB (after the Demerger) will use to provide services to CYBG Group may not operate as expected, may suffer periods of reduced compatibility, may not fulfil their intended purpose or may be damaged or interrupted by unanticipated increases in usage, human error, misaligned software updates, unauthorised access, natural hazards or similarly disruptive events. **CYBG Group faces potential risks associated with its separation from NAB** – CYBG Group's own functions and processes developed and restructured as part of its separation from NAB may not operate as intended or execution of the separation process and the creation of new processes may not have been properly completed and consequently there is a risk that CYBG Group could suffer operational difficulties which could have a material adverse effect on CYBG Group's business, financial condition and results of operations and prospects. **There has been no prior trading market for the Shares** – Prior to the Institutional Offer, there has been no public trading market for CYBG Securities. CYBG Group can give no assurance that an active trading market for CYBG Securities will develop or, if developed, can be sustained following the closing of the Institutional Offer. **Significant trading volumes of CYBG Securities in the public market in the period post-Demerger could adversely impact the price of the securities** – Following UK Admission becoming effective, there may be a period of relatively high volume trading in the CYBG Securities. CYBG Group is unable to predict the trading intentions of the Eligible Shareholders who receive CYBG Securities through the Demerger. If substantial amounts of CYBG Securities are sold in the open market after UK Admission, the market price of the CYBG Securities may fall. **CYBG PLC is expected to have a shareholder base that will be predominantly based in Australia following the Demerger** – CYBG PLC's initial shareholder base will consist of NAB Shareholders who have received CYBG Shares through the Demerger and those that have bought CYBG Shares in the Institutional Offer. As NAB Shareholders expected to receive CYBG Shares through the Demerger predominantly have registered	

Topic	Summary	Further Information
	addresses in Australia, a majority of the CYBG Shares will be held, as from a time shortly after UK Admission becomes effective, in the form of CYBG CDIs traded on the ASX. As a consequence, notwithstanding that CYBG Group has no operations in Australia, the price of CYBG Shares may be subject to significant volatility as a result of fluctuations in the prices of securities on ASX and general economic conditions in Australia and conversely the price of CYBG CDIs may also be subject to volatility as a result of fluctuations in the prices of securities on the LSE. The Articles of CYBG PLC provide rights for any new offer of CYBG Shares to first be offered to CYBG Shareholders before such an offer is made to anyone else, unless such rights are disapplied by a CYBG Shareholder resolution. In the event of a future equity offer, there may be certain circumstances in which CYBG Shareholders outside the UK may not be able to participate. Securities laws of Australia and certain other foreign jurisdictions may restrict CYBG PLC's ability to allow participation by CYBG Shareholders from such jurisdictions in future offers or impose material obligations which make the proposed offers impracticable. Thus Australian and/or other foreign CYBG Shareholders may be excluded from such future equity offers, which may result in their shareholding in CYBG PLC being diluted.	
4.12 Why is the CYBG Capital Reduction required?	Following implementation of the Demerger, it is proposed that the share capital of CYBG PLC be reduced to create distributable reserves in CYBG PLC by reducing the "nominal" or "par" value of each CYBG Share from £1.25 to 10 British pence and the aggregate amount of such reduction being credited to distributable reserves. The nominal value of a share does not reflect its market value and the nominal value of a CYBG Share is not intended or expected to be reflective of its trading price or the market capitalisation of CYBG PLC. If implemented, it is expected that the CYBG Capital Reduction will create distributable reserves on the balance sheet of CYBG PLC of approximately £1,011 million. The distributable reserves created will provide CYBG PLC with flexibility to pay dividends in the future if appropriate or absorb any impairments in the value of its assets should this occur. The CYBG Capital Reduction is not expected to have any impact on the market value of the CYBG Shares or the CYBG CDIs. The implementation of the CYBG Capital Reduction is conditional on: • the CYBG Capital Reduction Resolution being passed at the General Meeting; • implementation of the Demerger; • confirmation of the CYBG Capital Reduction by the UK Court at the UK Court Hearing expected to occur on 10 February 2016; and • the registration by the Registrar of Companies of an office copy of the CYBG Court Order confirming the CYBG Capital Reduction and of the CYBG Statement of Capital. The Demerger is not conditional on the CYBG Capital Reduction Resolution being passed.	Section 3.8

<table>
<tr><th>Topic</th><th>Summary</th><th>Further Information</th></tr>
<tr><td>4.13 What rights and privileges do CYBG Securityholders have?</td><td>CYBG PLC is a company incorporated in England and Wales and, following Demerger, holders of CYBG Securities will have the rights and privileges attaching to the relevant securities set out in the Companies Act (UK) and the Articles.

CYBG PLC is or will be (assuming UK Admission becomes effective) subject to the requirements of the Companies Act (UK), UK Listing Rules, Disclosure and Transparency Rules and the UK Takeover Code. A summary of certain key elements of such requirements is set out in Section 9.8.</td><td>Section 9.8</td></tr>
<tr><td colspan="3">5. OVERVIEW OF THE INSTITUTIONAL OFFER</td></tr>
<tr><td>5.1 What is the Institutional Offer?</td><td>To create an enlarged institutional shareholder base for CYBG PLC, up to approximately 25% of the CYBG Shares on issue at the Demerger Date will not be distributed by NAB under the Demerger, but instead such shares are proposed to be sold by NAB to institutional investors in the Institutional Offer. The Offer Price under the Institutional Offer will be determined following a period of investor marketing and a bookbuild process.

The proceeds (net of commissions, taxes and other expenses) of the sale of CYBG Shares under the Institutional Offer will be remitted to NAB. CYBG PLC will not receive any proceeds from the sale of CYBG Shares under the Institutional Offer.

The Offer Price is expected to be determined on 2 February 2016 (in the UK).

Under certain circumstances NAB may elect:
• not to proceed with the Institutional Offer at all, in which case NAB will retain all of the CYBG Shares proposed to be sold in the Institutional Offer (refer to Sections 5.2 and 5.3); or
• to proceed with the sale of only some of the CYBG Shares proposed to be sold in the Institutional Offer, in which case NAB will retain any unsold CYBG Shares.

In addition, the Institutional Offer is subject to certain conditions (refer to Item 5.4 of this Section 1).</td><td>Section 5.1</td></tr>
<tr><td>5.2 Why is the Institutional Offer occurring?</td><td>The NAB Directors propose to pursue the Institutional Offer to:
• support the development of an active and liquid market in CYBG Shares on the LSE;
• broaden the investor base of CYBG PLC, by allowing new investors (including institutional investors who typically are more focused on investing in the UK equity markets and in UK banks) to participate in the listing of CYBG PLC;
• help transition trading in CYBG Securities to CYBG PLC's primary market on the LSE, aligned with the location and currency of CYBG Group's business and the financial and regulatory environment to which CYBG Group is subject; and
• through receipt of the proceeds of the Institutional Offer, strengthen NAB's capital position.

NAB expects, but cannot guarantee, that over time the Institutional Offer will enhance the liquidity and trading in CYBG Securities and CYBG Group's future access to capital.</td><td>Section 5</td></tr>
</table>

Section One:
Demerger Overview

Topic	Summary	Further Information
5.3 What are the implications of NAB not proceeding with the full Institutional Offer (or only proceeding with a partial Institutional Offer)?	The implications of NAB not proceeding with the full Institutional Offer (or only proceeding with a partial Institutional Offer) include: • NAB would continue to own up to approximately 25% of CYBG Group. • it is expected that CYBG PLC would still be listed on both the LSE and ASX (assuming approval is received for Australian Admission and UK Admission becomes effective), although it is expected there would be limited liquidity on the LSE. • If NAB's Retained Stake Shares exceed 10% of the CYBG Shares on issue, the Relationship Agreement will govern NAB's relationship with CYBG Group and ensure CYBG Group is capable of carrying on its business independently of NAB. If, following UK Admission, NAB's Retained Stake Shares exceed 20% of the CYBG Shares on issue at the time of UK Admission, in accordance with NAB's rights under the terms of the Relationship Agreement, Richard Sawers will be re-appointed to the CYBG Board but as a Non-Executive CYBG Shareholder Director. For further details on the Relationship Agreement refer to Section 5.3. • There would be no changes to the ongoing arrangements between NAB (after the Demerger) and CYBG Group after separation as outlined in Section 4.10.2. • NAB's CET1 Ratio would be lower as NAB (after the Demerger) would have received less or no proceeds from the Institutional Offer and would have a remaining equity investment in an overseas Authorised Deposit-taking Institution that under APRA's capital standards, would require a corresponding deduction to CET1 equal to the value of the investment. • Retention of a shareholding in CYBG PLC is not expected to have a material impact on NAB's earnings, return on equity or dividend per share after the Demerger.	Section 5.2
5.4 Is the Institutional Offer subject to any conditions?	• The Institutional Offer is conditional on UK Admission becoming effective, and the Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms. Should either of these conditions not be satisfied, then the Institutional Offer will not proceed. The Underwriting Agreement will only be entered into if NAB decides to proceed with the Institutional Offer. • It is expected that CYBG PLC would still be listed on both the LSE and ASX (assuming approval is received for Australian Admission and UK Admission becomes effective), even if the Institutional Offer does not proceed. • For further details on UK Admission and the Institutional Offer refer to Sections 9.11.1 and 5 respectively.	Section 5
5.5 Will the Institutional Offer be underwritten?	Immediately prior to the announcement of the Offer Price, CYBG PLC, the CYBG Directors, NAB and the Managers are expected (but not obliged) to enter into the Underwriting Agreement. Under the Underwriting Agreement, each Manager will severally agree, subject to certain conditions: • to procure purchasers for the CYBG Shares being sold pursuant to the Institutional Offer; and • to the extent that the Managers fail to procure purchasers for all of those CYBG Shares, to purchase its agreed proportion of such unplaced CYBG Shares. All such purchases will be at the Offer Price.	Section 5.4

Topic	Summary	Further Information
	The Underwriting Agreement will contain provisions entitling the Managers to terminate the Institutional Offer (and the arrangements associated with it) at any time prior to UK Admission in certain circumstances, including on the occurrence of certain material changes in the condition (financial or otherwise) or prospects of CYBG Group and on certain changes in financial, political or economic conditions. If this right is exercised, the Institutional Offer and related underwriting arrangements will lapse and any monies received in respect of the Institutional Offer will be returned to applicants without interest.	
5.6 What is the Over Allotment Option?	In connection with the Institutional Offer, the Stabilising Manager may over allot CYBG Shares up to a maximum of 15% of the total number of CYBG Shares comprised in the Institutional Offer (excluding the Over Allotment Option) and effect other transactions which may have the effect of supporting the market price of CYBG Shares and/or the CYBG CDIs at a level higher than that which might otherwise prevail in the open market. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments, NAB will grant to it the Over Allotment Option, pursuant to which the Stabilising Manager may require NAB to sell additional CYBG Shares up to a maximum of 15% of the total number of CYBG Shares comprised in the Institutional Offer (excluding the Over Allotment Option). Stabilising transactions may be undertaken at any time during the Stabilisation Period, being the 30 day period following the commencement of conditional dealings in CYBG Shares on the LSE. However, there will be no obligation on the Stabilising Manager to effect stabilising transactions and no assurance that stabilising transactions will be undertaken. Such stabilising transactions, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of CYBG Shares or the CYBG CDIs above the Offer Price. Any CYBG Securities sold by NAB on exercise of the Over Allotment Option will rank equally with other CYBG Securities in all respects.	Section 5.6
6. IMPLEMENTATION AND PROCESS		
6.1 What are the key steps involved in the Demerger?	The key steps associated with the Demerger include: • **Sale and Purchase Agreement** – NAB and CYBG PLC having entered into the Sale and Purchase Agreement under which, subject to the Scheme becoming effective, NAB has agreed to transfer all of the CYBI Shares to CYBG PLC in consideration for CYBG PLC issuing CYBG Shares to NAB for distribution under the Scheme and sale in the Institutional Offer (if considered appropriate). It is also a term of this agreement that the parties enter into the Conduct Indemnity Deed. • **Scheme Meeting** – NAB Shareholders passing the Scheme Resolution at the Scheme Meeting (scheduled to be held on 27 January 2016). • **General Meeting** – NAB Shareholders and NAB Tier 1 Securityholders approving the NAB Capital Reduction Resolution at the General Meeting to be held immediately after the Scheme Meeting. • **Court approval** – The Court approving the Scheme at the Second Court Hearing (scheduled for 1 February 2016), all other Conditions Precedent to the Scheme being satisfied or waived and the Scheme becoming Effective.	Section 4.2

Section One:
Demerger Overview

Topic	Summary	Further Information
	• **Institutional Offer** – NAB determining whether it will proceed with the Institutional Offer (and if so, whether it will proceed with a full or partial Institutional Offer). Successful completion of the Institutional Offer is not a condition of the Demerger. • **Demerger** – The NAB Capital Reduction being undertaken, and, in accordance with the Sale and Purchase Agreement, all of the CYBI Shares being transferred by NAB to CYBG PLC in consideration for CYBG PLC issuing 879,275,256 CYBG Shares (CYBG PLC will have 879,315,256 shares on issue post the issue of CYBG Shares in respect of the Demerger) to NAB. 75% of the issued share capital of CYBG PLC will be held by NAB as nominee and bare trustee for the Scheme Participants or the Sale Agent (as applicable) ("**Scheme Participant CYBG Shares**"), and 25% of the issued share capital of CYBG PLC (when taken together with NAB's existing shareholding in CYBG PLC immediately prior to completion of the Demerger) will be held by NAB (legally and beneficially). NAB will, at the Transfer Time, transfer the legal title to the Scheme Participant CYBG Shares to the Scheme Participants, National Australia Trustees Limited ("**NATL**"), the Authorised Nominee or the Sale Agent (as applicable) in accordance with the terms of the Scheme. • **UK Admission** – Admission of CYBG Shares to the premium listing segment of the UKLA Official List and to trading on the LSE's main market for listed securities. UK Admission is not a condition of the Demerger. If UK Admission does not become effective, it is proposed that Eligible Overseas Shareholders will receive CYBG CDIs instead of CYBG Shares under the Demerger and any Share Elections will be disregarded. • **Australian Admission** – Admission of CYBG PLC to the ASX Official List (either as an ASX foreign exempt listing or, if UK Admission does not become effective, a standard listing) and official quotation of the CYBG CDIs on ASX. Australian Admission is not a condition of the Demerger and therefore the Demerger will take place if the Conditions Precedent are satisfied or waived regardless of whether Australian Admission is granted. There is no guarantee that ASX will grant CYBG PLC either a standard listing or a foreign exempt listing. • **Sale Facility** – The Sale Agent selling the Fractions Aggregate and the CYBG Securities referable to Selling Shareholders under the Scheme, and the Sale Facility Proceeds being remitted to those Selling Shareholders (or to ShareGift as applicable or, in respect of the Fractions Aggregate, NAB), free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax. It is anticipated that the Sale Facility Proceeds will be dispatched no later than 4 April 2016. • **Arrangements after the Demerger** – Implementing the necessary transitional services arrangements required following the Demerger (refer to Section 4.8.5). Following implementation of the Demerger, it is proposed that the nominal (or par) value of CYBG Shares will be reduced to create distributable reserves in CYBG PLC pursuant to the CYBG Capital Reduction (refer to Item 4.12). While not a step of the Demerger, NAB Shareholders are being asked to vote on the CYBG Capital Reduction Resolution at the General Meeting.	
6.2 How will the Demerger be implemented?	If the Demerger is implemented: • NAB will reduce its share capital by the Capital Reduction Aggregate Amount in accordance with the NAB Capital Reduction Resolution;	Section 4.6

Topic	Summary	Further Information
	• NAB will transfer the CYBI Shares to CYBG PLC in accordance with the Sale and Purchase Agreement in consideration for the issue by CYBG PLC of CYBG Shares; and • The Capital Reduction Portion of each NAB Shareholder (including Selling Shareholders) on the NAB Share Register as at the Scheme Record Date will be satisfied by: • (**if the NAB Shareholder is a CDI Receiving Shareholder**) one CYBG Share for every four NAB Shares held by the CDI Receiving Shareholder at the Scheme Record Date being distributed to the Authorised Nominee who will then issue one CYBG CDI to the CDI Receiving Shareholder for every CYBG Share the Authorised Nominee received in respect of the CDI Receiving Shareholder; • (**if the NAB Shareholder is a Share Receiving Shareholder**) one CYBG Share being distributed to the Share Receiving Shareholder for every four NAB Shares held by the Share Receiving Shareholder at the Scheme Record Date; or • (**if the NAB Shareholder is a Selling Shareholder**) one CYBG Security being distributed to the Sale Agent for every four NAB Shares held by the Selling Shareholder at the Scheme Record Date. • If the number of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of CYBG Securities. Fractional entitlements arising from rounding down will be aggregated and sold under the Sale Facility and the proceeds remitted to NAB. • The CYBG Shares to be distributed to or for the benefit of Scheme Participants or the Sale Agent (as applicable) under the Demerger will first be issued to NAB by CYBG PLC, who will hold legal title to the CYBG Shares as nominee and bare trustee for the Scheme Participants or the Sale Agent (as applicable), and NAB will then, at the Transfer Time, transfer the legal title to those shares to or for the benefit of the Scheme Participants, the Authorised Nominee or the Sale Agent (as applicable).	
6.3 What shareholder approvals are required?	For the Demerger to proceed: • the approval of NAB Shareholders will be required for the Scheme Resolution (voted on at the Scheme Meeting); and • the approval of NAB Shareholders and NAB Tier 1 Securityholders will be required for the NAB Capital Reduction Resolution (voted on at the General Meeting). In addition, approval by NAB Shareholders of the CYBG Capital Reduction Resolution is required in order for the CYBG Capital Reduction to proceed. See Item 7.4 of Section 1 for further details about the voting thresholds for these resolutions.	Annexures C and D
6.4 How will the CYBG Capital Reduction be implemented and what are the steps for implementing it?	Following implementation of the Demerger and after the Institutional Offer, it is proposed that the share capital of CYBG PLC will be reduced to create distributable reserves in CYBG PLC by reducing the "nominal" or "par" value of each CYBG Share from £1.25 to 10 British pence. The aggregate amount by which the "nominal" or "par" value is reduced will be reflected as distributable reserves created and will provide CYBG PLC with flexibility to pay dividends in the future if appropriate or absorb any impairments in the value of its assets should this occur. The CYBG Capital Reduction is not expected to have any impact on the market value of the CYBG Shares or the CYBG CDIs.	Section 3.8

Section One:
Demerger Overview

Topic	Summary	Further Information
	The key steps associated with the CYBG Capital Reduction include: • **General Meeting** – NAB Shareholders approving the CYBG Capital Reduction Resolution at the General Meeting. NAB (as the current sole shareholder of CYBG PLC) has passed a special resolution approving the CYBG Capital Reduction. As NAB Shareholders will become CYBG Securityholders if the Demerger is implemented, confirmatory approval of the NAB Shareholders in relation to the CYBG Capital Reduction will be sought at the General Meeting. • **Demerger** – the Demerger being implemented. • **Confirmation by the UK Court** – The UK Court confirming the CYBG Capital Reduction. • **Registration** – The Registrar of Companies registering an office copy of the CYBG Court Order and the CYBG Statement of Capital.	
6.5 Is the Demerger or the CYBG Capital Reduction subject to any conditions?	The Demerger is subject to a number of Conditions Precedent. These are described in Section 4.3. Importantly, the Demerger is conditional on NAB Shareholder approval of the Scheme, NAB Shareholder and NAB Tier 1 Securityholder approval of the NAB Capital Reduction and Court approval of the Scheme. The CYBG Capital Reduction is also subject to certain conditions precedent (including implementation of the Demerger) which are described in Section 3.8.	Section 4.3
6.6 What are the costs of the Demerger and the Institutional Offer?	The total one-off costs comprising transaction, execution and separation costs to implement the Demerger and to complete the full Institutional Offer are estimated to be approximately \$379 million pre-tax (\$353 million post-tax), excluding any costs associated with the Capped Indemnity. Approximately \$165 million of (pre-tax) one-off Demerger related transaction, execution and separation costs are expected to have been incurred prior to the Meetings.	Section 2.8.5
6.7 Who is eligible to participate in the Demerger?	All NAB Shareholders registered on the NAB Share Register as the holder of NAB Shares on the Scheme Record Date are eligible to participate in the Scheme and NAB Capital Reduction. NAB Tier 1 Securityholders registered on a NAB Tier 1 Security Register as the holder of NAB Tier 1 Securities are not eligible to participate in the Scheme or NAB Capital Reduction. NAB Shareholders in Australia and New Zealand will be eligible to receive CYBG CDIs (or CYBG Shares if they so elect) under the Demerger. NAB Shareholders with registered addresses in the UK, United States (excluding California), Singapore, Hong Kong, Japan, Ireland or Canada will be eligible to receive CYBG Shares (or CYBG CDIs if they so elect). NAB Shareholders with registered addresses outside of the above mentioned jurisdictions will be ineligible to receive CYBG Securities. This is because NAB has determined that it is either prohibited from implementing, or unduly onerous or impractical to implement, the Scheme and to distribute CYBG Securities to NAB Shareholders in jurisdictions other than those mentioned above. Those NAB Shareholders are Ineligible Shareholders and will be treated as Selling Shareholders.	Section 4.4

Topic	Summary	Further Information
	Small Shareholders can elect to sell all (but not only some) of the CYBG Securities to which they are entitled under the Scheme through the Sale Facility. Small Shareholders are NAB Shareholders who are eligible to receive CYBG Securities and who hold 2,000 NAB Shares or less as at the Scheme Record Date.	
6.8 What will NAB Shareholders receive if the Demerger is implemented?	If the Demerger is implemented, each NAB Shareholder will retain their current NAB Shareholding and be entitled to receive **one** CYBG Security for every **four** NAB Shares that they hold on the Scheme Record Date (expected to be 7:00pm on 5 February 2016) in the following form: • Eligible AUSNZ Shareholders (other than Selling Shareholders) will receive CYBG CDIs (unless they make a Share Election); or • Eligible Overseas Shareholders (other than Selling Shareholders) will receive CYBG Shares (unless they make a CDI Election); and • Selling Shareholders will receive the proceeds of the sale of the CYBG Securities that they would otherwise have been entitled to under the Demerger through the Sale Facility free of brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax (or if they are a Small Shareholder and they elect to do so, their Sale Facility Proceeds will be donated to the charity ShareGift). Note, Selling Shareholders will not receive a CGT discount. Refer to Section 6.2.3.2 for further details. If UK Admission does not become effective, Share Elections will be disregarded and it is proposed that Eligible Overseas Shareholders (other than Selling Shareholders) will receive CYBG CDIs instead of CYBG Shares under the Demerger. There is no guarantee of, and the Demerger is not conditional on, UK Admission. If the number of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of CYBG Securities. The remaining fractional entitlements will be aggregated and transferred to the Sale Agent to be sold in the Sale Facility, the proceeds of which will be remitted to NAB. Refer to Section 4.5.4 for further information on the treatment of fractional entitlements.	Section 4.4
6.9 What happens if I don't make a Security Election?	If you are an Eligible AUSNZ Shareholder and do not make a Share Election, or a Share Election that you make is invalid, or it is received after the Election Date, you will receive CYBG CDIs under the Demerger. If you are an Eligible Overseas Shareholder and you do not make a CDI Election, or a CDI Election you make is invalid, or it is received after the Election Date, you will receive CYBG Shares under the Demerger assuming UK Admission becomes effective.	Section 4.4.3
6.10 How do I make a Security Election?	Eligible AUSNZ Shareholders can elect to receive CYBG Shares instead of CYBG CDIs assuming UK Admission becomes effective. Eligible Overseas Shareholders can elect to receive CYBG CDIs instead of CYBG Shares. Eligible AUSNZ Shareholders can make a Share Election by completing the Share Election Form and returning it to the NAB Share Registry by 5:00pm on 3 February 2016.	Section 4.4.3

Section One:
Demerger Overview

Topic	Summary	Further Information
	If UK Admission does not become effective, any Share Elections will be disregarded. The Demerger is not conditional on UK Admission becoming effective. Eligible Overseas Shareholders can make a CDI Election by completing the CDI Election Form and returning it to the NAB Share Registry by 5:00pm on 3 February 2016. You can obtain a CDI Election Form or a Share Election Form by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days. Alternatively, you can download a CDI Election Form or a Share Election Form online at **www.clydesdaledemerger.com.au** and return it in accordance with the instructions on the form.	
6.11 Should I make a Security Election even if I don't intend to vote on the Demerger Resolutions or I intend to vote against the Demerger Resolutions?	If you are an Eligible Shareholder and you: • don't intend to vote on the Demerger Resolutions; or • intend to vote against the Demerger Resolutions, you should consider making a Security Election if you don't want to receive the default form of CYBG Security upon implementation of the Demerger. If you are an Eligible Shareholder and the Demerger is implemented (and you did not make a Security Election), you will receive: • CYBG CDIs (if you are an Eligible AUSNZ Shareholder); or • CYBG Shares (if you are an Eligible Overseas Shareholder and UK Admission becomes effective), regardless of how you voted on the Demerger Resolutions.	Section 4.4.3
6.12 Does the Security Election apply to additional NAB Shares which I subsequently acquire?	Yes – unless you hold NAB Shares as a trustee, nominee or custodian, any Security Election will apply to all NAB Shares that you hold as at the Scheme Record Date. Accordingly, if you acquire additional NAB Shares and you hold those additional NAB Shares at the Scheme Record Date, any Security Election you make will apply in respect of those NAB Shares.	Section 4.4.3
6.13 Can I choose to receive cash?	There is no option to elect to receive cash instead of CYBG Securities, unless you are a Small Shareholder. Small Shareholders can elect to sell all (but not only some) of the CYBG Securities to which they are entitled through the Sale Facility by making a Sale Election to receive Sale Facility Proceeds. If you make a Sale Election, you should not make a Security Election. If you make both a Sale Election and a Security Election, the Sale Election will take precedence and the Security Election will be ignored. There is no other option for Eligible Shareholders to elect to receive cash instead of CYBG Securities.	Section 4.5

<table>
<tr><th>Topic</th><th>Summary</th><th>Further Information</th></tr>
<tr><td></td><td>Ineligible Shareholders will automatically receive the proceeds of the sale of the CYBG Securities that they would otherwise have been entitled to under the Demerger through the Sale Facility. Ineligible Shareholders may not make any elections.

Once CYBG Shares and CYBG CDIs have commenced trading on LSE and ASX respectively (provided approval is received for Australian Admission and UK Admission has become effective), you will be able to sell some or all of your CYBG Shares on the LSE or CYBG CDIs on ASX.</td><td></td></tr>
<tr><td>6.14 What is the Sale Facility?</td><td>The Sale Facility will be used to sell:
• CYBG Securities that otherwise would have been received by Ineligible Shareholders;
• CYBG Securities that Small Shareholders have elected to sell through the Sale Facility by making a Sale Election;
• Fractional entitlements arising from rounding down of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger not being a whole number; and
• certain CYBG Securities in respect of the NAB Employee Equity Plans to pay withholding tax in respect of those CYBG Securities, if NAB so elects.
Under the Sale Facility, the Sale Agent will, as soon as reasonably practicable (and in any event not more than six weeks following the Demerger Date), sell those CYBG Securities.

The Sale Facility Proceeds (calculated on a volume weighted average basis so that all Selling Shareholders receive the same price for each CYBG Security sold on their behalf) will be distributed to Selling Shareholders (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax) or, if a Small Shareholder so elects, donated to the charity ShareGift. Any interest earned on sale proceeds will be retained by NAB. It is anticipated that the Sale Facility Proceeds will be dispatched no later than 4 April 2016. Fractional entitlements will also be aggregated and transferred to the Sale Agent to be sold in the Sale Facility. Refer to Item 6.28 in this Section 1 for further details about fractional entitlements.</td><td>Section 4.5</td></tr>
<tr><td>6.15 How do I participate in the Sale Facility?</td><td>If you are a Small Shareholder (being an Eligible Shareholder who individually holds 2,000 NAB Shares or less as at the Scheme Record Date), you may elect to have all (but not only some) of the CYBG Securities to which you are entitled under the Demerger sold by the Sale Agent and the Sale Facility Proceeds remitted to you (or donated to the charity ShareGift), free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax. It is anticipated that the Sale Facility Proceeds will be dispatched no later than 4 April 2016. Selling Shareholders who have elected to donate all of their Sale Facility Proceeds to ShareGift may be liable for any capital gains tax arising from the sale of CYBG Securities, the proceeds of which were donated. However, Selling Shareholders may generally be entitled to a tax deduction for the proceeds donated. See Section 6.2.3.2 for further details for the tax consequences of donating the Sale Facility Proceeds to ShareGift.</td><td>Section 4.5</td></tr>
</table>

Section One:
Demerger Overview

Topic	Summary	Further Information
	To participate in the Sale Facility, you must either lodge a Sale Election online through the Demerger Website (follow the instructions and prompts) or complete and return the enclosed Sale Facility Form so that it is received by the NAB Share Registry by 5:00pm on 3 February 2016. The Sale Election must be made by 5:00pm on 3 February 2016. If you wish to donate your Sale Facility Proceeds to ShareGift, please ensure you tick the "Sell and Donate to ShareGift" box. If you make a Sale Election, you should not make a Security Election. If you make both a Sale Election and a Security Election, the Sale Election will take precedence and the Security Election will be disregarded. Refer to Section 4.5.2 for further information applicable to Small Shareholders.	
6.16 Can I donate my Sale Facility Proceeds to charity?	Yes – Small Shareholders that make a Sale Election can also elect to donate all of their Sale Facility Proceeds directly to the charity ShareGift. ShareGift will use the proceeds to support eligible Australian charities. Ineligible Shareholders are not able to make this election. Refer to Section 4.5.4 for further details.	Section 4.5.4
6.17 Who is ShareGift?	ShareGift is a not-for-profit organisation that gives shareholders an easy administrative and cost effective way to donate shares or cash proceeds to the community. To date, more than $1 million has been donated to over 390 charities via ShareGift, mobilising a new stream of charitable funds across all cause areas from youth initiatives to medical research and international aid. Further information about ShareGift and the charities it has supported to date is available at the **www.sharegiftaustralia.org.au** website.	
6.18 In what form will I receive my CYBG Shares if I am a Share Receiving Shareholder?	If you are a Share Receiving Shareholder, you will receive your CYBG Shares in certificated form unless you provide NAB with your CREST account details. If you provide NAB with your CREST account details you will receive your CYBG Shares in your CREST account. Title to certificated CYBG Shares will be evidenced by entry in the CYBG Register and title to uncertificated CYBG Shares will be evidenced by entry in the operator register maintained by Euroclear UK & Ireland Limited (which will form part of the CYBG Register). Please note the above applies only for CYBG Shares listed on the LSE. CYBG CDIs will be able to be traded electronically on ASX with settlement occurring in CHESS in much the same way as NAB Shares may be currently traded.	Section 4.6.2
6.19 What should I do if I receive my CYBG Shares in certificated form?	If you receive your CYBG Shares in certificated form (rather than in your CREST account) you will, subject to certain eligibility conditions, be able to sell your CYBG Shares through banks, stockbrokers or intermediaries offering share dealing facilities. If you receive your CYBG Shares in certificated form, you will not be able to trade those CYBG Shares on the LSE yourself if UK Admission becomes effective.	Section 4.6.2

Topic	Summary	Further Information
	You should also take good care of your CYBG Share certificate. Share certificates are valuable documents and should be looked after carefully. If your CYBG Share certificate is lost, damaged or defaced, a charge may be made for its replacement. Please note the above applies only for CYBG Shares listed on the LSE. CYBG CDIs will be able to be traded electronically on ASX with settlement occurring in CHESS in much the same way as NAB Shares may be currently traded.	
6.20 What is CREST?	CREST is the UK system for the paperless settlement of trades in listed securities and the holding of uncertificated listed securities, operated by Euroclear UK & Ireland Limited. It avoids the need for share certificates which delay trading. The Articles will permit the holding of CYBG Shares within CREST and CYBG PLC will apply for the CYBG Shares to be admitted to CREST with effect from the Demerger Date.	Section 4.6.2
6.21 How do I provide NAB with my CREST account details?	If you are an Eligible AUSNZ Shareholder, you can provide your CREST Account Details when making a Share Election using the Share Election Form. If you are an Eligible Overseas Shareholder, you can provide NAB with your CREST account details by completing the CREST Details Form and returning the form to the NAB Share Registry by 5:00pm on 3 February 2016. If you make a Sale Election or a CDI Election, you should not complete and return a CREST Details Form. If you make a Sale Election or a CDI Election you will not receive CYBG Shares and your CREST Details Form will be disregarded.	Sections 4.4.5 and 9.11.4.7
6.22 Can I convert my CYBG CDIs to CYBG Shares (and vice versa) after the Demerger Date?	Yes – you may convert your holding of CYBG CDIs to CYBG Shares or vice versa at any time after the Demerger Date by contacting your broker or CYBG Share Registry. Where CYBG Shares are converted into CYBG CDIs, the relevant provisions of the Articles will apply to the CYBG CDIs resulting from such conversion. There may be a fee associated with the conversion from CYBG CDIs to CYBG Shares and vice versa. The CYBG Share Registry or your broker can advise you of this at the time of conversion. For more details about the conversion procedure, refer to Section 9.11.4.7 and in relation to certain tax consequences, refer to Section 6.	
6.23 Can I apply for more NAB Shares or CYBG Securities through the Demerger?	There is no option to apply for more NAB Shares or CYBG Securities through the Demerger process.	
6.24 What is the impact of the Demerger on the number of NAB Shares I hold?	The number of NAB Shares you hold will not change as a result of the Demerger.	
6.25 Will I need to make any payments to participate in the Demerger?	No payments are required to be made by you to NAB or CYBG PLC to participate in the Demerger.	

Topic	Summary	Further Information
6.26 What happens if the Demerger does not proceed?	If the Demerger does not proceed: • NAB will continue to own and manage the same businesses that it currently does (including CYBG Group) and NAB Shares will trade on ASX on the basis that there will not be a Demerger; • you will retain your current holding of NAB Shares; • the NAB Capital Reduction will not proceed; • you will not receive CYBG Securities (or, if you are a Selling Shareholder, you will not receive the Sale Facility Proceeds from the sale of CYBG Securities); • the Institutional Offer will not proceed; • the CYBG Capital Reduction will not proceed; • the reasons to vote for the Demerger, as described in Item 2.2 of this Section 1, will not arise; • it is expected that NAB will have incurred approximately $165 million of one-off Demerger-related transaction, execution and separation costs prior to the Meetings; and • the NAB Board and management may consider other alternatives for the CYBG Group business in the future in line with the stated strategy to focus on its core markets in Australia and New Zealand.	
6.27 Will NAB own any CYBG Securities after the Demerger?	If both the Demerger and the full Institutional Offer proceed, NAB will not own CYBG Securities other than CYBG Securities which may be held by NAB as custodian under NAB's asset servicing business, a Subsidiary of NAB as trustee for NAB employees under the NAB Employee Equity Plans and through the statutory funds of MLC or other wealth management activities, or as a result of Stabilisation activities. The maximum number of CYBG Securities that NAB could hold as a result of Stabilisation is 28,673,323 CYBG Securities (which equates to approximately 3.3% of CYBG Shares). If NAB proceeds only with a partial Institutional Offer, NAB will retain the balance of CYBG Shares which were not sold under the Institutional Offer. It will seek to sell those CYBG Shares as soon as practicable after the expiry of a lock up period which applies to these retained CYBG Shares (commencing on the first day of conditional trading of CYBG Shares on the LSE until the date falling 90 days after UK Admission). If the Institutional Offer does not proceed at all, NAB will retain a shareholding of approximately 25% in CYBG PLC and will seek to sell that stake as soon as reasonably practicable having regard to market conditions and the price it can obtain.	Sections 5.2 and 5.6
6.28 What happens to my unallocated fractional entitlements?	If the number of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of CYBG Securities. All fractional entitlements will be aggregated and transferred to the Sale Agent to be sold in the Sale Facility, the proceeds of which will be remitted to NAB.	

Topic	Summary	Further Information
7. VOTING ON THE DEMERGER AND THE CYBG CAPITAL REDUCTION		
7.1 When and where are the Meetings?	The Scheme Meeting will be held at 10:00am at the Melbourne Convention and Exhibition Centre on 27 January 2016. The General Meeting will be held at 10:15am or immediately after the conclusion of the Scheme Meeting (whichever occurs later), on 27 January 2016 at the Melbourne Convention and Exhibition Centre.	Annexure C and Annexure D
7.2 Who can vote at the Meetings?	**Scheme Meeting** NAB Shareholders who are registered on the NAB Share Register as at 7:00pm on the Voting Record Date (25 January 2016) may vote on the Scheme Resolution at the Scheme Meeting. **General Meeting** NAB Shareholders who are registered on the NAB Share Register as at 7:00pm on the Voting Record Date (25 January 2016) may vote on the NAB Capital Reduction Resolution and the CYBG Capital Reduction Resolution at the General Meeting. NAB Tier 1 Securityholders who are registered on a NAB Tier 1 Security Register as at 7:00pm on the Voting Record Date (25 January 2016) may only vote on the NAB Capital Reduction Resolution at the General Meeting.	Sections 4.2.2 and 4.2.3
7.3 What is the voting procedure?	Voting at both Meetings will be conducted by way of a poll. NAB Shareholders and NAB Tier 1 Securityholders who are eligible to vote may vote by attending a Meeting in person (including by attorney or corporate representative), or by completing and returning a Scheme Meeting Proxy Form or General Meeting Proxy Form (as applicable) in accordance with the instructions set out in the notices of meeting attached in Annexures C and D.	Annexure C and Annexure D
7.4 What are the voting thresholds?	**Scheme Resolution** The Scheme Resolution must, unless the Court orders otherwise, be approved by a majority in number of NAB Shareholders present and voting (in person or by proxy) at the Scheme Meeting, and must be approved by at least 75% of the total number of votes cast (in person or by proxy) on the Scheme Resolution. **NAB Capital Reduction Resolution** The NAB Capital Reduction Resolution must be approved by a simple majority of votes cast (in person or by proxy) by NAB Shareholders and NAB Tier 1 Securityholders on the NAB Capital Reduction Resolution. **CYBG Capital Reduction Resolution** The CYBG Capital Reduction Resolution must be approved by a simple majority of votes cast (in person or by proxy) by NAB Shareholders on the CYBG Capital Reduction Resolution.	Sections 4.2.2 and 4.2.3

Section One: Demerger Overview

Topic	Summary	Further Information
7.5 What if I do not vote at the Meetings or do not vote in favour of the Demerger Resolutions and/or the CYBG Capital Reduction Resolution?	If the Demerger Resolutions are approved, and the Court approves the Scheme and all other Conditions Precedent of the Demerger are satisfied or waived, the Demerger will be implemented and binding on all NAB Shareholders, including those who did not vote at the Meetings and those who did not vote in favour of the Demerger Resolutions. If the CYBG Capital Reduction Resolution is approved and the Demerger is implemented and all other conditions precedent to the CYBG Capital Reduction are satisfied, the CYBG Capital Reduction will become effective.	
8. TAXATION IMPLICATIONS		
8.1 What are the Australian tax implications of the Demerger for NAB's Australian resident Shareholders?	NAB is seeking a tax ruling from the ATO confirming the taxation treatment for NAB Shareholders who are Australian residents and who hold their NAB Shares on capital account. On the basis of discussions with the ATO and after consultation with its advisers, NAB expects the Australian taxation treatment for NAB Shareholders who are Australian residents and who hold their NAB Shares on capital account should be as follows: • The Capital Reduction Portions should not be treated as assessable dividends. • For NAB Shareholders who acquired their NAB Shares after 19 September 1985, the receipt of CYBG Securities in satisfaction of the Capital Reduction Portion should result in a CGT event. • Australian resident NAB Shareholders should make a capital gain if the Capital Reduction Portions exceed the cost base for their NAB Shares. If the Capital Reduction Portions do not exceed the cost base of their NAB Shares, there should be a reduction in the cost base (and reduced cost base) equal to the amount of the Capital Reduction Portions. • The cost base of CYBG Securities received should be the amount of the Capital Reduction Portions referable to the CYBG Securities. • The acquisition date of the CYBG Securities for all NAB Shareholders will be the Demerger Date, which is expected to be 8 February 2016, even if the NAB Shareholders acquired their NAB Shares before 20 September 1985. • **NAB Shareholders, including Selling Shareholders, who sell their CYBG Securities within the first 12 months after the Demerger Date will not receive the CGT discount.** • Dividends received on CYBG Securities should not carry imputation credits. • The tax ruling is expected to be finalised after the Demerger. NAB will make an announcement to ASX when the tax ruling is issued by the ATO. Further information on the general Australian taxation implications of the Demerger is set out in Section 6. You should seek your own specific taxation advice for your individual circumstances.	Section 6
8.2 What are the Australian tax implications of the Demerger for NAB Shareholders who are foreign residents?	NAB is also seeking a tax ruling from the ATO confirming the Australian taxation treatment for NAB Shareholders who are not Australian residents and who hold their NAB Shares on capital account. The expected Australian taxation treatment of the Demerger is set out in Section 6. The taxation implications of the Demerger can be complex and may depend on the laws of the country in which you are a tax resident. A guide to the	Section 6

Topic	Summary	Further Information
	general tax implications of the Demerger relating to Australian and New Zealand residents is set out in Section 6. You should seek your own specific taxation advice for your individual circumstances.	
9. FURTHER QUESTIONS		
9.1 What significant interests and benefits are payable to NAB Directors, CYBG Directors and other persons connected with the Demerger?	No significant interests or benefits are payable to NAB Directors in connection with the Demerger. Other than the CYBG Directors' fees and indemnity arrangements, the remuneration arrangements for CYBG Group's Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, and CYBG Directors' fees as described in Annexure G, no other significant interests or benefits are payable to CYBG Directors in connection with the Demerger.	Annexure G
9.2 Will binding instructions or notifications in respect of NAB Shares also apply to CYBG Shares?	Any binding instruction or notification to NAB in respect of your NAB Shares (such as payment instructions, email addresses and communication preferences) at the Scheme Record Date will be deemed under the Scheme to be a similarly binding instruction or notification to CYBG PLC in respect of any CYBG Securities that you receive (unless such instructions or notifications would not be applicable). However, your Australian tax file number will not be provided to CYBG PLC.	
9.3 Where can I find out more information about the Demerger, the Institutional Offer, the Sale Facility, the CYBG Capital Reduction and related matters?	If you have further questions you can: • consult your financial, legal, taxation or other professional adviser; or • visit **www.clydesdaledemerger.com.au** or call the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days. Further information is also included in the following sections of this Scheme Booklet.	
9.4 Will NAB provide any additional information about CYBG Group or the Demerger?	NAB will issue an additional supplementary document to this Scheme Booklet in certain limited circumstances.	Section 9.20
9.5 How many shares will be on issue for CYBG Group?	The total number of shares on issue for CYBG Group at the Demerger Date will be 879,315,256. Of this amount, NAB intends to demerge 75% of CYBG Group (being 659,486,442 CYBG Shares) to NAB Shareholders, and offer 219,828,814 CYBG Shares, representing 25% of CYBG Group, via the Institutional Offer to institutional investors.	Section 9.1

Section Two

Overview of NAB (after the Demerger)

Section Two: Overview of NAB (after the Demerger)

2.1 Overview

NAB (after the Demerger) will continue to be a major financial services organisation in Australia and New Zealand with around 10 million customers and 35,000 employees, operating more than 1,000 retail branches and business banking centres. Its operations will be primarily based in its core markets of Australia and New Zealand, but it will also continue to have a presence in Asia, the UK and the US, in each case predominantly for wholesale banking and institutional markets business and treasury activity. The London branch of NAB will also continue to operate for this purpose.

CYBG Group represented 8.8% of NAB's total assets as at 30 September 2015, and excluding the effect of legacy conduct charges, CYBG Group contributed 3.3% of NAB's cash earnings before tax and distributions for the financial year ended 30 September 2015. Due to legacy conduct charges of $1,052m, CYBG Group incurred a significant loss of $737m for the year ended 30 September 2015, reducing NAB's cash earnings before tax and distributions.

2.2 Strategy and business overview

After the Demerger, NAB's strategy for its continuing businesses will remain unchanged and will continue to focus on the following priorities, with the goal of improving NAB Shareholder returns by closing the ROE gap to peers and enhancing strong Australia and New Zealand franchises:

- focussing resources on the priority customer segments in Australia and New Zealand;
- improving the customer experience;
- reshaping the operating model for the future environment through technology simplification, process excellence and a footprint for a digital world;
- continuing to build a performance culture through accountability, clarity, transparency and passion for customers; and
- maintaining a strong balance sheet, managing risk and investing in technology.

NAB (after the Demerger) will continue to operate the following divisions and offer the following products and services to customers:

- *Australian Banking*

  Offers a range of banking and investment products and services to retail and business customers, ranging from personal and consumer, small and medium enterprises through to Australia's largest corporate and financial institutions. Australian Banking comprises the Personal and Business Banking franchises, FICC, Specialised Finance, Debt Markets, Asset Servicing and Treasury. NAB will continue to maintain a wholesale banking and institutional markets business, and conduct treasury activity, in the UK, through its London branch, and the other markets in which it operates. These businesses will report into Australian Banking.

- *NAB Wealth*

  Provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. NAB Wealth operates across a range of brands including MLC and JBWere, and provides financial advisory services through one of the largest networks of financial advisers in Australia.

  On 28 October 2015, NAB announced it had agreed to sell 80% of NAB Wealth's life insurance business to Nippon Life, with NAB retaining the remaining 20%. As part of the partnership with Nippon Life, NAB will enter into a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. Completion of the sale is expected in the second half of calendar year 2016.

- *NZ Banking*

  Provides retail, business, agribusiness, corporate and insurance products and services to New Zealand customers, operating under the BNZ brand. It excludes BNZ's market operations, which form part of Australian Banking.

2.3 NAB Directors, senior management and corporate governance

2.3.1 NAB Directors

NAB's Board will not change following the Demerger. However, after ten years of service as the NAB Chairman, Mr Michael Chaney AO, confirmed on 7 May 2015 his previously stated intention to retire at NAB's scheduled Annual General Meeting on 17 December 2015. After 11 years' service as a NAB Director, Paul Rizzo will also retire at the conclusion of the 2015 Annual General Meeting.

The NAB Directors have appointed Dr Ken Henry AC to succeed Mr Chaney as Chairman.

Ms Anne Loveridge will join the NAB Board in December 2015 and Mr Doug McKay in February 2016, subject to regulatory approvals. In accordance with NAB's constitution, both Ms Loveridge and Mr McKay will retire at the NAB Annual General Meeting following their appointment and will be eligible for re-election by NAB Shareholders.

2.3.2 Senior management

There are no proposed changes to the NAB senior management team as a result of the Demerger.

2.3.3 Corporate governance

NAB's policies, practices and structures following the Demerger will be the same as those governing NAB as at the date of this Scheme Booklet. NAB's key policies, practices and structures can be found at **www.nab.com.au/about-us/our-business/corporate-governance**.

NAB's policies and corporate governance practices will continue to be reviewed annually and will continue to be developed and refined to meet the needs of NAB (after the Demerger) and best practice.

Section Two: Overview of NAB (after the Demerger)

2.4 Financial performance

NAB's Cash Earnings after the Demerger will largely reflect the performance of its core Australia and New Zealand franchises which in recent times have been far more stable than those of CYBG Group due to difficult UK trading conditions and significant provisions relating to UK conduct related matters.

NAB's Cash Earnings and selected key metrics (after the Demerger) below are presented on a pro forma basis to illustrate the effect of the Demerger, the Institutional Offer (as if completed in full) and the Capped Indemnity. Refer to Section 2.8.2 for the basis of preparation of NAB (after the Demerger) Pro Forma Historical Financial Information.

Table 2: Select key metrics of NAB financial performance

	NAB Reported 30 September 2015	NAB (after the Demerger) Pro Forma 30 September 2015(1)
Cash Earnings	$5,839m	$6,457m
Net interest margin	1.87%	1.82%
Banking cost to income (CTI) Ratio	50.8%	41.1%
Cash Return on Equity(2)	12.0%	15.0%
Cash Earnings per share (diluted cps)	227.6	251.0
Dividends per share	198	198
Dividend payout ratio	84.7%	76.6%
CET1 Ratio	10.24%	9.83%
Risk weighted assets ($bn)	399.8	350.3
Stable Funding Index	92.3%	90.6%
Gross loans and acceptances ($bn)	584.1	523.8
90+ days past due and gross impaired assets to gross loans and acceptances	0.71%	0.63%

(1) Assumes a fully completed Institutional Offer

(2) Pro forma adjustments have been made on a spot basis against average balances

The table above details NAB's key metrics as at 30 September 2015, or for the year ended 30 September 2015, on both a reported and pro forma (excluding CYBG Group) basis. As illustrated in the pro forma metrics, the implementation of the Demerger (assuming a full Institutional Offer is completed) and the Capped Indemnity would have the following impact on NAB's reported key metrics:

- Cash Earnings would have been 10.6% higher ($5,839 million vs $6,457 million) due to the conduct charges incurred in FY15. Any conduct charges incurred under the Capped Indemnity after the Demerger will be reported in discontinued operations;
- Net interest margin would have been lower;
- Banking cost to income ratio would have been materially lower;
- Gross loans and acceptances would have been 10.3% lower and risk weighted assets would have been 12.4% lower, largely reflecting CYBG Group operating as a standardised bank resulting in higher risk weightings across its loan portfolio compared to NAB's other businesses;
- Asset quality would have improved with reduced 90+ days past due and gross impaired assets to gross loans and acceptances lower at 0.63%;
- Assuming a consistent dividend of 198cps, NAB's payout ratio would have decreased to 76.6% from 84.7%.
- NAB's Cash Earnings per share (diluted cps) would have increased from 227.6 cps to 251.0 cps; and

- NAB's cash ROE would have increased from 12.0% to 15.0%. The 3.0% uplift reflects:
  - the exclusion of conduct charges ($1,052 million) recorded by CYBG Group during 2015; and
  - de-consolidating the rest of CYBG Group's earnings for 2015 and the de-consolidation of CYBG Group's net assets (adjusted for AT1 Notes and proceeds from the Institutional Offer).

Taking into account the full year effect of the Capital Raising announced on 7 May 2015 (which would reduce ROE given NAB's 2015 cash ROE only reflects four months of the impact of the Capital Raising) and excluding the capital required to support the Capped Indemnity ($2,412 million / £1,115 million which will be reported in discontinued operations post completion of the Demerger), NAB's cash ROE would have been 14.6%.

2.5 Dividend policy and franking credits

On 28 October 2015 NAB announced a fully franked final dividend of 99 cents per share, unchanged from the 2015 interim and 2014 final dividends. As a result, NAB's total dividend for 2015 was $1.98 per share.

The amounts of future dividends will be subject to NAB's future performance, capital requirements and NAB Board policy after the Demerger. NAB's future dividend policy will be determined by the NAB Board and may change over time. NAB has a target dividend payout ratio range of 70% to 75%.

In recent history, NAB's dividends have been fully franked. The extent to which future dividends will be franked will depend on a number of factors including the level of the profits that will be subject to Australian income tax.

NAB (after the Demerger) will retain its ability to pay New Zealand imputation credits should New Zealand imputation credits be available. New Zealand imputation credits are only relevant for NAB Shareholders who are New Zealand tax residents.

2.6 Capital

NAB's CET1 Ratio as at 30 September 2015 was 10.24%, which was an increase of 1.37% from March 2015 mainly reflecting the impact of the Capital Raising. NAB's CET1 Ratio at 30 September 2015 was reduced by 0.26% by the FY 2015 CYBG Group conduct provisions of £465 million and the associated deferred tax asset impact.

The deconsolidation of CYBG Group and the net proceeds from the full Institutional Offer, on a pro forma basis, consistent with the basis of preparation and assumptions outlined in Section 2.8.2, are expected to reduce NAB's CET1 Ratio by 0.41% relative to the 30 September 2015 CET1 Ratio (refer to Section 2.8.4 for assumptions). This includes the impact of the Capped Indemnity Amount (£1,115 million as at 30 September 2015) which NAB will be required to take as a CET1 deduction upon completion of the Demerger.

Thus, the pro forma CET1 Ratio of NAB (after the Demerger) would be 9.83% as at 30 September 2015. In addition to the Demerger, NAB expects the following factors will impact its CET1 Ratio during the 2016 financial year:

- Regulatory increase in mortgage risk weights from 1 July 2016 (decrease of approximately 0.80%)
- Wealth debt maturity (decrease of approximately 0.08%)
- Impact of the sale of 80% interest of National Wealth Insurance to Nippon Life (increase of approximately 0.50%).

Adjusting for the estimated impact of these factors and the Demerger, would result in a CET1 Ratio at 30 September 2015 of 9.45% which is above NAB's target CET1 range of 8.75% and 9.25%.

To the extent that actual conduct costs are lower than the aggregate amount of the unutilised provisions, capital should (subject to PRA consent) be released to NAB and if released, would benefit NAB's CET1 Ratio.

Post Demerger, NAB will look to mitigate the potential volatility in its capital position arising from the CET1 deduction for the GBP denominated Capped Indemnity Amount by hedging a portion of this foreign currency exposure.

2.7 Funding and liquidity

NAB (after the Demerger) will maintain a strong, funding and liquidity position in line with its ongoing commitment to balance sheet strength. The Demerger is not expected to have any material impact on NAB's liquidity or access to funding markets after the Demerger.

2.7.1 Funding

NAB does not expect any material change to its key funding metrics and funding strategy as a result of the Demerger. It will continue to employ a range of internal NAB Board approved metrics to set its risk appetite and measure balance sheet strength. NAB (after the Demerger) will continue to grow deposits, whilst also taking into account current market conditions, funding requirements and the characteristics of the funds raised. In addition, NAB will have access to a diverse range of wholesale funding across senior and secured debt markets as well as the domestic retail hybrid market. NAB (after the Demerger) will continue to explore opportunities to enhance and diversify its funding sources.

2.7.2 Liquidity

NAB does not expect any material change to its approach to liquidity as a result of the Demerger. It will continue to maintain well diversified and high quality liquid asset portfolios to support regulatory and internal requirements of the various countries in which it operates.

Section Two: Overview of NAB (after the Demerger)

2.8 NAB (after the Demerger) Pro Forma Historical Financial Information

2.8.1 Overview

This Section contains the following pro forma historical financial information of NAB (after the Demerger), which is collectively referred to as "**NAB (after the Demerger) Pro Forma Historical Financial Information**":

- NAB (after the Demerger) pro forma historical income statements for the years ended 30 September 2015 and 2014 ("**NAB (after the Demerger) Pro Forma Historical Income Statements – Statutory Basis**") as set out in Section 2.8.3; and
- NAB (after the Demerger) pro forma historical balance sheet as at 30 September 2015 ("**NAB (after the Demerger) Pro Forma Historical Balance Sheet**") as set out in Section 2.8.4.

This Section also contains NAB (after the Demerger) pro forma historical income statements presented on a Cash Earnings basis ("**NAB (after the Demerger) Pro Forma Historical Income Statements – Cash Earnings Basis**") for the years ended 30 September 2015 and 2014 as set out in Section 2.8.3 and various other key capital and operating metrics of NAB (after the Demerger) which have been prepared on a pro forma basis.

The Investigating Accountant has prepared an Independent Limited Assurance Report in respect of NAB (after the Demerger) Pro Forma Historical Financial Information, which is set out in Section 7. The comments made in relation to the scope and limitations of the Independent Limited Assurance Report should be noted. The NAB (after the Demerger) Pro Forma Historical Income Statements – Cash Earnings Basis are not audited or reviewed.

2.8.2 Basis of preparation

NAB (after the Demerger) Pro Forma Historical Financial Information has been prepared for illustrative purposes to assist NAB Shareholders in understanding the impact of the Demerger and directly related transactions, including the full Institutional Offer and Capped Indemnity, on the financial position and financial performance of NAB and assuming the implementation of the Demerger and completion of the Institutional Offer in full. This financial information addresses a hypothetical situation and therefore does not purport to represent the actual financial performance and financial position that would have occurred had CYBG Group not been a part of NAB for various reasons including that:

- NAB may have had different strategies and as a result conducted different operations if CYBG Group had not been a part of NAB; and
- NAB may have been exposed to different risks had CYBG Group operated on a standalone basis rather than as a part of NAB.

For the purposes of presenting the NAB (after the Demerger) Pro Forma Historical Income Statements, it has been assumed that the Demerger had taken place on 1 October 2013, at the start of the earliest of the financial periods covered by the NAB (after the Demerger) Pro Forma Historical Income Statements. In respect of the NAB (after the Demerger) Pro Forma Historical Balance Sheet, it has been assumed that the Demerger, full Institutional Offer and Capped Indemnity were effected and completed on 30 September 2015.

The NAB (after the Demerger) Pro Forma Historical Financial Information has been derived from the historical financial information included in the NAB financial reports for the years ended 30 September 2015 and 2014 adjusted to reflect transactions directly related to, or arising as a result of the Demerger, including the full Institutional Offer and the Capped Indemnity as described below. The NAB financial reports for these periods are available on the NAB website (**www.nab.com.au**) or on ASX (**www.asx.com.au**).

NAB's financial reports for the years ended 30 September 2015 and 2014 have been subject to audit, in accordance with Australian Auditing Standards and the audit opinion issued to the members of NAB was unqualified.

The NAB (after the Demerger) Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent with IFRS, other than that they include adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS, (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred on 1 October 2013. These adjustments are described below.

The NAB (after the Demerger) Pro Forma Historical Income Statement for the year ended 30 September 2015 and the NAB (after the Demerger) Pro Forma Historical Balance Sheet as at 30 September 2015 have been prepared in a manner consistent with NAB's accounting policies used in the preparation of its annual financial report for the year ended 30 September 2015, including the adoption of AASB 9. The NAB (after the Demerger) Pro Forma Historical Income Statement for the year ended 30 September 2014 has been prepared in a manner consistent with NAB's accounting policies used in the preparation of its annual financial report for the year ended 30 September 2014.

The NAB (after the Demerger) Pro Forma Historical Financial Information has been prepared solely for inclusion in this Scheme Booklet. The pro forma adjustments to the historical financial information of NAB reflect the impact of transactions directly related to, or arising as a result of the Demerger, and include best estimates of the impact of these transactions where relevant. The following pro forma adjustments have been made to reflect:

- the deconsolidation of CYBG Group from NAB as a result of the Demerger;
- the settlement of certain amounts outstanding between NAB and CYBG Group through cash settlements, and recognition of NAB's receivables from and payables to CYBG Group, including derivatives, residential mortgage backed securities of the Lannraig Programme and the interest in CYBG Group's AT1 Notes and Tier 2 Notes on the assumption that NAB will continue to hold these instruments post Demerger. Refer to Section 4.10 for further details of such arrangements between CYBG Group and NAB;
- the Demerger and full Institutional Offer costs to be incurred by NAB after 30 September 2015. As these costs are one-off in nature, the adjustment has only been included in the NAB (after the Demerger) Pro Forma Historical Balance Sheet. Costs incurred to 30 September 2015 have been expensed in NAB's financial results and no adjustment has been made to exclude these costs in the NAB (after the Demerger) Pro Forma Historical Income Statement;
- the cash to be placed on deposit with The Bank of England at the Demerger Date equal to the Capped Indemnity Amount as at the Demerger Date in connection with the Capped Indemnity, and the associated borrowings to fund this deposit; and
- the gross cash proceeds from the assumed full Institutional Offer, on an illustrative basis.

Pro forma adjustments have not been included in the NAB (after the Demerger) Pro Forma Historical Financial Information for the following matters as neither the individual nor aggregate impact is material:

- corporate costs previously attributed to CYBG Group that may be borne by NAB (after the Demerger);
- the earnings contribution of the Insurance Intermediary Business that has been sold to CYBG Group;
- the replacement of NAB's current interest in CYBG Group's existing AT1 Notes and Tier 2 Notes, with new AT1 Notes and Tier 2 Notes;
- net interest income that will be derived from the cash proceeds from the full Institutional Offer; and
- net interest expense associated with the cash to be placed on deposit with The Bank of England and the associated borrowings to fund this deposit.

The NAB (after the Demerger) Pro Forma Historical Financial Information presents previously incurred conduct costs on a consistent basis with how these costs were historically recognised by NAB and CYBG Group. That is, the NAB (after the Demerger) Pro Forma Historical Income Statements includes conduct costs incurred in FY14 relating to IRHP / FRTBL (£365m, AUD $654m) that were booked in NAB, but excludes PPI related conduct costs (FY15: £390m, AUD $849m; FY14: £420m, AUD $756m) and FY15 IRHP / FRTBL charges (£75m, AUD $163m) that were recognised by the CYBG Group.

Following the implementation of the Demerger and assuming a full Institutional Offer, any future conduct charges and associated tax payments incurred by NAB under the Capped Indemnity will be reported within discontinued operations and outside of Cash Earnings.

No adjustment has been made to reflect the effect of any future costs associated with the Capped Indemnity given the uncertainty surrounding this matter. A liability may be recognised in the future should NAB be of the opinion that it has an obligation to make payment under the Capped Indemnity. In the absence of such an obligation, the Capped Indemnity will be accounted for as a contingent liability and be disclosed as such.

The NAB (after the Demerger) Pro Forma Historical Financial Information is presented in an abbreviated form and does not contain all of the presentation and disclosures that are usually provided in an annual financial report prepared in accordance with IFRS and the *Corporations Act*.

For the avoidance of doubt, no adjustments have been made to reflect the proposed sale of 80% of the life insurance business to Nippon Life.

Section Two:
Overview of NAB (after the Demerger)

2.8.3 NAB (after the Demerger) Pro Forma Historical Income Statements

NAB historical financial information for the years ended 30 September 2015 and 30 September 2014 have been adjusted to deconsolidate the historical results of CYBG Group to present a pro forma view of NAB excluding CYBG Group on a continuing basis.

The NAB (after the Demerger) Pro Forma Historical Income Statements – Statutory Basis and the NAB (after the Demerger) Pro Forma Historical Income Statements – Cash Earnings Basis for the years ended 30 September 2015 and 2014 are shown in Tables 3 and 4:

Table 3: NAB (after the Demerger) Pro Forma Historical Income Statements – Statutory Basis

AUD $'m	For the year ended 30 September 2015[1] $m	For the year ended 30 September 2014[1] $m
Interest income	28,346	28,473
Interest expense	(15,884)	(16,447)
Net interest income	**12,462**	**12,026**
Net life insurance income	**568**	**542**
Gains less losses on financial instruments at fair value	1,536	979
Other operating income	3,696	3,605
Total other income	**5,232**	**4,584**
Personnel expenses	(4,096)	(3,909)
Occupancy-related expenses	(486)	(500)
General expenses[2]	(3,214)	(3,824)
Total operating expenses	**(7,796)**	**(8,233)**
Charge to provide for doubtful debts	(735)	(714)
Profit before income tax expense	9,731	8,205
Income tax expense	(2,846)	(2,676)
Net profit for the period from continuing operations	**6,885**	**5,529**
Profit or loss after tax for the period from discontinued operations	29	114
Net profit for the period	**6,914**	**5,643**
Attributable to owners of NAB	6,860	5,640
Attributable to non-controlling interests	54	3

(1) Information is presented on a continuing operations basis including prior period restatements.

(2) As disclosed in Section 2.8.2 general expenses for the year ended 30 September 2014 includes historical conduct costs relating to IRHP / FRTBL of £365m (AUD $654m).

Refer to Annexure E for the reconciliation of the pro forma adjustments made to the NAB historical consolidated income statements.

Table 4: NAB (after the Demerger) Pro Forma Historical Income Statements – Cash Earnings Basis

Cash Earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian peers with similar business portfolios. Non Cash Earnings items include: distributions, treasury shares, fair value and hedge ineffectiveness, life insurance economic assumption variation, amortisation of acquired intangible assets, sale and Demerger transaction costs and the loss incurred on the restructure of CYBG Group's capital instruments as detailed in footnote 3 to Table 4. Further information on Cash Earnings and other non-IFRS measures can be found in the Glossary and the NAB results for the years ended 30 September 2015 and 2014, including a full reconciliation of statutory net profit attributable to owners. Refer to Annexure E for a reconciliation of NAB historical results presented on a Cash Earnings basis to NAB (after the Demerger) Pro Forma Historical Income Statement – Cash Earnings Basis for FY15 and FY14.

AUD $'m	For the year ended 30 September 2015(1) $m	For the year ended 30 September 2014(1) $m
Net interest income	12,497	12,062
Other operating income	4,989	4,711
Investment earnings on retained earnings (IoRE)	19	34
Net operating income	**17,505**	**16,807**
Operating expenses(2)	**(7,448)**	**(7,992)**
Underlying profit	**10,057**	**8,815**
Charge to provide for bad and doubtful debts	(749)	(725)
Cash earnings before tax and distributions	**9,308**	**8,090**
Income tax expense	(2,676)	(2,509)
Cash earnings before distributions	**6,632**	**5,581**
Distributions	(175)	(180)
Cash earnings	**6,457**	**5,401**
Non-cash earnings items (after tax)(3)	422	125
Net Profit from continuing operations	**6,879**	**5,526**
Net profit/(loss) after tax from discontinued operations	(19)	114
Net profit attributable to the owners of NAB	**6,860**	**5,640**

(1) Information is presented on a continuing operations basis including prior period restatements.

(2) As disclosed in Section 2.8.2 operating expenses for the year ended 30 September 2014 includes historical conduct costs relating to IRHP / FRTBL of £365m (AUD $654m).

(3) Non cash earnings items include a loss incurred by NAB (after the Demerger) in FY15 relating to the restructure of capital instruments issued by CYBG Group, with a corresponding gain being recognised in CYBG Group of $116 million or £59 million (nil for NAB prior to Demerger). The capital restructure was undertaken to replace instruments which were non-compliant for CRD IV purposes, with AT1 instruments. The profit or loss impact of the capital restructure was booked in other operating income and was not subject to tax, and has been excluded from cash earnings to better illustrate the underlying performance of NAB (after the Demerger).

2.8.3.1 Management discussion and analysis on historical performance

Commentary on NAB's historical financial results and the results of its business segments is provided in NAB's Annual Reports for the years ended 30 September 2015 and 2014.

2.8.4 NAB (after the Demerger) Pro Forma Historical Balance Sheet

NAB historical financial information as at 30 September 2015 has been adjusted to deconsolidate the historical assets and liabilities of CYBG Group to present a pro forma view of NAB's financial position excluding CYBG Group. Additional pro forma adjustments as detailed in Section 2.8.2 have been made for transactions directly related to the Demerger, which either have occurred or will arise as a result of the Demerger post 30 September 2015, in order to provide a complete view of the effect the implementation of the Demerger and completion of the full Institutional Offer has on the financial position of NAB on a pro forma basis.

The NAB (after the Demerger) Pro Forma Historical Balance Sheet as at 30 September 2015 is set out in Table 5.

Table 5: NAB (after the Demerger) Pro Forma Historical Balance Sheet at 30 September 2015

As at 30 September 2015 AUD $'m	NAB 30 September 2015	CYBG combined balance sheet[1]	**NAB excluding CYBG[2]**	Conduct Deposit and Borrowing[3]	Institutional Offer Proceeds[4]	Demerger and Institutional Offer Costs[5]	**NAB pro forma 30 September 2015**
Assets							
Cash and liquid assets	30,934	(2,741)	**28,193**	2,412	1,107	(286)	**31,426**
Due from other banks	50,595	(11,465)	**39,130**	-	-	-	**39,130**
Trading derivatives	78,384	911	**79,295**	-	-	-	**79,295**
Trading securities	42,937	-	**42,937**	-	-	-	**42,937**
Debt instruments at fair value through other comprehensive income	45,189	(3,123)	**42,066**	-	-	-	**42,066**
Investments relating to life insurance business	89,350	-	**89,350**	-	-	-	**89,350**
Other financial assets at fair value	29,696	(1,360)	**28,336**	-	-	-	**28,336**
Hedging derivatives	11,599	(98)	**11,501**	-	-	-	**11,501**
Loans and advances	532,784	(57,329)	**475,455**	-	-	-	**475,455**
Due from customers on acceptances	19,437	(9)	**19,428**	-	-	-	**19,428**
Investment in joint ventures and associates	-	(5)	**(5)**	-	-	-	**(5)**
Current tax assets	-	(8)	**(8)**	-	-	-	**(8)**
Property, plant and equipment	1,741	(237)	**1,504**	-	-	-	**1,504**
Goodwill and other intangible assets	7,347	(573)	**6,774**	-	-	-	**6,774**
Deferred tax assets	2,141	(836)	**1,305**	-	-	-	**1,305**
Other assets	12,918	(1,081)	**11,837**	-	-	-	**11,837**
Total assets	**955,052**	**(77,954)**	**877,098**	**2,412**	**1,107**	**(286)**	**880,331**

Table 5: NAB (after the Demerger) Pro Forma Historical Balance Sheet at 30 September 2015 continued

As at 30 September 2015 AUD $'m	NAB 30 September 2015	CYBG combined balance sheet(1)	**NAB excluding CYBG(2)**	Conduct Deposit and Borrowing(3)	Institutional Offer Proceeds(4)	Demerger and Institutional Offer Costs(5)	**NAB pro forma 30 September 2015**
Liabilities							
Due to other banks	54,405	4	**54,409**	-	-	**-**	**54,409**
Trading derivatives	74,442	751	**75,193**	-	-	**-**	**75,193**
Other financial liabilities at fair value	30,046	(142)	**29,904**	-	-	**-**	**29,904**
Hedging derivatives	4,539	(462)	**4,077**	-	-	**-**	**4,077**
Deposits and other borrowings	489,010	(56,927)	**432,083**	2,412	-	**-**	**434,495**
Liability on acceptances	-	(9)	**(9)**	-	-	**-**	**(9)**
Life policy liabilities	76,311	-	**76,311**	-	-	**-**	**76,311**
Current tax liabilities	1,114	-	**1,114**	-	-	(24)	**1,090**
Provisions	3,575	(2,195)	**1,380**	-	-	**-**	**1,380**
Bonds, notes and subordinated debt	130,518	(8,118)	**122,400**	-	-	**-**	**122,400**
Other debt issues	6,292	-	**6,292**	-	-	**-**	**6,292**
Defined benefit superannuation plan liabilities	-	(8)	**(8)**	-	-	**-**	**(8)**
External unitholders' liability	14,520	-	**14,520**	-	-	**-**	**14,520**
Other liabilities	14,767	(4,441)	**10,326**	-	-	**-**	**10,326**
Total liabilities	**899,539**	**(71,547)**	**827,992**	**2,412**	**-**	**(24)**	**830,380**
Net assets	**55,513**	**(6,407)**	**49,106**	**-**	**1,107**	**(262)**	**49,951**
Total equity	**55,513**	**(6,407)**	**49,106**	**-**	**1,107**	**(262)**	**49,951**

(1) The CYBG Group combined balance sheet as at 30 September 2015 is derived from the CYBG HFI Balance Sheet presented in Section 3.13.3, adjusted to reflect the early adoption of AASB 9, the recognition and settlement of intercompany balances, and the differences in accounting presentation permitted under local reporting requirements. A reconciliation of the CYBG Group combined balance sheet to the CYBG HFI balance sheet is presented in Annexure F.

(2) This sub total reflects the effect of excluding the CYBG Group combined balance sheet.

(3) Reflects the deposit to be made on-shore in the United Kingdom with The Bank of England at the date of the Demerger in connection with the Capped Indemnity as agreed with the PRA, to be funded through external borrowings, in line with NAB's existing funding strategy and activities. Refer to Section 4.9 for the full details of the Capped Indemnity.

(4) To reflect the gross proceeds of the assumed full Institutional Offer for illustrative purposes. This adjustment is illustrative only and not an indication of the expected or actual outcome of the Institutional Offer as it will be dependent on a number of factors including the Institutional Offer size, the exchange rate and the price of CYBG Shares sold under the Institutional Offer in the event the Institutional Offer is executed. The adjustment has been calculated based on the following key assumptions for illustrative purposes, 1) Institutional Offer size of 25%, 2) AUD/GBP exchange rate of 0.4623, and 3) price of CYBG Shares sold under the Institutional Offer equivalent to 0.75x (being the midpoint of the range of illustrative outcomes in Section 2.8.6) net tangible book value of CYBG Group. Refer to Section 2.8.6 for further information on demerger accounting.

(5) Relates to the one-off transaction, execution and separation costs and the Institutional Offer costs expected to have been incurred by NAB in relation to the Demerger after 30 September 2015. Refer to Section 2.8.5 for further information.

Section Two: Overview of NAB (after the Demerger)

2.8.5 One-off Demerger and Institutional Offer costs

The total one-off costs comprising transaction, execution and separation costs to implement the Demerger and to complete the full Institutional Offer are estimated to be approximately $379 million pre-tax ($353 million post-tax), excluding any costs associated with the Capped Indemnity.

Approximately $165 million (pre-tax) of one-off Demerger related transaction, execution and separation costs are expected to have been incurred prior to the Meetings.

For the year ended 30 September 2015, approximately $93 million of Demerger related transaction, execution and separation costs were included as an expense in the NAB financial results. The additional Demerger costs of $286 million expected to be incurred to implement the Demerger have been included as a pro forma adjustment in deriving the NAB (after the Demerger) Pro Forma Historical Balance Sheet as at 30 September 2015.

2.8.6 Demerger accounting

On the Loss of Control Date, NAB will:

(a) recognise a reduction in contributed equity for an amount equal to the fair value of the assets that are distributed pursuant to the Demerger (i.e. CYBG Shares that are distributed, refer to Table 6 Ref 3);

(b) recognise the cash proceeds associated with the Institutional Offer if implemented (refer to Table 6 Ref 4);

(c) recognise any retained equity interests in CYBG Group, that is, the new retained AT1 Notes at fair value (refer to Table 6 Ref 5);

(d) deconsolidate CYBG Group, and derecognise all related assets and liabilities (refer to Table 6 Ref 6);

(e) recognise a gain or loss in the income statement for the difference between the carrying amount of the derecognised net assets of CYBG Group, and the fair value of the distribution, cash proceeds from the Institutional Offer (if implemented) and the fair value of retained equity interests (refer to Table 6 Ref 7); and

(f) reclassify from equity to the income statement amounts recognised in reserves related to CYBG Group, including the cumulative amount of exchange differences recognised in the FCTR (refer to Table 7).

In addition, Demerger and Institutional Offer costs comprising transaction, execution and separation costs will be included in the overall loss on the Demerger and Institutional Offer.

In respect of (a), the fair value of CYBG Shares to be distributed pursuant to the Demerger (the assets to be distributed) will be determined using a valuation approach which complies with accounting requirements, is consistent with market practice and makes use of observable market data such as the trading price of a CYBG Security on ASX or the LSE (assuming approval is received for Australian Admission and UK Admission becomes effective). It is expected that the fair value of CYBG Shares will be lower than the carrying amount of the net assets of CYBG Group on NAB's balance sheet prior to the Demerger, which will result in a loss on Demerger.

In respect of (b), if the full Institutional Offer does not proceed, NAB will recognise the fair value of the CYBG Shares retained by it on Demerger.

The results of CYBG Group included in NAB's financial report until the Loss of Control Date, together with the loss on Demerger, will be presented as a discontinued operation in NAB's income statement for the half year ending 31 March 2016. The results of CYBG Group in prior periods presented in NAB's income statement for the year ended 30 September 2015 will also be restated and included within discontinued operations.

With respect to the Capped Indemnity, a liability may be recognised in the future should NAB be of the opinion that it has an obligation to make payment. In the absence of such an obligation, the Capped Indemnity will be accounted for as a contingent liability and be disclosed as such.

The loss on Demerger will depend on a number of factors including the fair value of CYBG Shares, the fair value of any retained equity interests, and the AUD/GBP exchange rate at the Loss of Control Date.

For illustrative purposes only, the loss on the Demerger under various hypothetical scenarios has been set out in the tables below. The loss on the Demerger will be the sum of the loss from the distribution (illustrated based on various CYBG Share prices in Table 6) and the loss from the transfer of the FCTR to the income statement (illustrated based on various exchange rates in Table 7).

The fair value of CYBG Shares and exchange rates used in these tables are neither a prediction nor a forecast of these factors, and actual circumstances may vary substantially from those set out in the tables below.

Table 6: Illustrative loss from the distribution based on hypothetical fair values of CYBG Shares

Ref	CYBG Share price (£)	1.55	2.33	3.10
1	Implied multiple of book value of CYBG Group net tangible assets	0.5x	0.75x	1.0x
2	CYBG Group tangible net assets(1) ($ million)	5,902	5,902	5,902
3	Fair value of the distribution(2) ($ million)	2,213	3,320	4,427
4	Cash proceeds from full Institutional Offer(3) ($ million)	738	1,107	1,476
5	Fair value of retained AT1 Notes(4) ($ million)	1,003	1,003	1,003
	Total fair value of CYBG Group	**3,954**	**5,430**	**6,906**
6	CYBG Group net assets deconsolidated(5) ($ million)	7,384	7,384	7,384
7	**Loss on distribution excluding transfer of the FCTR to the income statement in Table 7(6) ($ million)**	**3,430**	**1,954**	**478**

(1) CYBG Group net assets as at 30 September 2015 of $7,448 million less the carrying value of AT1 Notes ($973 million) and intangible assets ($573 million).

(2) The illustrative fair value of the distribution is based on a Demerger of 75% of the CYBG Shares on issue at the Demerger Date and the illustrative CYBG Share prices.

(3) The illustrative cash proceeds from the full Institutional Offer, representing 25% of the CYBG Shares on issue at the Demerger Date is based on the illustrative CYBG Share prices, before transaction costs associated with an Institutional Offer.

(4) Represents the estimated fair value of the existing CYBG Group AT1 Notes as at 30 September 2015 for illustrative purposes only. The final loss on distribution will be based on the fair value of the new AT1 Notes to be issued by CYBG PLC.

(5) CYBG Group net assets as at 30 September 2015 of $7,448 million less accounting policy difference of $64 million including the effect of AASB 9. Refer to Table 35 in Annexure F for further details of the CYBG Group net assets that will be deconsolidated from NAB.

(6) The illustrative loss from the distribution is based on the AUD/GBP exchange rate as at 30 September 2015 of 0.4623. The loss on distribution is calculated based on the carrying value of CYBG Group net assets, less the fair value of the distribution, the cash proceeds from a full Institutional Offer and the fair value of the new AT1 Notes to be issued by CYBG PLC. The illustrative loss from the distribution excludes Demerger costs and transaction costs associated with an Institutional Offer.

Table 7: Illustrative FCTR based on hypothetical exchange rates at the Loss of Control Date

AUD/GBP exchange rate	0.40	0.4623(1)	0.50
Exchange loss to be transferred from the FCTR to the income statement(2) ($ million)	203	973	1,348

(1) 0.4623 was the prevailing AUD/GBP exchange rate at 30 September 2015.

(2) The illustrative exchange loss to be transferred from the FCTR to the income statement is based on CYBG Group net assets and related net investment hedges as at 30 September 2015. The amount of FCTR relating to CYBG Group to be transferred to the income statement will be dependent on the prevailing exchange rate at the Loss of Control Date.

Section Two: Overview of NAB (after the Demerger)

2.8.7 Material changes in financial position since most recent reporting date

On 28 October 2015, NAB announced that it had entered into an agreement to sell 80% of NAB Wealth's life insurance business to Nippon Life for $2.4 billion, while retaining the remaining 20%. The purchase price is an estimate and may be adjusted for certain capital inflows and outflows between signing and completion, including dividends paid by the life insurance business.

The transaction is expected to be completed in late 2016 subject to certain conditions including regulatory approvals, establishment of the life insurance business as a standalone entity, extraction of the superannuation business from MLC Limited and the finalisation of certain agreements. An indicative loss on sale of $1.1 billion is anticipated as a result of the transaction.

The most recent published annual financial statements of NAB are included in its annual financial report for the year ended 30 September 2015, which was released to ASX on 16 November 2015. To the knowledge of the NAB Directors, as at the date of this Scheme Booklet there has not been a material change in the financial position of NAB since 30 September 2015. Any material change in the financial position of NAB after the date of this Scheme Booklet and prior to the Second Court Hearing will be disclosed in announcements to ASX.

NAB will provide, free of charge, a copy of NAB's 2015 annual financial report to any person who requests a copy before the Scheme is approved by the Court. The 2015 annual financial report is also available on the NAB website (**www.nabgroup.com.au**) and on ASX (**www.asx.com.au**).

2.9 Risks associated with an investment in NAB (after the Demerger)

This Section outlines a number of risks that may adversely affect the future operating or financial performance or prospects of NAB, and the investment returns or value of NAB Shares, after the Demerger. Overall, NAB expects the Demerger to reduce the operational and financial complexity of NAB, which will result in a reduction in the overall risk of NAB. For example, NAB will no longer be exposed to the financial performance of the UK banking market and CYBG Group (assuming full implementation of the Institutional Offer), and will not have as large an exposure to foreign currency, particularly the Pound Sterling.

2.9.1 Risks specific to the MLC life insurance transaction

As announced on 28 October 2015, NAB has agreed to sell 80% of MLC to Nippon Life. The transaction is subject to certain conditions, including regulatory approvals, extraction of the investments and superannuation business and establishing MLC as a standalone life insurance company. Some of these conditions are subject to approvals from third parties and government agencies. The transaction may not proceed if any contractual conditions cannot be satisfied.

NAB has agreed to take certain actions to establish MLC as a standalone entity and is expected to incur $440 million in post-tax one off transaction costs as a result. While NAB has undertaken detailed work to quantify these costs, there is a risk that the costs could be higher than what has been allowed for by NAB.

NAB has given certain covenants, warranties and indemnities in favour of Nippon Life in connection with the transaction which if breached may result in NAB being liable to Nippon Life.

As part of the transaction, NAB will enter into certain long term arrangements. These include: (1) a 20 year distribution agreement under which NAB will distribute MLC life insurance products through its various channels; (2) a shareholders deed with respect to NAB's retained 20% shareholding in MLC (with that shareholders deed continuing while NAB holds shares in MLC); and (3) a 10 year brand licence agreement for MLC to continue to have use of the MLC brand. The duration and nature of these arrangements give rise to certain risks. For example, changes in regulation or commercial environment in the future may impact the commercial viability of these long term arrangements.

2.9.2 Risks specific to NAB, including those related to general banking, economic and financial conditions

Set out below are the principal risks and uncertainties associated with NAB after implementation of the Demerger. These risks and uncertainties are not listed in order of significance and in the event that one or more of these risks occur, NAB's business, operations, financial condition and future performance may be adversely impacted.

There may be other risks faced by NAB that are currently unknown or are deemed immaterial, but which may subsequently become known or become material. These may individually or in aggregate adversely impact NAB's future financial performance and position. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by NAB.

2.9.3 Risks specific to the banking and financial services industry

The nature and impact of these external risks are generally not predictable and are often beyond NAB's direct control.

2.9.3.1 NAB may be adversely impacted by macroeconomic risks and financial market conditions.

NAB conducts business across a range of jurisdictions including Australia, New Zealand, the UK, Europe, the United States and Asia. The business activities of NAB are dependent on the level of banking and financial services and products required by its customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates and macroeconomic and financial market conditions and forecasts.

Domestic and international economic conditions and forecasts are influenced by a number of factors such as economic growth rates, cost and availability of capital, central bank intervention, inflation and deflation rates and market volatility and uncertainty. Economic conditions may also be impacted by major shock events such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

Volatility or uncertainty in credit, currency, commodity and equity markets, and adverse economic conditions have led to, and in the future may lead to:

- Increased cost of funding or lack of available funding;
- Deterioration in the value and liquidity of assets (including collateral);
- Inability to price certain assets;
- Increased likelihood of counterparty default and credit losses (including the purchase and sale of protection as part of hedging strategies);
- Higher provisions for bad and doubtful debts;
- Mark-to-market losses in equity and trading positions;
- Lack of available or suitable derivative instruments for hedging purposes;
- Lower growth, business revenues and earnings. In particular, NAB's NAB Wealth business earnings are highly dependent on asset values, particularly the value of listed equities, and therefore a fall in the value of its assets under management may reduce its earnings contribution to NAB; and
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

The following are examples of certain macroeconomic and financial market conditions that are currently relevant to NAB and may adversely impact its financial performance and position:

- There is widespread market expectation that certain central banks may tighten their monetary policy to lift interest rates back to levels that appear more 'neutral' and nearer to historical norms and reduce quantitative easing. Other central banks are expected to keep interest rates low and undertake quantitative easing for a considerable time. The recent prolonged period of low interest rates carries the risk that market participants have taken on more risk than they expected in a 'search for yield', leaving them exposed to an earlier and more rapid than expected tightening in monetary policy. In the past, periods of tightening monetary policy in the United States have been associated with greater volatility in the volume and pricing of capital flows into emerging market economies. Several capital importing economies, such as Australia and New Zealand, remain vulnerable to a sudden or marked change in United States interest rates and expectations on the interest rate outlook.
- Economic growth in Australia has remained moderate with falling commodity prices and a decline in mining investment weighing on demand. At the same time, subdued confidence across large parts of the economy has delayed the anticipated upturn in non-mining investment and labour demand, and there remains uncertainty over the timing and extent of such an upturn. In New Zealand, the sharp fall in global prices for major dairy products, the country's biggest merchandise export sector, is having an adverse effect on export earnings and national income. The loss of income may also have a flow on effect to other sectors of the economy, and is already being reflected in lower business and customer confidence. Regions that are heavily reliant on the dairy industry are further exposed to potentially significant impacts on growth, investment and unemployment.
- Both Australia and New Zealand are increasingly integrated with Asian economies, resulting in a sizeable exposure in both of these economies to changes in the pace of economic growth in the Asian region, in particular China. Uncertainty over the extent to which Chinese growth has already slowed, combined with the recent devaluation of the Chinese currency and falls in Chinese stock prices, continues to cause volatility in global markets. China is the dominant global market for key Australian export products as well as an increasingly important source of services exports and foreign investment. A sharper than forecast downturn in those parts of the Chinese economy that import minerals and energy commodities from Australia, may put further downward pressure on global commodity prices and volumes shipped from Australia to China.
- As the UK economy has close trade links with other Western European nations, developments in the Eurozone influence the level of demand for UK goods and services. In its 2015 general election manifesto, the winning Conservative Party committed to holding a referendum on whether or not the UK should remain in the European Union by the end of 2017, and that it would "negotiate a new settlement" for UK membership of the European Union after the 2015 General Election. As the European Union contains major UK economic partners and many aspects of UK law emanate from the European Union (including aspects of banking regulation), any renegotiation of the terms of UK membership or UK exit from the European Union could have significant economic effects.
- Some governments in the Eurozone are heavily indebted and politically unstable, and uncertainty remains over the financial strength of the banking sector. Unemployment also remains exceptionally high in several Eurozone nations. Concerns regarding the continuing financial crisis in Greece and its possible exit from the Eurozone may disrupt financial markets and weaken consumer demand in the European Union, the United States, and other parts of the world.
- Outside the Eurozone, increases in the level of sovereign debt in a number of countries have generally been reflected in a downgrading in the rating of their external liabilities by the various rating agencies. Both the gross

Section Two: Overview of NAB (after the Demerger)

level of Japanese sovereign debt and its ratio to gross domestic product have received particular attention, and the importance of low interest rates for the sustainable funding of that debt has been widely recognised. Chinese growth has been reliant on rapid credit growth and the resulting build-up of corporate and local government debt owed to the shadow banking sector has raised particular concern.

2.9.3.2 NAB is subject to extensive regulation. Regulatory changes may adversely impact NAB's operations, financial performance and position.

NAB is highly regulated in Australia and in the other jurisdictions in which it operates, trades or raises funds, and is subject to supervision by a number of regulatory authorities and industry codes of practice.

Regulations vary across jurisdictions, and are designed to protect the interests of depositors, policy holders, security holders, and the banking and financial services system as a whole. Changes to laws and regulations or changes to regulatory policy or interpretation can be unpredictable, are beyond NAB's control, and may not be harmonised across the jurisdictions in which NAB operates. Regulatory change may result in significant capital and compliance costs, changes to corporate structure and increasing demands on management, employees and information technology systems.

Examples of current and potential regulatory changes impacting NAB are set out below.

The Basel Committee on Banking Supervision's ("**BCBS**") Basel III reforms are expected to be fully implemented by 2019 and are intended to strengthen the resilience of the banking sector. Implementation of these reforms will increase the quality and ratio of capital to risk weighted assets that NAB is required to maintain, will increase the quality and proportion of assets that NAB is required to hold as high-quality liquid assets ("**HQLA**"), as defined in the APRA liquidity standard and is expected to increase compliance costs. In Australia, APRA has introduced Prudential Standards implementing the Basel III requirements progressively from 1 January 2013. In New Zealand, the Reserve Bank of New Zealand ("**RBNZ**") has implemented the Basel III capital adequacy framework, as modified to reflect New Zealand conditions. These reforms will require NAB to hold more HQLA and reshape the balance sheet, both in terms of how NAB is funded and how it utilises those funds. Other regulators have also implemented or are in the process of implementing Basel III and equivalent reforms.

Regulatory changes continue to be made by the BCBS as it focuses on improved consistency and comparability in banks' regulatory capital ratios. In December 2014, final revisions to the securitisation framework to take effect in January 2018 were released, as was a further consultation of the review of the trading book capital requirements. This may impact the amount of regulatory capital held industry wide for securitisation exposures and the trading book capital requirements for complex products. Revised Pillar 3 disclosure requirements were released in January 2015, and in response, APRA has introduced new disclosure requirements in relation to the leverage ratio, Global Systemically Important Bank indicators and the Liquidity Coverage Ratio which took effect from 1 July 2015. The standardised approaches to credit, market and operational risks are under review by the BCBS, along with the capital floor framework. The BCBS has also signalled potential changes to other aspects of the Operational Risk capital requirements. Further details are expected to emerge in the last quarter of 2015, with industry consultation through to 2016. Approaches to Interest Rate Risk in the Banking Book and sovereign risk are also under review. The full impact of the changes will not be known until the BCBS requirements are finalised and implemented by APRA or by other regulators across NAB. This may intersect with the Australian Financial System Inquiry ("**FSI**"), discussed below.

NAB has been identified as a Domestic Systemically Important Bank ("**D-SIB**") under APRA's framework for D-SIBs and is therefore subject to a 1% higher loss absorbency CET1 capital requirement, effective from 1 January 2016. In addition, in May 2014, APRA clarified the definition of entities to be included in the composition of a Level 2 ADI, which will remove over time the capital benefit NAB gains from debt on the National Wealth Management Holdings Limited balance sheet. APRA has released final prudential standards associated with its framework for the supervision of conglomerate groups, including NAB. However, the implementation of these standards has been deferred until a date to be announced by APRA. With the recent release of the Australian Government's response to the FSI, APRA may now consider further the implementation of these standards.

The United States *Dodd-Frank Wall Street Reform and Consumer Protection Act* of 2010 ("**Dodd-Frank Act**") instituted major changes to United States banking and financial institution regulatory regimes. These changes include additional supervisory requirements and prudential standards for certain foreign banking organisations, such as NAB, and their affiliates. The Dodd-Frank Act also contains the Volcker Rule, which prohibits proprietary trading and the sponsorship of, and investment in hedge, private equity or other similar funds by certain foreign banking organisations, including NAB. Certain requirements under the Dodd-Frank Act have yet to become effective, and their specific impact on NAB's businesses and in the markets in which it operates continues to be assessed.

Over The Counter ("**OTC**") derivative market reforms are being implemented globally. In the United States, implementation is through the Dodd-Frank Act. In Australia, ASIC has implemented phased derivative transaction reporting requirements for NAB, which commenced in October 2013. The Australian Government has also indicated commitment to other related reforms, including mandating central clearing in Australia. Regulations for central clearing were introduced in September 2015. In Europe, the European Market Infrastructure Regulation has introduced new requirements to improve transparency and reduce the risks associated with the derivatives market, which are being progressively implemented. Where there is variation in the scope and implementation timeframes for OTC reforms across jurisdictions, there may be added costs and complexity in achieving regulatory compliance for NAB.

FATCA requires certain foreign financial institutions to provide information regarding United States account holders to the United States tax authorities. The Australian and New Zealand Governments, as well as some governments of other countries in which NAB operates, have entered into or have agreed to enter into intergovernmental agreements with the United States Government, and have enacted or are considering enacting law in respect of FATCA. Under such agreements, foreign financial institutions in such jurisdictions will generally be exempt from withholding under FATCA. Non-compliance with FATCA may subject NAB to a 30% withholding tax applied on certain amounts derived from United States sources, and certain payments attributable to such amounts.

The Australian Government's FSI released its final report in December 2014, and submissions for subsequent consultation closed on 31 March 2015. The FSI was charged with examining how Australia's financial system could be positioned to best meet the country's evolving needs and support its economic growth. The Australian Government released its response to the FSI on 20 October 2015, and confirmed its support for all but one of the 44 recommendations for the Australian financial system. These include ensuring "unquestionably strong" bank capital ratios, mortgage risk weights calibration, and the implementation of a loss-absorbing capacity framework. The FSI has also proposed other measures to improve the resilience, efficiency and fairness of the banking system, with respect to matters including superannuation and retirement, regulatory processes, innovation, payments and data, and measures to improve outcomes for consumers. APRA has indicated that a final response to the determination of "unquestionably strong" capital standards is subject to further consideration, but it may require the major banks to increase their CET1 capital ratios in light of the emerging international reform agenda. On 20 July 2015, APRA announced its response to a recommendation of the FSI to raise mortgage risk weights with the changes coming into effect from 1 July 2016.

Future of Financial Advice (FOFA) reforms set certain standards and obligations in relation to the provision of financial advice to retail investors. The FOFA reforms became mandatory on 1 July 2013. On 19 March 2014, the Australian Government introduced the *Corporations Amendment (Streamlining Future of Financial Advice) Bill 2014* (the Bill), which proposed a package of changes to FOFA to reduce the compliance costs and regulatory burden on the financial services sector. The Bill became effective on 1 July 2014 before being disallowed by the Senate in November 2014, although some regulations have subsequently been reinstated. Further legislative refinements are being considered for progression in the second half of 2015, although uncertainty remains as to timing of the refinements and the impact to NAB.

In addition to the aforementioned changes, other areas of ongoing regulatory change and review include additional prudential and conduct reforms, supervisory actions to reinforce sound residential mortgage lending practices including restrictions on the growth in investor lending, changes to accounting and reporting requirements, tax legislation, bank specific tax levies, anti-money laundering / counter-terrorism financing regulations, payments, privacy laws and increased supervisory expectations around data quality and controls.

The full effect of these current and potential regulatory reforms, or how they will be implemented (if at all in some cases), is not known. Depending on the specific nature of any requirements and how they are enforced, they may have an adverse impact on NAB's business, operations, structure, compliance costs or capital requirements, and ultimately its financial performance and prospects.

2.9.3.3 NAB faces intense competition, which may adversely impact its financial performance and position.

There is substantial competition across the markets in which NAB operates. Increasing competition for customers can lead to compression in profit margins or loss of market share. NAB faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower costs and new operating models. It is difficult to predict the types of new entrants into the financial services industry, the rapid changes in technology and the impact these will have, including impacts on customer needs and preferences. NAB may not have the resources and flexibility to predict these changes and to adapt in sufficient time to keep pace with industry developments and to meet customer expectations. NAB's financial performance and position may be adversely affected by competitive market conditions and industry trends.

2.9.4 Risks specific to NAB

There are a number of risks which arise directly from the operations of NAB as a major participant in the banking and financial services industry and from the specific structure of NAB. NAB's financial performance and position have been, and in the future may continue to be, impacted by these risks.

The risks specific to NAB are set out below.

2.9.4.1 NAB is exposed to credit risk, which may adversely impact its financial performance and position.

Credit risk is the potential that a counterparty or customer will fail to meet its obligations to NAB in accordance with agreed terms. Lending activities account for most of NAB's credit risk, however other sources of credit risk also exist including the banking book, the trading book, and other financial instruments and loans, as well as the extension of commitments and guarantees and the settlement of transactions.

Major sub-segments within NAB's lending portfolio include:

- Residential housing loans, which at 30 September 2015 represented approximately 58.5% of gross loans and acceptances.
- Commercial real estate loans, which at 30 September 2015 represented approximately 10.3% of gross loans and acceptances, with the majority of these domiciled in Australia. NAB's UK commercial real estate loan run-off portfolio continues to be managed separately from the rest of NAB's banking activities in the UK.

Adverse business or economic conditions, including deterioration in property valuations, employment markets or the political environment, may result in failure by counterparties and customers to meet their obligations in accordance with agreed terms. NAB's portfolio of interest-only loans across retail and non-retail segments, in addition to the residential investor mortgage portfolio, may be particularly susceptible to losses in the event of a decline in property prices. NAB may also be exposed to the increased risk of counterparty or customer default should interest rates rise above the record lows, or near record lows, of recent years.

NAB's large business lending market share in Australia and New Zealand exposes it to potential losses should adverse conditions be experienced across this sector. Similarly, NAB has a large market share in the Australian and New Zealand agricultural sectors, particularly the dairy sector in New Zealand. As a consequence, volatility in commodity prices, foreign exchange rate movements, climatic events (including drought), disease, export restrictions, quarantine restrictions, introduction of pathogens and pests, and other risks that may impact this sector, may have an adverse impact on NAB's financial results. More specifically, the New Zealand dairy market has come under pressure due to a lower milk solid payout rate. A prevailing low payout environment has the potential to drive an increase in bad and doubtful debts. In Australia, a slowdown in mining investment and a fall in commodity prices have impacted a number of sectors servicing the mining industry, as well as the mining industry itself.

NAB provides for losses in relation to loans, advances and other assets. Estimating losses in the loan portfolio is, by its very nature, uncertain. The accuracy of these estimates depends on many factors, including general economic conditions, forecasts and assumptions, and involves complex modelling and judgements. If the information or the assumptions upon which assessments are made proves to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact NAB's financial performance and position.

2.9.4.2 NAB may suffer losses due to its exposure to operational risks.

Operational risk is the risk of loss resulting from inadequate internal processes and controls, people and systems or from external events. Operational risk includes legal risk but excludes strategic or reputational risk.

Operational risks are a core component of doing business as they arise from the day-to-day operational activities of NAB as well as strategic projects and business change initiatives. Given that operational risks cannot be fully mitigated, NAB determines an appropriate balance between accepting potential losses and incurring costs of mitigation.

An operational risk event may give rise to substantial losses, including financial loss, fines, penalties, personal injuries, reputational damage, loss of market share, theft of property, customer redress and litigation. Losses from operational risk events may adversely impact NAB's financial performance and position.

Examples of operational risk events include:

- Fraudulent or unauthorised acts by employees, contractors and external parties seeking to misappropriate funds or gain unauthorised access to customer or sensitive data;
- Systems, technology and infrastructure failures, or cyber incidents, including denial of service and malicious software attacks;
- Process errors or failures arising from human error or inadequate design of processes or controls;
- Operational failures by third parties (including off-shored and outsourced service providers);
- Weaknesses in employment practices, including those with respect to diversity, discrimination and workplace health and safety;
- Deficiencies in product design or maintenance; and
- Business disruption and property damage arising from events such as natural disasters, biological hazards or acts of terrorism.

In addition, NAB is dependent on its ability to retain and attract key management and operating personnel. The unexpected loss of any key resources, or the inability to attract personnel with suitable experience, may adversely impact NAB's ability to operate effectively and efficiently, or to meet strategic objectives.

Models are used extensively in the conduct of NAB's business; for example, in calculating capital requirements and measuring and stressing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions, judgements or inputs, this may adversely affect NAB's financial performance and position.

2.9.4.3 NAB may be exposed to risk from non-compliance with laws or standards which may adversely impact its financial performance and position.

NAB is exposed to compliance risk arising from failure or inability to comply with applicable laws, regulations, licence conditions, standards and codes. If NAB's compliance controls were to fail significantly, be set inappropriately, or not meet legal or regulatory expectations, NAB may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, or enforced suspension of operations or loss of licence to operate all or part of NAB's businesses. This may adversely impact NAB's financial performance and position.

NAB has ongoing discussions with key regulators on industry-wide issues and matters specific to NAB. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations. Regulators globally are continuing their investigation into manipulation of financial benchmarks. In Australia, such investigations include examining potential wrongdoing by NAB and other market participants in the bank bill swap reference rate and foreign exchange markets.

When carrying out its day-to-day business activities, NAB advocates customer fairness and seeks to act in the best interests of its customers and their desired outcomes. Despite NAB's focus on customer fairness and appropriate management of conduct risk, risk may still arise through inappropriate conduct by employees in breach of NAB policy, regulatory standards, and industry codes of conduct. This may include detrimental practices, such as selling or coercing customers into inappropriate products and services, conducting inappropriate market practices, non-adherence to fiduciary requirements or provision of inappropriate financial advice. Since September 2014, the Australian Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. The Committee is due to report by 1 February 2016. NAB is aware that two plaintiff law firms have advertised that they are investigating claims on behalf of NAB's customers who have suffered losses as a result of financial advice received from NAB's advisers. No formal action has yet been taken against NAB in this regard.

Provisions held in respect of conduct and litigation matters are based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of subjective judgement based on, where appropriate, external professional advice. Risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to NAB. These factors mean that the eventual costs of conduct and compliance related matters may differ materially from those estimated and further provisions may be required, adversely impacting the financial performance and position of NAB.

2.9.4.4 Disruption of technology systems or breaches of data security may adversely impact NAB's operations, reputation and financial position.

Most of the day-to-day operations of NAB are computer-based, and therefore the reliability and security of NAB's information technology systems and infrastructure are essential to its business. Technology risk may arise from events including a failure of these systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, a breach of data security, or other form of cyber-attack. These events may be wholly or partially beyond the control of NAB. Such events may result in disruption to operations, reputation damage, litigation, loss or theft of customer data, or regulatory investigations and penalties. This may adversely impact NAB's financial performance and position.

The rapid evolution of technology in the financial services industry and the increased expectation of customers for internet and mobile services on demand, expose NAB to new challenges in these areas.

NAB processes, stores and transmits large amounts of personal and confidential information through its computer systems and networks. NAB invests significant resources in protecting the confidentiality and integrity of this information. However, threats to information security are constantly evolving and techniques used to perpetrate cyber-attacks are becoming increasingly sophisticated. NAB may not be able to anticipate a security threat, or be able to implement effective measures to prevent or minimise the resulting damage. An information security breach may result in operational disruption, regulatory enforcement actions, financial losses, theft or loss of customer data, or breach of applicable privacy laws, all of which may adversely impact NAB's reputation, financial performance and position.

As with other business activities, NAB uses select external providers (both in Australia and overseas) to continue to develop and provide its technology solutions. There is increasing regulatory and public scrutiny of outsourced and off-shored activities and their associated risks, including, for example, the appropriate management and control of confidential data. The failure of any external providers to perform their obligations to NAB or the failure of NAB to appropriately manage those providers may adversely impact NAB's reputation, financial performance and position.

2.9.4.5 Transformation and change programs across NAB may not deliver some or all of their anticipated benefits.

NAB has invested significantly in its enterprise-wide technology and infrastructure transformation, including the upgrade of its Australian core banking platform.

As many of these newly delivered capabilities are deployed across NAB, there is a risk that their implementation may not realise some, or all of the anticipated benefits. NAB also continues to pursue business process improvement initiatives and invest in technology in order to achieve its strategic objectives, meet ongoing customer expectations and respond to competitive pressures. As these changes are being undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are increased, which may adversely impact NAB's financial performance and position.

2.9.4.6 NAB may be exposed to losses if critical accounting judgements and estimates are subsequently found to be incorrect.

The preparation of NAB's financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the estimates used in the calculation of provisions (including those pertaining to conduct-related matters), the valuation of goodwill and intangible assets, and the fair value of financial instruments.

Effective 1 October 2014, NAB adopted the requirements of Australian Accounting Standards Board (AASB) 9 'Financial Instruments'. Refer to 'Notes to the Consolidated Financial Statements', Note 1 – Principal Accounting Policies in the 2015 Annual Financial Report for transitional impacts of the application of AASB 9.

If the judgements, estimates and assumptions used by NAB in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a significant loss to NAB beyond that anticipated or provided for, which may adversely impact NAB's financial performance and position.

2.9.4.7 Litigation and contingent liabilities arising from NAB's business conduct may adversely impact its reputation, financial performance and position.

Entities within NAB may be involved from time to time in legal proceedings arising from the conduct of their business. The aggregate potential liability and costs in respect thereof cannot be accurately assessed. Any material legal proceedings may adversely impact NAB's reputation, financial performance and position.

Refer to 'Notes to the Consolidated Financial Statements', Note 41- Contingent Liabilities in the Annual Financial Report for details in relation to NAB's material legal proceedings and contingent liabilities.

2.9.4.8 Insufficient capital may adversely impact NAB's operations, financial performance and position.

Capital risk is the risk that NAB does not have sufficient capital and reserves to meet prudential standard requirements, achieve its strategic plans and objectives, cover the risks to which it is exposed, or protect against unexpected losses. NAB is required in all jurisdictions in which it undertakes regulated activities to maintain minimum levels of capital and reserves relative to the balance sheet size and risk profile of its operations.

Any changes to capital adequacy requirements, including regulatory changes arising from the BCBS capital adequacy reforms or in response to the recommendations of the FSI, may limit NAB's ability to manage capital across the entities within NAB or may require it to raise or use more higher quality capital. Additionally, if the information or the assumptions upon which assessments of capital requirements are made prove to be inaccurate, this may adversely impact NAB's operations, financial performance and position.

2.9.4.9 NAB's funding and liquidity position may be adversely impacted by dislocation in global capital markets.

Funding risk is the risk that NAB is unable to raise short and long-term funding to support its ongoing operations, strategic plans and objectives. NAB accesses domestic and global capital markets to help fund its businesses. Any dislocation in these funding markets, or a reduction in investor appetite for holding NAB's securities, may adversely affect NAB's ability to access funds or require NAB to access funds at a higher cost or on unfavourable terms.

Liquidity risk is the risk that NAB is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operating expenses and taxes. Any significant deterioration in NAB's liquidity position may lead to an increase in the cost of NAB's borrowings, constrain the volume of new lending, or result in NAB drawing upon its Committed Liquidity Facility with the Reserve Bank of Australia. This may adversely impact NAB's profitability, financial performance and position.

2.9.4.10 A significant downgrade in NAB's credit ratings may adversely impact its borrowing costs, market access and competitive position.

Credit ratings are an important reference for market participants in evaluating NAB and its products, services and securities.

Credit rating agencies conduct ongoing review activity which can result in changes to credit rating settings and outlooks for NAB or for sovereign governments in countries in which NAB conducts business. Review activity is based on a number of factors including NAB's financial strength and outlook, the assumed level of government support for NAB in a crisis and the strength of that government, and the condition of the financial services industry and of the markets generally. Credit ratings may also be affected by changes in the rating methodologies used by the agencies.

A downgrade in the credit ratings within NAB or of NAB's securities, or a downgrade in the sovereign rating of one or more of the countries in which NAB operates, may increase NAB's borrowing costs or limit its access to the capital markets. A downgrade may also trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A downgrade to NAB's credit ratings relative to peers could also adversely impact NAB's competitive position.

2.9.4.11 Changes in interest rates may impact NAB's financial performance and position.

Interest rate risk is the risk to NAB's financial performance and position caused by changes in interest rates. As interest rates and yield curves change over time, NAB may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. In the banking industry, such exposure commonly arises from the mismatch between the maturity profile of a bank's lending portfolio compared to its deposit portfolio (and other funding sources). Interest rate risk also includes the risk arising out of customers' demands for interest rate-related products with various repricing profiles. It is also possible that both short and long-term interest rates may change in a way that NAB has not correctly anticipated, and this may have an adverse impact on NAB's financial performance and position.

2.9.4.12 NAB is exposed to foreign exchange and translation risk, which may adversely impact its financial performance and position.

Foreign exchange and translation risk arises from the impact of currency movements on the value of NAB's cash flows, profits and losses, and assets and liabilities as a result of participation in global financial markets and international operations.

NAB's ownership structure includes investment in overseas subsidiaries and associates and exposures from known foreign currency transactions (such as repatriation of capital and dividends from off-shore subsidiaries). NAB also conducts business outside of Australia and transacts with customers, banks and other counterparties in different currencies, most frequently Australian, New Zealand and United States Dollars, Pounds Sterling and Euros. NAB's businesses may therefore be affected by a change in currency exchange rates, a full or partial break-up of the Eurozone, or a change in the reserve status of any of these currencies. Any unfavourable movement in foreign exchange rates may adversely impact NAB's financial performance and position.

NAB's financial statements are prepared and presented in Australian Dollars, and any fluctuations in the Australian Dollar against other currencies in which NAB invests or transacts and generates profits (or incurs losses) may adversely impact its financial performance and position.

2.9.4.13 A material reduction in the fair value of an equity investment held by NAB may adversely impact its financial position.

NAB carries equity investments in its banking book at fair value. Fair value represents mark-to-market valuations derived from market prices, independent valuations and methodologies or other valuation techniques. The fair value of an equity investment may be impacted by factors such as economic, operational, currency and market risk. A material reduction in the fair value of an equity investment in NAB's banking book may adversely impact the financial position of NAB.

2.9.4.14 NAB may suffer significant losses from its trading activities.

Traded market risk is the risk of losses arising from trading activities, including proprietary trading, undertaken by NAB. Losses can arise from a change in the value of positions in financial instruments or their hedges due to adverse movements in market prices. Any significant losses from such trading activities may adversely impact NAB's financial performance and position.

2.9.4.15 NAB is exposed to life insurance risk, which may adversely impact its financial performance and position.

Life insurance risk is the potential for losses when life insurance claims and other outgoings exceed those anticipated in the premiums collected and underlying investment income earned. Life insurance risk may arise due to inadequate or inappropriate underwriting, inadequate reserving, poor business claims management, product design or pricing processes or investment profit, all of which may adversely impact the financial performance and position of NAB. It also includes lapse risk, where a policy lapses before the upfront costs have been recouped from profit margins.

Provisions for mortality and morbidity claims are an estimate of the expected ultimate cost of such claims based on actuarial and statistical projections, rather than an exact calculation of liability. Provisions are affected by a range of factors, including unforeseen diseases or epidemics. Changes in any of these factors would necessitate a change in estimates of projected ultimate cost. Losses may occur when the experience of mortality and morbidity claims compares adversely to that assumed when pricing life insurance policies.

The Australian life insurance industry, in which NAB is a participant, has recently experienced poor lapse and claims experience and lower underlying investment income. This may continue to adversely impact NAB's financial performance and position.

2.9.4.16 Damage to NAB's reputation may adversely impact its financial performance and position.

NAB's reputation may be damaged by the actions, behaviour or performance of NAB, its employees, affiliates, suppliers, intermediaries, counterparties or customers, or the financial services industry generally. Any subsequent adverse performance of CYBG Group over the near term may adversely impact NAB's reputation. A risk event, such as a compliance breach or an operational or technology failure, may adversely affect the perceptions of NAB held by the public, shareholders, investors, customers, regulators or ratings agencies. The risk event itself may expose NAB to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impacts to NAB's share price. Reputational damage may adversely impact NAB's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities. It may result in a higher risk premium being applied to NAB, and impact the cost of funding, its operations, or its financial condition. It may also result in regulators requiring NAB to hold additional capital or incur additional costs and fines. Damage to NAB's reputation may also adversely impact NAB's financial performance and position.

2.9.4.17 Failure to sell down underwriting risk may result in losses to NAB.

As financial intermediaries, members of NAB underwrite or guarantee many different types of transactions, risks and outcomes, including the placement of listed and unlisted debt, equity-linked and equity securities. The underwriting obligation or guarantee may be over the pricing and placement of these securities and NAB may therefore suffer losses if it fails to sell down some or all of this risk to other market participants.

2.9.4.18 Certain strategic decisions, including acquisitions or divestments, may adversely impact NAB's financial performance and position.

There is a risk that the assumptions on which NAB's strategic decisions are based are, or may prove to be, incorrect or that the conditions underpinning those strategic decisions may change. In addition, any one or more of NAB's strategic initiatives may prove to be too difficult or costly to execute effectively.

NAB regularly examines a range of corporate opportunities (including acquisitions, divestments and joint ventures) and evaluates these opportunities against strategic priorities and risk appetite and considers their ability to enhance NAB's financial performance, position or prospects.

Any corporate opportunity that is pursued may change NAB's risk profile and capital structure which, in turn, may contribute to negative sentiment or a negative impact on NAB's credit ratings.

Risks associated with the execution of a transaction may result from an over-valuation of an acquisition or joint venture, or an under-valuation of a divestment or joint venture. There may be reputational and financial risks associated with ongoing exposure to a divested business, for example through the provision of continued services and infrastructure, or the retention of liabilities.

Other risks may also arise through NAB's integration or separation of a business including failure to realise expected synergies, loss of customers, disruption to operations, application of additional regulation, diversion of management resources or higher than expected costs. Once commenced or executed, corporate actions or other strategic initiatives may be unable to be reversed. These factors may adversely impact NAB's financial performance and position.

2.9.4.19 A failure of NAB's risk management framework may adversely impact its reputation, financial performance and position.

NAB operates within a risk management framework comprising systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and mitigate risks.

As with any risk management strategy, there is no guarantee that this framework is sufficient to mitigate known risks or to address or rapidly adapt to unanticipated existing, changing or emerging risks. As such, perceived or actual ineffectiveness or inadequacies in the risk management framework and its implementation may adversely impact NAB's reputation, financial performance and position.

Section Three
Overview of CYBG Group

Section Three: Overview of CYBG Group

Further information on CYBG Group is contained in Annexures F and G and was included in the Clydesdale Bank Business Updates which were released by NAB on ASX on 7 July 2015 and 16 November 2015. The Clydesdale Bank Business Updates are also available on NAB's website (**http://www.nab.com.au/about-us/shareholder-centre/uk-banking-business-update/**) and on the Demerger Website **www.clydesdaledemerger.com.au**. The Clydesdale Bank Business Updates contain an overview of the UK retail and SME banking market and certain historical financial information relating to CYBG Group including:

- CYBG Group's unaudited consolidated historical financial information for the six months ended 31 March 2015;
- CYBG Group's audited annual report and consolidated financial statements for the four years ended 30 September 2012, 30 September 2013, 30 September 2014 and 30 September 2015; and
- CYBG Group's 2015 Full Year Pillar 3 Report.

3.1 Overview

With over 175 years of history, CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, CYBG Group offers through its strong local community brands, Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services. Clydesdale Bank is also one of only a small number of banks in the world that issues banknotes.

CYBG Group's long established retail and SME franchises have significant scale and strong market shares in personal current accounts, business current accounts, SME business lending and mortgages in its core regions. As at 30 September 2015, CYBG Group had 2.8 million retail and business customers, with £26,349 million of customer deposits and a £28,783 million customer loan portfolio, of which £20,504 million were mortgage loans, £7,061 million were business lending and the remainder of the portfolio was comprised of unsecured personal lending (including credit cards and overdrafts).

CYBG Group has a standalone operating platform, with limited ongoing support required from NAB under transitional arrangements until CYBG Group's planned separation is fully implemented. CYBG Group's operating platform supports its full service customer proposition and enables CYBG Group to provide services to customers through multiple distribution channels. As at 30 September 2015, these distribution channels included 275 retail branches (121 Clydesdale Bank-branded branches and 154 Yorkshire Bank-branded branches) and 40 business and private banking centres (including 28 centres integrated with retail branches), strong and well-established relationships with leading third-party mortgage intermediaries, a rapidly evolving digital platform (including proprietary website and mobile offerings as well as participation in third-party aggregator sites), access to certain banking services through the Post Office's over 11,800 branches, telephony and voice services, and an ATM network. CYBG Group's distribution platform continues to develop to allow Clydesdale Bank and Yorkshire Bank customers to complete their retail and SME banking needs across multiple distribution channels with an emphasis on digital and non-branch channel usage, which reflects changing customer behaviour and preferences for omni-channel interactions.

Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened. The CYBG Directors believe that CYBG Group's balance sheet is now more resilient and strongly capitalised, which together with the capital protection provided by the Capped Indemnity package, provides a strong foundation to support CYBG Group's targeted future growth. Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring.

The CYBG Directors believe CYBG Group has the key strengths and capabilities to enable its experienced leadership team to execute the strategy as set forth herein.

Banks and other lenders play a vital role in the UK economy. This is reflected in the type of customers they serve, ranging from the general public and small businesses to sophisticated corporations and investors. Banks' services are essential in facilitating day-to-day financial transactions as customers interact with their banks as the centre of non-cash transactions, such as direct debit payments and salary deposits. Their services are also essential in providing capital for short to long-term purposes, they organise foreign exchange and provide sophisticated financial products that help consumers and businesses plan for the future.

The main players in the UK banking market can be grouped into six broad categories:

- Large national banks: These banks have national coverage and a full retail bank offering including current accounts, mortgages, savings, credit cards, and other personal banking services. Due to consolidation over the last ten to fifteen years, there are currently only five large national banks in the UK banking sector ("the **Big Five**"); Barclays plc ("**Barclays**"), HSBC Bank plc ("**HSBC**"), Lloyds Banking Group, which includes the Lloyds Bank, Halifax and Bank of Scotland brands ("**Lloyds**"), Royal Bank of Scotland Group plc, which includes the RBS, NatWest and Ulster Bank brands ("**RBS**") and Santander UK plc ("**Santander**") (Source: Bank of England: Evolution of the UK banking system).
- Challenger banks: The Independent Commission on Banking defines challenger banks as banks that are large enough to be a threat to incumbents and have a strong incentive to compete with them to increase market share (*Source: Independent Commission on Banking*). Challenger banks can be grouped into three sub-categories:
  - mid-sized banks that are branch-led, full service banks with an established customer base with the ability to compete with the Big Five;
  - small and specialised banks with total assets of under £20 billion that focus on differentiating themselves through either customer service and/or specific product offerings; and
  - retailer banks where retailers typically leverage their large customer base to cross-sell financial products, including savings accounts, loans, mortgages, credit cards, and in some cases, PCAs.
- Building societies: These are usually small lending institutions which are owned by their members. These mainly offer mortgages and savings products, although many now provide a broader range of retail banking products, such as current accounts and credit cards.
- Credit unions: These are usually small lending institutions which are owned by their members. They typically serve those customers who are unable to access standard retail bank products through the established high street banks.
- Monoline product providers: These providers focus on the provision of specific products, such as credit cards, rather than a full range of retail banking services.
- Other lenders: These include payday lenders, online specialists, peer-to-peer lending facilitators, and specialist mortgage lenders.

Further information on the UK retail and SME banking market in which CYBG Group operates was released as part of the Clydesdale Bank Business Updates ("Industry Overview").

3.2 Strengths

CYBG Directors believe that CYBG Group has the following key strengths which are described in more detail in Section 3 of Part 2 of Annexure G.

3.2.1 Long established franchise in core regional and selected national markets

CYBG Group operates from a strong, existing franchise position in its core regions with a track record of growth. As at 30 September 2015, CYBG Group had 2.6 million retail customers and 179,000 SME customers.

CYBG Group has strong market shares in its core regions, in particular:

- An estimated 9.1% share of the PCA market by balances in its core regions (compared to 3.1% in the UK) (*Source: CACI Market Share Data as at 31 July 2015*). As at 30 September 2015, CYBG Group had total PCA balances of £6,944 million;
- An estimated 3.8% share of the personal variable rate savings account and fixed rate term deposit market by balances in its core regions (compared to 1.3% in the UK) (*Source: CACI Market Share Data as at July 2015*). As at 30 September 2015, CYBG Group had total personal variable rate savings account balances of £6,013 million and total personal fixed rate term deposits of £4,519 million;
- An estimated 14% share of the BCA market by number of accounts in Scotland (*Source: CMA Review, Banking services to small and medium sized enterprises, July 2014*) (compared to 1.4% in the UK by balances as at 30 June 2015 (*Source: Bank of England data*)). As at 30 September 2015, CYBG Group had total BCA balances of £6,038 million;
- An estimated 8.1% share of the SME business lending market by balances in its core regions (compared to 3.6% in the UK) (*Source: BBA 1Q2015 SME lending, as at 31 March 2015*). As at 30 September 2015, CYBG Group had total SME business lending balances of £7,061 million; and
- An estimated 3.9% share of the mortgage market by balances in its core regions (compared to 1.6% in the UK), with total mortgage balances of £20,504 million (S*ource: CML Market Share Information as at 30 September 2015, with regional market share based on availability of regional loan data for 73% of the UK market*).

Section Three:
Overview of CYBG Group

3.2.1.1 Long established retail banking franchise position

CYBG Group has a strong existing retail banking franchise position across a range of products including PCAs (£6.9 billion), mortgages (£20.5 billion), personal variable rate savings accounts and personal fixed rate term deposits (£10.5 billion), personal loans (£0.8 billion) and credit cards (£0.4 billion), in each case as at 30 September 2015.

CYBG Group has demonstrated recent success in attracting new PCA customers following a period of sustained marketing activity with 88,511 new PCA accounts opened in the year ended 30 September 2015 (with 47,922 new PCA accounts opened in the six months ended 31 March 2015 and 40,589 opened in the six months ended 30 September 2015), an increase compared to 77,493 opened in the year ended 30 September 2014 (with 41,274 new PCA accounts opened in the six months ended 31 March 2014 and 36,219 opened in the six months ended 30 September 2015). Of the customers acquired during the year ended 30 September 2015, 81% were new to CYBG Group and 46% were aged between 26 and 45, consistent with CYBG Group's aim to acquire customers among younger, more affluent demographics with the potential for long-term sustainable relationships and higher income families with children.

CYBG Group delivers its retail banking services through an omni-channel distribution proposition, including branch, intermediary and digital channels.

3.2.1.2 Strong existing SME franchise position

CYBG Group provides its SME customers with a full range of products and services across an £8.8 billion business deposit portfolio as at 30 September 2015, which consists of BCAs (£6.0 billion), variable rate savings accounts (£1.8 billion) and fixed rate term deposits (£1.0 billion). CYBG Group also provides its SME customers with a range of lending products and services across a £7.1 billion portfolio as at 30 September 2015, which consists of term lending (£5.1 billion), overdrafts (£1.2 billion) and working capital solutions (including invoice, trade and asset finance products, £0.8 billion), with an average deposit balance of £42,000. In addition, CYBG Group offers its business banking products and services to larger corporate businesses where it has the sector expertise, experience or relationships to do so competitively. For the period from 31 December 2014 to 30 September 2015, CYBG Group increased its rate of recruitment of small business new BCA accounts from 2,161 BCA accounts opened in the three months ended 31 December 2014 to 4,311 opened in the three months ended 30 September 2015. As at 30 September 2015, 54% of CYBG Group's business customers had been business customers with CYBG Group for more than ten years.

CYBG Group offers a differentiated SME proposition through dedicated relationship managers supported by product and sector specialists. As at 30 September 2015, CYBG Group had 325 business and commercial banking relationship managers with an average of 11 years of experience with CYBG Group and 97 private banking relationship managers with an average of 19 years of experience. This customer-focused approach includes access to sector and product specialists. The sector specialism is delivered through 177 specialist and acquisition finance staff (including 69 relationship managers plus associate directors, growth finance, origination directors, NBS advisers and management) and 70 sector specialists (including 50 agriculture relationship managers plus 12 other sector specialists and 8 CRE specialists), combining sector expertise with specialist business knowledge to deliver solutions to meet customer needs. The product specialists consist of an additional 183 working capital staff (including asset finance (46), invoice finance (69) and other (including payments and treasury solutions, 68)). CYBG Group has also created an emerging technology unit which targets high growth early stage technology companies backed by business angel syndicates, venture capitalists and private equity funds.

CYBG Group's customer relationships and stable business deposit franchise support a balanced SME lending book across a variety of sectors. Within the SME loan portfolio, the only industry sector as at 30 September 2015 that represented more than 12% of total customer loans was the £1.7 billion exposure to the agriculture (soft commodities) sector, in which CYBG Group has a lending history of over 100 years. The agriculture portfolio is balanced and diversified across the following sectors as at 30 September 2015: beef or sheep (26% of the total), arable (27%), dairy (21%), agricultural services (13%) and other (13%), comprised of poultry, pig farming, forestry and fishing and horticulture and fruit growing. In addition to a long-established agricultural presence, CYBG Group's existing capabilities and other areas of expertise enable it to identify and target underserved sub-sectors.

CYBG Group operates its business and private banking businesses on an integrated basis. As at 31 March 2015, CYBG Group's private banking customer base was comprised of business owners (with a stake of 25% or more in a business) or senior management (together 52% of the total), professionals with incomes of between £75,000 and £200,000 per annum (26%) and retirees with assets in excess of £100,000 (22%). Private banking customers also have access to the full suite of CYBG Group's retail banking products and services, and tend to hold a higher number of CYBG Group products per customer. As at 30 September 2015, 47% of CYBG Group's customers with a private banking current account held three or more CYBG Group products and 35% held two products, whereas 17% of total current account customers held three or more other CYBG Group products and 32% held two products.

3.2.2 Strong local community brands

CYBG Group benefits from a strong reputation built on its established and trusted brands, Clydesdale Bank and Yorkshire Bank, which are well-regarded in its core regions with proven national reach. According to an internal brand tracker survey, the top three attributes associated with Clydesdale Bank and Yorkshire Bank by customers were stability (selected by 87% of those surveyed), trust (selected by 86% of those surveyed), and reputation (selected by 81% of those surveyed) (*Source: Clydesdale internal brand tracker survey, August 2015*).

In May 2013, Clydesdale re-launched the Clydesdale Bank and Yorkshire Bank brands, internally and externally. Built on customer responses to what a great bank should be, this re-launch followed significant work to establish and promote the core values and principles that underpin CYBG Group's brand statement, "We Care About Here".

"We Care About Here" brand positioning is founded on five key principles:

- Get the basics right - first time, every time;
- Listen, understand, respond;
- Be accountable - to customers and each other;
- Treat customers' time as more important than your own; and
- Know your neighbourhood.

Designed to stretch across both the retail and SME franchises as well as beyond its core regions, the brand re-launch was supported with a high-profile marketing campaign including television, outdoor, press and branch advertising. Overall, CYBG Group increased marketing and advertising expenditure from £14 million in the year ended 30 September 2012 to £19 million in the year ended 30 September 2013, £22 million in the year ended 30 September 2014 and £33 million in the year ended 30 September 2015.

The CYBG Directors believe that the re-launch of the Clydesdale Bank and Yorkshire Bank brands and associated advertising and marketing campaigns have strengthened the brands and increased consumer awareness, providing a strong platform from which to launch new products both in its core regions and nationally. Since the brand re-launch, CYBG Group has seen branch interview satisfaction increase from 95.2% as at 30 September 2013 to 95.6% as at 30 September 2014 and 96.8% as at 31 August 2015, as well as an increase in the likelihood of customers recommending CYBG Group from 30.9% to 42.2% and 58.4% respectively, for the same period (*Source: Gusto CEA reports*).

CYBG Group has revitalised and refreshed its brands to focus on delivering fair outcomes and quality service to customers. According to the March 2015 uSwitch annual customer survey results, Clydesdale Bank was ranked number one for best branch customer service (77%), number two in online service (78%), number two for best customer service overall (66%) and number two in overall customer satisfaction (72%). The uSwitch annual survey also included Bank of Scotland, Barclays, Co-Op, First Direct, Halifax, HSBC, Lloyds, Nationwide, NatWest, RBS, Santander and TSB. For the year ended 30 September 2015, CYBG Group saw a 19% reduction in customer complaints (excluding PPI complaints), compared to the year ended 30 September 2014, with 78,020 customer complaints down from 96,335 customer complaints in the prior year.

3.2.3 Standalone, scalable and full-service operating platform

CYBG Group employs a standalone core banking platform with a demonstrated track record of systems resilience. After the Demerger, a limited level of ongoing support will be required from NAB for certain enterprise dependencies pursuant to the TSAs until CYBG Group's planned separation is fully implemented. For more information on the TSA arrangements, refer to Section 4.8.5. All key decision-making is the responsibility of CYBG Group management.

CYBG Group's operating systems are resilient and provide a platform for customer and balance sheet growth. The CYBG Directors believe that CYBG Group's key IT systems and services can be scaled to process double their existing transaction volumes without incurring material additional costs. CYBG Group uses selected outsourcing arrangements with reliable and industry-leading third-party suppliers to maintain flexibility in its cost base and facilitate scalability. However, CYBG Group does not outsource any of its core banking or payment systems.

CYBG Group's established operating platform enables it to provide new products and services, along with increased business volumes, at what the CYBG Directors believe are relatively low marginal costs. CYBG Group is also able to launch new products and services quickly through its existing distribution network, leveraging opportunities within customer facing services and across the core banking platform.

The net incremental costs of operating as a standalone entity after the Demerger are estimated to be £15 million to £25 million per annum.

3.2.4 Profitable with a resilient and strongly capitalised balance sheet

Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened. CYBG Group has reshaped its loan book through the transfer in 2012 of a legacy CRE portfolio to NAB, which together with strong growth in mortgages, has increased the percentage of its overall loan book comprised of low risk retail secured lending. CYBG Group's asset quality has been restored with both a decreasing non-performing loans ratio (defined as the ratio of loans that are more than 90 days past due plus gross impaired assets as a percentage of total customer loans) and impairment charge to average customer loans ratio. Overall levels of capital have been strengthened with a CET1 Ratio of 13.2% and Leverage Ratio of 7.1%, both as at 30 September 2015. CYBG Group's leverage ratio is among the highest of larger UK Banks. CYBG Group continues to maintain a diversified funding portfolio, seeking to optimise its deposit mix, with growth in current account and savings account balances driving a reduction in overall funding costs.

Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring. CYBG Group's return on tangible equity on the Management Basis has increased to 5.1% for the year ended 30 September 2015 from 0.5% in the year ended 30 September 2012.

3.2.4.1 Robustly capitalised in Basel III environment

The CYBG Directors believe that CYBG Group's high quality capital levels are robust, as CYBG Group continues to navigate the capital management measures stemming from the implementation of Basel III. The CYBG Directors believe that CYBG Group's capital base, together with organic capital generation, supports CYBG Group's medium term growth plans. As at 30 September 2015:

- CYBG Group's Common Equity Tier 1 Ratio was 13.2%;
- CYBG Group's Additional Tier 1 Ratio was 2.5%;
- CYBG Group's Tier 2 Ratio was 3.2%; and
- CYBG Group's Leverage Ratio was 7.1%.

CYBG Group's Common Equity Tier 1 Ratio as at 30 September 2015 is comprised solely of common equity and retained earnings and other reserves and can fully absorb losses on a going concern basis. As at 30 September 2015, all of CYBG Group's Tier 1 and Tier 2 Capital instruments were held by NAB.

The CYBG Directors believe that the capital position of CYBG Group is sufficient to meet known regulatory expectations over the medium term. The CYBG Directors are targeting to maintain CYBG Group's CET1 Ratio in the range of 12.0% to 13.0%.

3.2.4.2 Prudent risk appetite coupled with strong asset quality

CYBG Group manages its loan portfolios using robust underwriting processes supported by staff with sector and product experience, as well as by implementing risk appetite limits. The CYBG Directors believe that CYBG Group has a high quality loan book due to its high credit quality and the portfolio's overall diversification, with the portfolio comprised of 75% retail and 25% business lending as at 30 September 2015. The performance of the loan book has also benefited from ongoing risk management actions and a favourable macroeconomic climate in the UK. This is evidenced by the ratio of gross impaired assets to customer loans, which decreased from 1.35% as at 30 September 2014 to 0.91% as at 30 September 2015. CYBG Group also engaged a third party to conduct an asset quality review during 2015, the results of which reaffirmed the strength of the credit risk management framework and the adequacy of provisions for bad and doubtful debts.

The CYBG Directors believe that the high quality of CYBG Group's mortgage portfolio is demonstrated by the ratio of impaired mortgage loans to gross mortgage loans, which was 0.35% as at 30 September 2014, and which improved to 0.32% as at 30 September 2015.

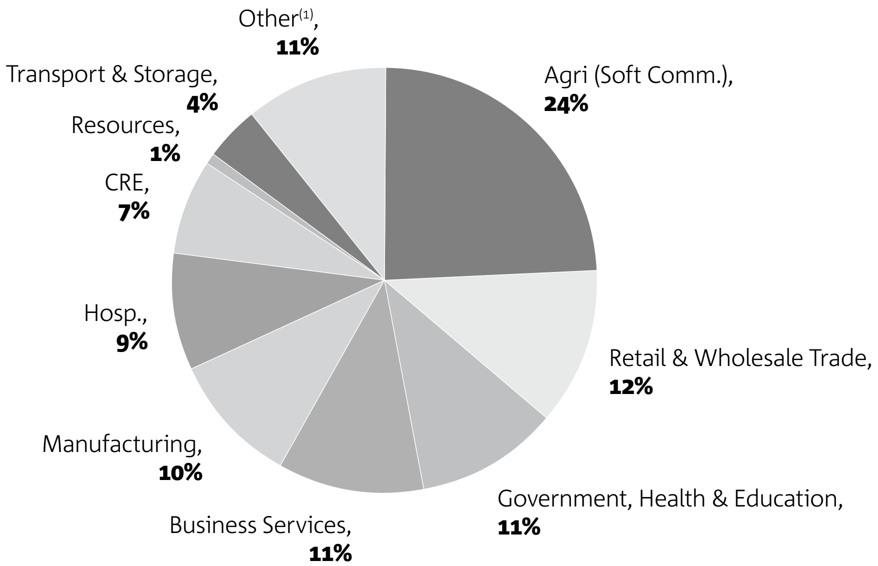
The CYBG Directors believe that the customer loan portfolio of £28,783 million as at 30 September 2015 is diversified; as at 30 September 2015, mortgage lending comprised 71.2% of the total loan book, business lending comprised 24.5% and unsecured personal lending comprised 4.2%.

CYBG Group's mortgage loan book is also geographically diversified between its core regions, the South of England and the rest of the UK market, with 48.0% of the total book in the South of England, 24.0% in Northern England, 17.0% in Scotland, 7.0% in the Midlands and 4.0% in other UK regions as at 30 September 2015.

Credit risk associated with the business lending portfolio also has improved following the transfer of the majority of the legacy CRE portfolio to NAB in 2012, management actions to reduce exposures to higher risk sectors (such as hospitality and construction), sustained low interest rates, improving macro-economic conditions and customer deleveraging. As a result of changes to CYBG Group's risk appetite, the level of "single name" exposure risk also has reduced. This improvement in business lending asset quality is evidenced by the impairment charge to business lending ratio, which decreased from 1.41% for the year ended 31 December 2012 to 0.62% for the year ended 30 September 2014 and 0.37% for the year ended 30 September 2015. The ratio of impaired business loans to gross business loans also has improved, from 3.90% as at 30 September 2014 to 2.79% as at 30 September 2015.

Figure 2: Diversified SME lending book

The data below presents SME lending by sector as a percentage of total SME lending as at 30 September 2015.



(1) Other includes entertainment and personal services, utilities, post and telecommunications, construction and finance sectors.

3.2.4.3 Stable and low cost funding platform

As at 30 September 2015, customer deposits of £26,349 million accounted for 83.6% of CYBG Group's funding base (defined as customer deposits, bonds and notes, amounts due to related entities and amounts due to other banks). PCA balances represented 26.4% of total customer deposits and 39.7% of retail customer deposits as at 30 September 2015. As at 30 September 2015, 78% of customers with PCAs had a tenure with CYBG Group of ten years or more. The loyal retail banking customer base, alongside stable customer deposit balances, provides low cost funding to support CYBG Group's asset growth.

CYBG Group has also actively diversified its funding mix and reduced the utilisation of funding from NAB through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding through these programmes in terms of the type of instrument and product, maturity, currency, counterparty, term structure and market. As at 30 September 2015, CYBG Group had £3,714 million (excluding accrued interest) of outstanding RMBS and covered bonds held by third parties with maturities ranging from August 2016 to June 2026. The CYBG Directors believe that CYBG Group's demonstrated track record of access to the secured funding markets through these programmes provides CYBG Group with an important source of stable term funding.

CYBG Group plans to continue to manage the overall composition of its funding in terms of the mix of retail and wholesale funding, the mix of on-demand and term deposits, and the overall stability of funding, in order to effectively manage risk and return. The CYBG Directors believe that CYBG Group's current funding mix, strong base of predominantly low-cost customer deposits, proven access to wholesale secured funding and limited utilisation of short-term funding, provides a stable source of funding for the growth of its business. The CYBG Directors are targeting to maintain the loan-to-deposit ratio at a level of up to 115% over the period up to financial year 2020.

3.2.5 Experienced leadership team

CYBG Group's executive and senior management team is comprised of team members with a combination of experiences at executive level positions with established public and private institutions. David Duffy joined CYBG Group as Chief Executive Officer on 5 June 2015 from his position as chief executive of Allied Irish Banks, where he successfully steered the bank back to profitability following nationalisation and losses during the financial crisis.

The Executive CYBG Directors have an average of 25 years of industry experience while the Senior Managers have an average of approximately 10 years of experience with NAB and/or CYBG Group, resulting in deep institutional knowledge complemented by broad industry experience. The CYBG Directors believe CYBG Group's executive and senior management team has the skills, knowledge and expertise to lead CYBG Group in the future execution of its strategy.

CYBG Group also benefits from eight experienced independent Non-Executive CYBG Directors, all of whom also sit on board committees. These Non-Executive CYBG Directors contribute to the diverse capabilities of the board with experience across multiple customer service oriented industries.

Section Three: Overview of CYBG Group

CYBG Group's employee base has a high level of experienced staff; as at 30 September 2015, 74% of retail staff members had been with CYBG Group for longer than five years. An engaged and motivated employee base further underpins successful execution of the strategy.

As of 30 September 2015, 99% of CYBG Group's employees have completed the Chartered Banker Professional Standards Board Foundation module. CYBG Group launched a new comprehensive learning platform for all employees on 1 October 2015.

3.3 Strategy

The CYBG Directors' goal is for CYBG Group to be a customer-centric franchise that proactively responds to changes in its customers' needs, builds long-standing customer relationships and delivers enhanced shareholder returns.

The CYBG Directors have four clear strategic aims for CYBG Group:

- Leverage its capabilities in existing core regions
- Continue its successful national growth strategy focusing on selected products and sectors where it has a strong history and established capabilities
- Deliver a consistently superior experience to customers underpinned by its local community brands and a customer driven omni-channel strategy
- Deliver enhanced shareholder returns

CYBG Group's business plan is based on the goals, strategic aims and priorities of CYBG Group going forward, and has been prepared employing a number of assumptions that have been referenced to both internal and external data sources. These assumptions include assumptions with respect to the outlook for interest rates and the broader macro-economic environment (in each case as set forth below) and expectations as to the competitive environment (as disclosed in the description of the UK retail and SME banking market released as part of the Clydesdale Bank Business Updates on 7 July 2015 and 16 November 2015 and available on NAB's website at **www.nabgroup.com.au** ("**Industry Overview**")), taking into account the current regulatory environment (as described in Part 7 of Annexure G).

With reference to both internal and external data sources, the CYBG Group business plan assumes (i) sustainable GDP growth in the UK, (ii) both inflation and the unemployment rate in the UK remaining low and (iii) measured increases in UK base rates from current levels with such increases expected to start in 2016. With respect to the macroeconomic environment, the UK economy has in recent years experienced growth in real GDP, reductions in unemployment levels, increases in house prices and increases in consumer confidence, with SME lending showing signs of moving out of a deleveraging phase. In the context of ongoing uncertainties in Europe and Asia, the UK currently enjoys a positive outlook for continued growth in real GDP. The interest rate assumptions are a key sensitivity for the forecast net interest income in the business plan and, therefore, future profitability.

Based on this business plan, the CYBG Directors are targeting a double digit ROTE within the period up to financial year 2020 following a period of expected increased investment in 2015 and 2016. To support its strategic aims and priorities, CYBG Group has targeted total investment spend (comprised of both capital and operating expenditure) for financial years 2015 and 2016 of approximately £300 million, with 50% distributed across system resilience (e.g. technology investments to maintain reliable customer service within risk appetite) and mandatory and regulatory projects and the other 50% distributed across customer investment and separation initiatives. This is as compared to financial years 2013 and 2014 in which CYBG Group had a total investment spend of £219 million, with £90 million allocated to resilience projects, £66 million for customer investment and £63 million for mandatory and regulatory costs.

The CYBG Directors are also targeting the delivery of a positive jaws ratio (defined as the difference in the growth rates of income and costs, respectively) annually, other than in the year ending 30 September 2016, after allowing for the impact of increased investment on cost growth. Meeting the positive jaws ratio target over the five year period should drive the cost-to-income ratio to below 60%.

In the near term, as CYBG Group seeks to grow its earnings and balance sheet, the CYBG Directors will have particular regard to the need to invest in the franchise as a driver for future growth and the need to preserve capital to support the business. Taking this into account and subject to regulatory requirements, it is the CYBG Directors' current intention that CYBG Group's inaugural dividend on the CYBG Shares be in respect of the financial year ending 30 September 2017 and reflect only a modest percentage of CYBG Group's earnings. The CYBG Directors intend to review on an ongoing basis the expected timing and quantum of any dividend payments in the context of progress on the delivery of CYBG Group's strategy and the broader operating environment. The CYBG Directors believe that CYBG Group will, in time, be able to support a dividend distribution of up to approximately 50% of earnings (after paying Additional Tier 1 Capital instrument distributions).

The CYBG Directors believe there is a reasonable basis for the business plan and targets with their overall delivery, across its strategic priorities, being dynamic relative to changes in the macroeconomic and competitive environment. The plan and targets do, however, involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual future results and performance or achievements of CYBG Group to be materially different than those set forth herein. The business plan and targets are based on numerous assumptions regarding present and future business strategies, an assessment of present economic and operating conditions and the environment in which CYBG Group will operate in the future, which may prove to be incorrect. Important factors that could cause actual results and performance to differ materially from those set forth in the business plan and targets include, among others, the risk factors described in this Scheme Booklet, and other unknown risks and uncertainties.

The assumptions with respect to interest rates and key macroeconomic factors used in preparing CYBG Group's business plan are set out below:

	For the year ended 30 September					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Real GDP Growth	2.30%	2.20%	2.30%	2.30%	2.30%	2.30%
Consumer Price Index	0.50%	1.40%	2.00%	2.10%	2.20%	2.20%
Unemployment Rate	5.60%	5.30%	5.20%	5.10%	4.90%	4.90%
Interest Rates						
BoE Base Rate (Average)	0.50%	0.73%	1.10%	1.38%	1.50%	1.58%
3 Month Libor (Average)	**-**	**0.97%**	**1.44%**	**1.73%**	**1.77%**	**1.84%**
Forward 2 Year Swap Rate	**-**	**1.34%**	**1.64%**	**1.75%**	**1.81%**	**1.90%**
Forward 5 Year Swap Rate	-	1.57%	1.74%	1.83%	1.89%	1.97%

The macroeconomic assumptions set out above have been developed by internal economists using their own macro-economic modelling, with reference made to a consensus of external forecasts for the broader macro-economic assumptions. The interest rate assumptions set out above have been developed with reference to forward market rates.

CYBG Group continues to focus on the momentum and growth resulting from positive dynamics such as its loyal customer base, motivated, engaged staff and solid financial fundamentals. However, the CYBG Directors have also identified areas that require improvement and change to evolve away from the subsidiary mentality, simplify internal governance and processes, streamline operations and significantly enhance productivity. CYBG Group's near term priorities underpinning this strategy include identifying and enhancing or engaging internal talent, rigorous management of the operating costs of CYBG Group and its investment expenditure, delivery of its digital enablement initiatives and continued focus on enabling customer franchise growth.

3.3.1 Grow the customer franchises by leveraging capabilities in existing core regional markets and continue its successful national growth strategy

The CYBG Directors aim to leverage CYBG Group's retail and SME banking capabilities and customer base to grow the customer franchise by investing in propositions in target segments and geographies. According to September 2015 branch catchment data, CYBG Group had a potential customer population of approximately 18 million within a ten minute drive of a Clydesdale Bank or Yorkshire Bank branch (*Source: Experian Branch Catchments*).

In retail banking, CYBG Group seeks to acquire new customers, with an emphasis on younger, more affluent demographics with the potential for long-term sustainable relationships through its PCA propositions. By continuing to grow the PCA customer base, CYBG Group seeks to also grow customer deposits in order to maintain its overall loan to deposit ratio. During the year ended 30 September 2015, CYBG Group opened 88,511 new PCA accounts, compared to 77,493 new accounts during the year ended 30 September 2014.

CYBG Group also aims to continue to grow nationally in mortgages through the intermediary and proprietary channels as well as in the unsecured loan portfolio by deepening relationships with existing customers and establishing relationships with new customers, in each case consistent with a prudent risk appetite. CYBG Group's lending strategy includes a focus on higher return products and sectors where CYBG Group has a strong track record and expertise. The CYBG Directors also intend to increase the proportion of gross new business lending to new-to-bank customers to a level above the current level of 33% of total gross new business lending for the year ended 30 September 2015.

The CYBG Directors are targeting, through the delivery of CYBG Group's strategic priorities described below, an increase in CYBG Group's total retail lending book of between 40% and 50% in aggregate within the period up to financial year 2020. This target is based on the assumptions as to interest rates and the broader macro-economic environment specified above, and expectations as to customer demand and the competitive environment (as described in the Industry Overview), taking into account the current regulatory environment (as described in Part 7 of Annexure G).

Within the SME business, CYBG Group seeks to drive lending growth by leveraging sector led propositions in selected products and sectors with established capabilities (while executing the run-off of low yielding assets) and acquiring new small business customers and deposits through a customer-driven omni-channel strategy.

3.3.1.1 Continue to grow PCA customer base and deposit franchise

CYBG Group plans to continue to grow its PCA customer base in both its core regions and nationally, targeting an increase in market share of PCA flow while maintaining its overall loan to deposit ratio. As at 30 September 2015, CYBG Group had 1.8 million PCA customers.

CYBG Group has seen a significant increase in the average deposit balance per retail customer, from £2,700 for each of PCA and variable rate savings accounts as at 30 September 2012 to £3,500 and £3,600 for PCA balances and £4,200 and £4,700 for savings account balances per customer as at 30 September 2014 and 30 September 2015, respectively.

In order to support the development of sustainable, multi-product customer relationships, CYBG Group aims to deliver a customer experience that makes CYBG Group the first choice for a customer to operate their main bank account. As at 30 September 2015, 60% of Yorkshire Bank main current account customers and 64% of Clydesdale Bank main current account customers held a PCA only, 31% and 24% respectively held one additional product and 9% and 12% held two or more additional products. This compares to a market average of 45% with only a PCA with the customer's main current account provider, 33% with one additional product and 22% with two or more additional products as at 30 September 2015 (*Source: GfK Financial Research Survey*). Due to the nature of the PCA product and the relationship developed with customers, the CYBG Directors believe that growth in this area would provide valuable opportunities to meet customers' needs for other banking products with a particular focus on unsecured lending and savings and mortgage products.

CYBG Group's customer segmentation is currently weighted toward older or less affluent customers (representing 77% of CYBG Group's total customers as at 30 September 2015) compared to 69% for the market as a whole (*Source: Experian data*). CYBG Group has identified key customer demographics in which it is under-weight, targeting growth across younger and more affluent customers, which account for 23% of retail customers (compared to 31% for the market as a whole). Based on Experian data, these more attractive customer demographics present a significant revenue opportunity as they tend to have higher average product holdings, higher unsecured personal lending balances and higher digital channel usage.

CYBG Group has also introduced product offerings specifically targeted at increasing the number of PCA customers outside of its core regions, including the Current Account Direct product, which offers customers higher interest rates on balances up to £3,000 and received the 2014 Moneynet Personal Finance Award for best new current account. CYBG Group also launched full online PCA account opening capability on its website in September 2015.

The CYBG Directors intend to further increase CYBG Group's retail customer base nationally through continued development of its digital distribution capability. Digital distribution will be supported by access to agent-assisted channels providing personal interaction as required by customers seeking support for advice or service requirements.

3.3.1.2 Continue to grow mortgage book

CYBG Group is targeting growth across the mortgage loan portfolio and an increase in national market share, including managed growth in buy-to-let mortgage lending. CYBG Group plans to deliver this growth with prudent risk controls in place, primarily via a quality intermediary platform with an established track record of growth, alongside a mix of proprietary channels.

CYBG Group has a strong track record of delivering growth in its mortgage book outside of its core regions, increasing diversification from 49% of gross mortgage balances located outside the core regions as at 30 September 2012 to 59% as at 30 September 2015. This more balanced geographical exposure was achieved primarily through growth of mortgages originated through the intermediary channel, which increased from 35% of CYBG Group's gross mortgage balances as at 30 September 2012 to 53.2% as at 30 September 2015. As part of its mortgage growth strategy, CYBG Group also aims to maintain a balanced portfolio mix by competitively pricing lower LTV owner-occupied products, while continuing to be competitive in higher LTV owner-occupied products.

The CYBG Directors believe that the intermediary mortgage market represents a source of continuing growth given that it represents over half of gross new mortgage lending across the UK marketplace (approximately 67% of regulated gross new mortgage lending excluding further advances was written by intermediaries for the six months ended 31 March 2015 (*Source: CML data*)). In the year ended 30 September 2015, CYBG Group had a 2.4% national market share of gross new mortgage lending, and a 4.1% market share in the three months ended 30 June 2015 in its core regions (with regional market share based on availability of regional loan data for 73% of the UK market). CYBG Group intends to continue to operate a business development management model with the intermediaries with whom it works in order to drive higher quality and higher value mortgage origination. CYBG Group will also seek to deepen its existing relationships with intermediaries and selectively expand the invitation only panel of intermediaries with whom it works.

In addition to targeted growth in gross new mortgage lending, CYBG Group is running off its low yielding tracker rate mortgage book. In 2008, CYBG Group ceased sales of tracker rate mortgages and the balance of the portfolio has decreased since then. As at 30 September 2015, this tracker rate mortgage portfolio consisted of approximately £2,625 million of mortgages. The run-off of the book is dependent upon customer behaviour, and the book is not expected to fully amortise significantly ahead of its contractual maturity profile in the medium term.

The CYBG Directors are targeting to grow CYBG Group's market share of mortgage stock from 1.6% as at 30 September 2015, with a targeted increase in aggregate mortgage balances of 40% to 50% within the five year period following UK Admission. This target was developed with reference to CYBG Group's historic mortgage growth record (representing a CAGR of approximately 10% over the period from 30 September 2012 to 30 September 2015) but is otherwise based on the assumptions as to interest rates and the broader macro-economic environment specified above, and expectations as to the competitive environment (as described in the Industry Overview), taking into account the current regulatory environment (as described in Part 7 of Annexure G).

3.3.1.3 Grow the SME franchise

CYBG Group aims to deepen its relationships with existing SME customers, grow its BCA customer base, and develop its business lending in selected products and sectors.

CYBG Group continues to target the acquisition of small business customers through digital and direct channels, including marketing campaigns specifically aimed at these customer segments, such as its business current account free day-to-day banking offer. Since December 2014, CYBG Group has seen strong new BCA growth principally for new small business customers, growing from 625 accounts opened in that month to 1,458 accounts opened in September 2015. CYBG Group aims to further develop small business relationships, where CYBG Group has historically been underweight relative to peers. CYBG Group's average revenues per small business customer are 64% below the peer average, its lending products per small business customer ratio is 62% below the peer average and its small business cross sale penetration ratio is currently 16% below the peer average (*Source: Finalta Small Business Benchmarking Survey, 2014*). CYBG Group believes this presents an opportunity to leverage its existing relationships and product offerings to capitalise on the growth opportunities within the small business segment, providing the opportunity to begin a long term relationship with the business as it grows.

The origination of business lending to new SME businesses is a key area of focus, alongside digital and direct channels. CYBG Group's lending strategy includes a focus on higher return products and sectors where CYBG Group has a strong track record and expertise, including agriculture, health, hospitality, transport and storage, manufacturing, finance and CRE. The CYBG Directors also intend to increase the proportion of gross new business lending to new-to-bank customers to a level above the current 33% level of total gross new business lending (for the year ended 30 September 2015).

The CYBG Directors intend to attract new SME customers by deploying CYBG Group's relationship management proposition supported by specialist sector knowledge and expertise in a number of targeted growth sectors and segments that they believe are underserved by existing providers. CYBG Group seeks to leverage its industry knowledge including by providing development funding to target growth across attractive sectors, for example by using a cash-flow based lending approach which supports asset-light sectors. The penetration of under-served opportunities will be managed within CYBG Group's risk appetite.

As part of this, CYBG Group has executed a managed and controlled re-entry into the CRE market by launching a centralised and specialised CRE capability, led by experienced specialists with deep sector knowledge, to facilitate a strategic re-entry into this sector with targeted lending to good quality, higher margin CRE developments and investments.

Underpinning CYBG Group's approach is the focus on understanding the customer's business and associated financing needs, and ensuring that its banking products fulfil customer requirements. Through the provision of a full suite of banking products, CYBG Group seeks to meet the working capital and longer-term funding requirements of its customers, as well as their cash management and payment services needs.

CYBG Group increased new to bank gross SME lending facilities accepted and available to customers from £483 million in the year ended 30 September 2014 to £636 million in the year ended 30 September 2015. In the short term, however, the CYBG Directors expect CYBG Group's total SME lending balance to decline moderately as low yielding assets run-off. As at 30 September 2015, the SME lending book consisted of approximately £1.1 billion of low yielding business loans out of a total business lending portfolio of £7.1 billion. The low yielding portfolio run-off is aligned with facility contractual end dates and in accordance with conduct best practice guidelines. CYBG Group expects to have largely exited legacy low yielding loans by 2017, with the remainder fully run-off by 2019.

CYBG Group has actively managed attrition of its SME lending book to improve risk quality and improve overall yields. The following table sets out the composition of CYBG Group's business lending portfolio by core lending, legacy CRE lending and identified run-off.

Section Three: Overview of CYBG Group

	As at 30 September			
	2015	2014	2013	2012
		£bn		
Core lending	6.0	6.2	9.0	10.8
Legacy CRE portfolio(1)	-	-	-	5.7
2014 Identified run-off lending	1.1	1.8	-	-
Total lending balance	**7.1**	**8.0**	**9.0**	**16.5**

(1) The 2012 CRE portfolio consisted of approximately £5,225 million of CRE assets and associated loans plus impairment provisions on credit exposures of £463 million and derivative financial instruments of £4 million relating to the legacy CRE portfolio.

Taking into account the run-off in low yielding assets, the CYBG Directors are aiming to modestly grow CYBG Group's national market share of SME loan balances from its level of 3.6%, as at 31 March 2015, targeting an aggregate increase in SME lending balances between 15% and 25% in the period up to financial year 2020. In the two years following the date of UK Admission, the CYBG Directors believe that CYBG Group's overall SME lending book is likely to be broadly flat as the run-off in low yielding assets exceeds net new SME lending. This target is based on the assumptions as to interest rates and the broader macro-economic environment specified above, and expectations as to the competitive environment (as described in the Industry Overview), taking into account the current regulatory environment (as described in Part 7 of Annexure G).

3.3.2 Strengthen, develop and enhance omni-channel distribution to deliver a consistently superior experience to customers

CYBG Group plans to continue to develop its omni-channel distribution platform by investing further in scalable digital banking channels and continuing to optimise its branch network to offer customers an integrated experience across digital and physical channels. In doing so, CYBG Group seeks to improve its ability to acquire new customers in its core regions and elsewhere throughout the UK, as well as to service new and existing customers more efficiently and deliver a consistently superior experience to customers.

3.3.2.1 Continue to strengthen digital platform to support consistent and seamless omni-channel experience

CYBG Group continues to develop and invest in its digital platform, utilising long-standing customer relationships to gain critical insights for the successful deployment of its digital propositions via customer research and ongoing customer focus group engagement.

In October 2014, CYBG Group embarked on a three year programme to further digitise the customer experience for retail and SME banking and to provide improved solutions for customers to manage their finances. CYBG Group expects the initiatives to not only result in fast and easy access to telephone and remote screen sharing support alongside more integrated mobile, online and branch services, but to also allow services to be tailored to individual customers.

As part of this programme, CYBG Group plans to launch "B", an innovative and intuitive customer-centric digital proposition. B is currently live, with staff and non-staff users expected to reach up to 500 customers by December 2015. CYBG Group plans to publicly commence launch in early 2016 via a fully integrated advertising campaign that will leverage the benefits of digital and social media channels.

CYBG Group developed B following engagement with more than 10,000 customers, 250 members of staff and over 50 research sessions. B will introduce functionality designed to put customers in control of their finances and spending habits. This functionality includes providing narratives to engage customers with their finances, analysis of customers' spending behaviour and both automatic and/or personalised categorisation of customer spending. CYBG Group has designed B based on how customers have said they want to engage with their bank in order to deliver a more personalised and relevant service. CYBG Group has developed B to operate on a best-in-class digital platform for use on mobile devices and tablets, which will be supported by a dedicated telephony and video conferencing team, together with the existing branch network, with selective branches being further digitised to provide support. B is built on a modern architecture, which is designed to be scaled in order to accommodate projected demand requirements. In connection with the development of B, CYBG Group has implemented an analytics platform alongside the Digital Next Best Action ("**DNBA**") data and analytics capability discussed below, which will capture data for all retail customers. Cyber security for B employs a tiered security level model, including device bonding, security codes as well as "step up" passwords for high value payments. B will complement CYBG Group's existing suite of brand propositions with Clydesdale Bank and Yorkshire Bank and will carry the endorsement of the CYBG Group brands.

CYBG Group intends for B to be an important part of its omni-channel delivery and current account growth strategy, driving efficiency, process simplification and customer acquisitions. The strategic foundations developed by B have been designed to enable CYBG Group to simplify its consumer lending account opening processes, both for the public and secure websites, which should contribute to the growth of personal loan and credit card balances.

B is expected to appeal to a younger, more affluent demographic who may have little or no association with the CYBG Group brands, as well as CYBG Group's traditional customer base. During 2015, CYBG Group conducted an online survey of existing Clydesdale Bank and Yorkshire Bank customers as well as non-customers outside of the core regions to market test B in advance of its launch. The focus group consisted of approximately 500 respondents over 23 years of age, with approximately 73% aged under 55. Of the existing Clydesdale Bank and Yorkshire Bank customers surveyed, there was a mix of main and secondary current account customers. During the 2015 trial period, 40% of the total focus group would feel more positively towards Clydesdale Bank and Yorkshire Bank if B was offered and, among likely users of B, this portion increased to 87%. Additionally, this study found that B would boost perceptions of Clydesdale Bank and Yorkshire Bank in areas of innovation and modernity, which have not traditionally been areas of strength.

CYBG Group recognises the importance of continued investment in its IT platform alongside delivery of its digital-led customer propositions. CYBG Group has investments planned over the next three years to ensure that its IT platform remains compliant and maintains its systems currency within its risk appetite. CYBG Group also seeks to refresh its online SME platform, with initiatives such as the "Connected to You" proposition, which is expected to be launched during financial year 2016-2017 to focus on meeting the needs of micro business customers and Business Direct customers.

3.3.2.2 Branch network optimisation

The CYBG Directors believe that face-to-face service delivered through local branches remains an important consideration for some customers whilst the branch footprint needs to evolve to reflect how and where customers want to conduct their banking business. CYBG Group commenced a programme in 2015 to reshape and optimise its physical network. This investment programme over five years includes:

- Creating larger concept stores in key city locations, which, as at November 2015, comprised London, Glasgow, Aberdeen, Sheffield and Leeds (which opened in November 2015), that bring together Retail and SME banking expertise, reduce customer service wait times, integrate with online and direct channels and provide greater front-office support for more complex transactions; another concept store, to be located in Edinburgh, is planned to be opened during financial year 2017;
- Integrating business and private banking centres with retail branches to provide additional opportunities for customers to access a full range of services in a single location; there are currently 28 co-located centres, having executed five co-locations, with an additional three co-locations planned during financial years 2016 and 2017; and
- Ongoing activity to ensure branch locations match customer demand, which may result in selected branch closures and possible relocations.

3.3.2.3 Develop enhanced customer data management and analytics

Enhanced customer data management and analytics are key to the delivery of a consistently superior experience to CYBG Group's customers. Being able to provide customers with a seamless omni-channel experience requires an aggregated and up-to-date view on the customer accounts, their activity across those accounts and a strong understanding of their lifecycle of customer activity. Through this data and supported by analytics capabilities, CYBG Group seeks to provide insights to customers and enable them to manage their finances more effectively, and by developing predictive capabilities, anticipate potential future financial needs.

In May 2015, CYBG Group launched DNBA in retail internet banking, a customer data and analytics capability intended to support the delivery of an enhanced customer experience. DNBA enables full personalisation and optimisation of messages delivered to its retail banking customers and allows CYBG Group to manage customer messaging within a framework which tracks customer digital engagement across channels, recognising the interaction of multiple messages across channels. This functionality enables CYBG Group to deliver a highly relevant, personalised and event-led experience to each customer and increases opportunities to cross sell other products that are relevant to a particular customer based on that customer's transactions within the digital platform. CYBG Group's DNBA solution leverages CYBG Group's existing channels and reacts to channel demand in real time. CYBG Group has launched its DNBA solution for retail internet banking with plans to continue to incorporate it across customer interactions via its new digital platform, branches, telephone, customer statements, email, SMS and direct mail. Using the DNBA platform, CYBG Group will increase its annual message opportunities to customers from 20 million using traditional marketing platforms to approximately 500 million per annum over the next five years assuming all distribution channels become integrated into DNBA. CYBG Group estimates that the marginal costs of messages using the DNBA platform will be approximately £0.01 per message (based on estimated total cost of ownership of the DNBA system over five years and estimated message volumes), compared to £0.50 for a traditional direct marketing pack, which should enable CYBG Group to achieve deeper customer relationships at lower marginal costs. As at 30 September 2015, DNBA had delivered more than 40 million targeted messages, of which approximately six thousand of customers receiving messages visited a product related page per week.

Section Three: Overview of CYBG Group

3.3.3 Reduce costs through a broad-based simplification and productivity agenda as well as rigorously targeted investment spend

CYBG Group intends to make ongoing targeted improvements in its operating model to realise efficiencies, streamline its operations and simplify key service and fulfilment processes. These improvements are designed to enhance customers' experiences, reduce costs and support CYBG Group's ability to achieve significant operating leverage in tandem with the growth of the business, CYBG Group's targeted investment in its growth plan and system resilience will bring closer alignment of CYBG Group's investment spend to the overall strategic agenda.

CYBG Group's rigorous approach to cost control will target specific areas in the near term for reduction, including platform costs, headcount reductions and restructuring across the business. This focus, together with a revised governance and control framework for costs which includes the creation of a senior employee role focused solely on cost management in order to identify opportunities for cost reduction across the business, is expected, in combination with targeted investment spend and growth in the bank's customer franchise, to contribute to a decrease in the cost to income ratio from 75% in the year ended 30 September 2015 to below 60% within the period up to financial year 2020.

CYBG Group is currently undertaking a number of simplification initiatives that are intended to result in sustained improvement in CYBG Group's cost position, including:

- Migrating towards a more integrated and digitised distribution model with an efficient and aligned approach to servicing both retail and SME banking customers. CYBG Group plans to develop this model over time by restructuring its distribution network and optimising its footprint to align with customer needs based on feedback from various pilot programmes. Operating model and efficiency initiatives are underway, including the continued optimisation of the branch network;
- Continuing to review and assess non-customer facing activities as a proportion of the total cost base, with further cost reductions under consideration; and
- Automating certain credit decisions, business capabilities and end-to-end processes to improve customer experience and efficiencies, including:
  - for mortgages: introduction of new processes and systems to improve communications as well as the customer experience, such as "approval in principle", reducing interview time from 90 minutes to 60 minutes and reducing the average time from application to approval by 50%;
  - for PCAs: online account opening capabilities (which improves from a prior service time of 40 to 60 minutes in branch, with accounts opened the next day, or 20 to 40 minutes to open an account by telephone, with accounts opened 7 to 10 days later, to approximately 15 minutes to open an account online that is usable immediately);
  - for BCAs: account opening capabilities (which improved from accounts opening 14 days later to accounts opening 4 days later); and
  - reduce system touch points by 60% and internal effort per loan by 25%.

3.3.4 Reporting

As a listed entity, CYBG PLC will be required to provide regular market updates in relation to performance, including half yearly and yearly reporting and of any material changes or developments. These reports will include performance updates in accordance with legal requirements and market expectations.

3.4 Employees and Operational Functions

3.4.1 Employees

In the year ended 30 September 2015, CYBG Group had an average of 7,247 on and off payroll FTEs, including an average of 431 contractors and casual contracts primarily to supplement the permanent employee base within the operations and IT functions. As at 30 September 2015, 47% of CYBG Group business and private banking staff and approximately 50% of retail staff had more than ten years of banking experience with CYBG Group.

CYBG Group has implemented a number of changes to its organisational structure in order to streamline reporting lines and create specific teams to focus on key priority areas such as customer experience and conduct matters. The majority of these teams were transferred from retail banking areas. These changes include:

- Consolidation of a number of customer focused areas to create the Customer Experience and Marketing team in 2014 which focuses on customer service improvements. In 2014, 285 FTEs were transferred from retail banking to this team; and
- Creation of the Customer Trust and Confidence team in 2014 to provide greater focus on conduct issues, involving the transfer of 79 FTEs from retail banking and the recruitment of an additional 88 FTEs.

According to a 2015 CYBG Group employee engagement survey, 93% of employees replied favourably that they understood how to contribute to meeting the needs of customers, a 1% increase from 2014.

Further information on CYBG Group's employees is detailed in Section 7.1 of Part 2 of Annexure G.

3.4.2 Operational functions

CYBG Group's operations units are based in Glasgow and Leeds with certain mortgage processing outsourced to Genpact Ltd ("**Genpact**"). CYBG Group's operations function has two main areas: (i) payments and cash services, comprising payments operations, industry and scheme liaison, note issuance and cash operations; and (ii) retail and lending services, which provides back office processing and administration for all product groups. Both service centres are low cost and can be flexed on demand to accommodate changing business and customer needs.

CYBG Group relies on third party supplier relationships to provide certain services and maintain efficiency. CYBG Group has proven operating model flexibility in response to demand changes, with demonstrated performance against service level agreements (exceeding or fully meeting availability commitments both internally and externally for eight consecutive years, with average customer facing service availability of 99.91% from 31 March 2015 to 30 September 2015) and quality targets through peaks and troughs, successfully managing variations in systems and capacity, origination fulfilment and ISA processing.

Further information on CYBG Group's operational functions is detailed in Section 7.2 of Part 2 of Annexure G.

3.4.3 Information Technology

The IT business unit is based in Glasgow. IT is focused across two areas, providing day-to-day operational services and managing the overall IT systems landscape for CYBG Group, which is done through a combination of in-house developed applications, packages and externally hosted services. The IT business unit also contains the bank procurement team and is responsible for supplier management. CYBG Group's current operating platform reflects the successful integration of the Clydesdale Bank and Yorkshire Bank systems following the merger, reducing cost and complexity of regulatory and mandatory change. Both retail and business front end applications are supported by a shared mainframe.

This team is based in Glasgow and is augmented by the use of various third-party providers, including IBM for certain technology services, BT for telecom services, Accenture and Syntel for outsourced application development and support services across a number of technology areas.

CYBG Group's existing structure is scalable to meet future demand, with recent investments in a new IBM mainframe, additional enterprise service bus ("**ESB**") capacity, a major upgrade to the core banking lending platform and a replacement payments platform. This scalable payments platform provides a wide ranging suite of payments functionality. CYBG Group has also deployed new functionality in the mobile and digital arenas.

3.5 Liquidity and Funding

CYBG Group has a diversified funding mix, a strong base of predominantly lower-cost retail customer deposits, proven access to wholesale secured funding and limited reliance on short-term wholesale funding, which the CYBG Directors believe provide a stable source of funding for the growth of its business. CYBG Group has improved its funding position and reduced its funding costs in recent years by growing its lower-cost current account funding, which increased from £10.7 billion as at 30 September 2012 to £13.0 billion as at 30 September 2015, increasing its medium-and long-term wholesale funding and reducing the volume of its more expensive fixed-rate term deposits. As at 30 September 2015, customer deposits of £26,349 million accounted for 83.6% of CYBG Group's funding base (defined as customer deposits, bonds and notes, amounts due to related entities and amounts due to other banks, which totalled £31,506 million at 30 September 2015).

3.5.1 Liquidity

CYBG Group undertakes a conservative approach to liquidity management by imposing internal limits, including limits based on stress and scenario testing, in addition to regulatory requirements. CYBG Group manages liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of CYBG Group and to enable CYBG Group to meet its financial obligations.

As at 30 September 2015, CYBG Group's LCR ratio was 136% and its NSFR ratio was 120%.

CYBG Group maintains a liquid asset portfolio that includes primarily cash in deposits with central banks and UK Government gilts. CYBG Group manages this portfolio to meet PRA liquidity requirements while diversifying the mix to reduce basis risk and optimise the yield on liquid assets.

3.5.2 Funding

CYBG Group has a diversified funding base, with the majority of CYBG Group's funding for its loan portfolio generated through customer deposits in the form of current accounts and savings accounts. In recent years, CYBG Group has experienced strong growth in current accounts balances, while more expensive term deposits have significantly decreased.

CYBG Group aims to manage its balance sheet so that customer asset growth is matched with sustainable retail deposit growth, which CYBG Group monitors through the loan-to-deposit ratio. CYBG Group's loan-to-deposit ratio was 115% as at 30 September 2014 and 109% as at 30 September 2015.

CYBG Group also actively seeks to diversify its funding mix through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding in terms of the type of instrument and product, maturity, currency, counterparty, term structure and markets through such programmes. CYBG Group issued £1.1 billion of external covered bonds in June 2012. In terms of external RMBS, CYBG Group issued €615 million in March 2012, US$800 million and £525 million in July 2012, £350 million and US$300 million in July 2013, £350 million and €300 million in March 2014, €550 million and £275 million in December 2014 and £300 million and €280 million in

Section Three: Overview of CYBG Group

August 2015 through the Lanark securitisation programme. The tenor of the bonds to their call date ranges from 3 to 14 years, which helps to provide a stable funding base for CYBG Group.

Since 2012, CYBG Group has significantly reduced the extent of senior funding from NAB and obtained an increasing proportion of its funding from retail deposits and secured wholesale term funding (in the form of RMBS and covered bonds). In 2012, CYBG Group repaid intragroup funding to NAB in the amount of £5,084 million with proceeds from the disposal of the legacy CRE portfolio to NAB.

As at 30 September 2015, deposit amounts due to related parties amounted to £125 million. This included a £100 million loan that was repaid in October 2015, three months earlier than the maturity date. In July 2015, CYBG Group repaid £312 million of senior funding from NAB at contractual maturity. Following the demerger of CYBG Group from NAB and the Institutional Offer, CYBG Group expects amounts due to NAB to further decrease as NAB funding is replaced at maturity through like for like issuance. See Section 4.10 for further detail in relation to arrangements between CYBG Group and NAB.

3.5.3 Pensions

CYBG Group operates both defined benefit and defined contribution arrangements. CYBG Group is the sponsoring employer in one funded defined benefit scheme, the Yorkshire and Clydesdale Bank Pension Scheme ("**DB Scheme**"). The DB Scheme provides defined benefits based on years of service and career averaged revalued earnings for benefits accruing after 1 April 2006. The DB Scheme was closed to new members in 2004.

The assets of the DB Scheme are held in a trustee administered fund and the trustee is responsible for the operation and governance of the DB Scheme, including making decisions regarding the DB Scheme's funding and investment strategy.

Risk arises from the DB Scheme because from time to time there may be insufficient assets to cover the defined benefit liabilities of the DB Scheme (i.e. there is a deficit in the scheme) and Clydesdale Bank and any other employers from time to time in the CYBG Group are obliged by legislation and the governing documents of the scheme to fund the liabilities.

As at 30 September 2015, the fair value of CYBG Group's defined benefit pension scheme assets was £3,565 million and the balance for accounting purposes of CYBG Group's defined benefit pension obligations was £3,513 million. The volume of defined benefit pension assets and liabilities held, in conjunction with the series of complex and interdependent actuarial assumptions used to assess the pension scheme, can be highly volatile, which can have an adverse impact on CYBG Group's other comprehensive income or loss and regulatory capital requirement.

The most recent valuation of the DB Scheme as at 30 September 2013 indicated an actuarial funding deficit of £450 million and the deficit will be reassessed at the next valuation. CYBG Group agreed to make the following contributions to eliminate the deficit; £65 million on 1 October 2013; £150 million by 30 June 2014; £50 million on 1 October 2017; thereafter £50 million annually until 1 October 2021; and £55 million on 1 October 2022. Deficit reduction payments of £215 million have been made since the valuation date of 30 September 2013, and the next payment of £50 million is scheduled on 1 October 2017. The next regular valuation of the DB Scheme would take place with an effective date of 30 September 2016 but it is open to the trustees of the DB Scheme to call for valuations at an earlier date. The assumptions used for the statutory valuation would generally need to be agreed between CYBG Group and the trustees of the DB Scheme although the Pensions Regulator has the power to set these in certain circumstances.

These contributions have been reflected in CYBG Group's capital plan. In addition, risks associated with DB Scheme obligation risk are reflected in CYBG Group's pillar 2A capital requirements.

CYBG Group has held discussions with the DB Trustee about potential security arrangements in respect of these contributions. The discussions are at an early stage and any arrangements would only be put in place if they could be designed to fit with the regulatory, capital and business requirements of CYBG Group.

3.6 Capital Adequacy

CYBG Group's CET1 Ratio was 9.6% at 30 September 2013, 9.4% at 30 September 2014 and 13.2% at 30 September 2015.

In December 2014, CYBG Group redeemed £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties, which would have been ineligible under CRD IV as at 1 January 2015, and replaced it with an issue of £350 million of ordinary shares to NAB and AT1 Notes of £150 million to NAB. For additional information relating to the AT1 Notes and the Tier 2 Notes issued by the CYBG Group, refer to Section 4.10.2.3.

In June and September 2015, NAB made capital injections of a total of £670 million into CYBG Group, of which £465 million was in respect of provisions raised by CYBG Group for Relevant Conduct Matters under the Capped Indemnity.

Table 8 sets out the capital position and capital ratios of CYBG Group on a CRD IV basis and includes grandfathered legacy Tier 2 instruments under the transitional rules implemented by the PRA. For additional information, refer to Part 5 of Annexure G.

Table 8: CYBG Group Regulatory Capital

	As at 30 September	
	2015	**2014**
	CRD IV	**CRD IV**
	£m, except %	
Common Equity Tier 1 Capital	2,405	1,747
Additional Tier 1 Capital	450	300
Total Tier 1 Capital	**2,855**	**2,047**
Tier 2 Capital	598	1,260
Total Capital	**3,453**	**3,307**
Capital ratios:		
CET 1 Ratio	13.2%	9.4%
Tier 1 Ratio	15.7%	11.0%
Total Capital Ratio	18.9%	17.7%

CYBG Group has implemented the Basel II requirements for the measurement of credit risks using the standardised approach, as a result of which the CYBG Directors believe CYBG Group has higher RWAs than it would have if it were to calculate RWAs using the foundation IRB or advanced IRB approach. CYBG Group's capital position under CRD IV, as at 30 September 2015, was in excess of its minimum regulatory requirements, and the CYBG Directors believe the capital ratios of CYBG Group are conservative taking into account its use of the Basel II standardised approach to credit risk-weighted asset calculation. The CYBG Directors believe that there are significant potential advantages associated with migrating to the IRB model, which they are currently exploring. Any use of the IRB approach to calculating capital requirements would require extensive work to develop IRB models and would be subject to approval by the PRA.

The CYBG Directors believe that the capital position of CYBG Group is sufficient to meet known regulatory expectations over the medium term. The CYBG Directors are targeting to maintain CYBG Group's CET1 Ratio in the range of 12.0% to 13.0%.

CYBG Group's pillar 2A capital requirement includes buffers for general banking risks and other risks including pension scheme obligation risk. CYBG Group continues to be fully compliant with the PRA's regulatory capital requirements.

3.7 Corporate Structure

CYBG PLC will (after giving effect to the Demerger and the Institutional Offer) be the ultimate parent company of Clydesdale Bank and will indirectly own 100% of the ordinary shares of Clydesdale Bank. A list of what will, following implementation of the Demerger, be CYBG PLC's significant subsidiaries, are set out in Part 8 of Annexure G.

CYBG PLC is a public limited company, incorporated in England and Wales, whose principal activity, will, following Demerger, be to act as the holding company for CYBI and Clydesdale Bank. As such, following the Demerger, holders of CYBG Securities will have the rights and privileges attaching to the relevant securities set out in the *Companies Act (UK)* and the Articles, and CYBG PLC is or will be (assuming that UK Admission becomes effective) subject to the requirements of the *Companies Act (UK)*, UK Listing Rules, Disclosure and Transparency Rules and the UK Takeover Code. See Section 9.8 for further details.

Clydesdale Bank has no material operations outside the UK. Neither CYBG PLC nor CYBI hold a UK banking licence and only CYBI undertakes limited economic activity beyond its principal activity, with all operations undertaken through UK registered entities. The only non UK registered entities of CYBG Group are two trustee companies that are part of CYBG Group's securitisation vehicles. Clydesdale Bank is an "authorised person" under FSMA and is regulated by the PRA and FCA. For more information on Clydesdale Bank's regulatory status, refer to Part 7 of Annexure G.

3.8 CYBG Capital Reduction

Following implementation of the Demerger, it is proposed that the share capital of CYBG PLC will be reduced to create distributable reserves in CYBG PLC by reducing the "nominal" or "par" value of each CYBG Share and the aggregate amount of such reduction being created to distributable reserves. The nominal value of a share does not reflect its market value and the nominal value of a CYBG Share is not intended or expected to be reflective of its trading price or the market capitalisation of CYBG PLC.

It is expected that the CYBG Capital Reduction will create distributable reserves on the balance sheet of CYBG PLC of approximately £1,011 million. The distributable reserves created, being in aggregate the amount by which the "nominal" or "par" value of the CYBG Shares is reduced pursuant to the CYBG Capital Reduction, will provide CYBG PLC with flexibility to pay dividends in the future if appropriate or absorb any impairments in the value of its assets should this occur. The CYBG Capital Reduction is not expected to have any impact on the market value of the CYBG Shares or the CYBG CDIs.

The anticipated nominal value of a CYBG Share immediately prior to the CYBG Capital Reduction is expected to be £1.25 ("**Anticipated Nominal Value**"). This value is based on 879,275,256 CYBG Shares to be issued by CYBG PLC pursuant to the Demerger (such that CYBG PLC will have 879,315,256 shares on issue post the issue of CYBG Shares in respect of the Demerger).

Under the *Companies Act (UK)*, shares in an English company may not be allotted at a discount to their nominal value and therefore the aggregate nominal value of the CYBG Shares to be allotted and issued pursuant to the Demerger will need to be equal to or less than the market value of CYBI at the Demerger Date. The discount reflected in the determination of the Anticipated Nominal Value is intended to provide some margin in the event of changes in stock market conditions and/or in the actual or anticipated market value of CYBI prior to the Demerger Date.

To the extent that the CYBG Directors consider that the market value of CYBI at the Demerger Date will be, or is likely to be, less than the aggregate Anticipated Nominal Value of the CYBG Shares on issue following implementation of the Demerger, then the Anticipated Nominal Value will be adjusted to ensure that the aggregate Anticipated Nominal Value is not greater than the actual or anticipated market value of CYBI. This will ensure that the CYBG Shares are not allotted at a discount to their nominal value pursuant to the Demerger. As the amount of the distributable reserves to be created by the CYBG Capital Reduction is determined by the difference between the aggregate nominal value of the CYBG Shares (prior to the CYBG Capital Reduction) and the aggregate nominal value of the CYBG Shares (following the CYBG Capital Reduction), if the Anticipated Nominal Value is required to be reduced, the amount of the distributable reserves which would be created by the CYBG Capital Reduction would be reduced accordingly.

In the event that it is necessary to adjust the Anticipated Nominal Value in this way, on or prior to 2:00pm on 25 January 2016 (being the time by which Scheme Meeting Proxy Forms must be provided), the CYBG Directors would determine the new nominal value for the CYBG Shares and NAB, as current sole shareholder of CYBG PLC, would pass a resolution adjusting the nominal value of the CYBG Shares (prior to the CYBG Capital Reduction) accordingly. If the Anticipated Nominal Value is adjusted, the final nominal value of CYBG Shares (prior to the CYBG Capital Reduction) will be announced by NAB to ASX and will be available at **www.asx.com.au**.

The implementation of the CYBG Capital Reduction is conditional upon:

- confirmatory approval of the CYBG Capital Reduction by NAB Shareholders by the passing of the CYBG Capital Reduction Resolution at the General Meeting;
- implementation of the Demerger;
- confirmation of the CYBG Capital Reduction by the UK Court at the UK Court Hearing; and
- the registration by the Registrar of Companies of an office copy of the CYBG Court Order confirming the CYBG Capital Reduction and of the CYBG Statement of Capital.

The Demerger is not conditional on the CYBG Capital Reduction Resolution being passed.

NAB has (as the current sole shareholder of CYBG PLC) passed a special resolution approving the CYBG Capital Reduction. As NAB Shareholders will become CYBG Securityholders if the Demerger is implemented, confirmatory approval of the NAB Shareholders in relation to the CYBG Capital Reduction will be sought at the General Meeting.

The UK Court Hearing to confirm the CYBG Capital Reduction is expected to occur on 10 February 2016 at The Royal Courts of Justice, The Strand, London WC2A 2LL, United Kingdom. Any creditors of CYBG PLC are entitled to attend the UK Court Hearing in person or through Counsel to support or oppose the sanctioning of the CYBG Capital Reduction.

The CYBG Capital Reduction will become effective as soon as an office copy of the CYBG Court Order (including a copy of the related CYBG Statement of Capital) has been duly delivered for registration to, and registered by, the Registrar of Companies. This is expected to occur on 11 February 2016.

3.9 Conduct

3.9.1 PPI Redress

During the period under review, conduct-related issues have had a significant impact on the profitability of a number of participants in the UK retail banking market. PPI redress, in particular, is one of the most significant factors affecting profitability for UK retail banks, including CYBG Group, in recent years. Prior to 2012, CYBG Group raised provisions of £136 million to address PPI-related misconduct. CYBG Group has raised PPI customer redress provisions of £120 million, £130 million, £420 million and £390 million during the years ended 30 September 2012, 2013, 2014 and 2015, respectively. These provisions were recorded in other operating and administrative expenses and have been excluded from CYBG Group's results of operations on the Management Basis.

Following an initial review of sample PPI complaint files by the FSA (now the FCA), in 2013, CYBG Group became subject to an FCA s166 "skilled persons" review into PPI complaint handling policies and procedures and an FCA enforcement process. As a result, CYBG Group has made significant changes to its PPI complaint handling processes, implementing a revised PPI complaint handling policy in August 2014. Prior to the introduction of the revised PPI complaints handling policy, CYBG Group had processed and closed approximately 180,000 PPI complaints (as at the end of July 2014). CYBG Group will re-open these complaints and subject them to review under the revised PPI complaint handling policy and a plan for the remediation programme has been prepared. The process is expected to begin in early 2016 and is expected to run for a period of approximately two to three years.

On 14 April 2015, the FCA issued a fine of £21 million against Clydesdale Bank for failings related to its PPI complaint handling processes between May 2011 and July 2013. This amount is recorded within other operating expenses for the year ended 30 September 2015 and has been excluded from CYBG Group's results of operations on the Management Basis.

CYBG PLC has also commenced a Past Business Review of PPI sales. In August 2015, CYBG Group concluded its review and determined that a further PPI provision should be raised incorporating an estimate of the cost of contacting and redressing customers who have faced actual detriment or may have experienced potential detriment. While the provision for this matter has not yet been utilised, proactive customer mailings are expected to commence in early 2016 and run for a period of approximately two years, and so key inputs to the calculation such as the level of customer response to mailings are not known but based on historical experience of CYBG Group and industry data. As such, this and other factors discussed above mean there is a risk that existing provisions for PPI customer redress may not cover all potential losses and further provisions will need to be made which, notwithstanding the terms of the Capped Indemnity (described below), could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

CYBG Group has reassessed the level of provision that is considered appropriate to meet current and future expectations in relation to mis-selling of PPI policies and has concluded that a further provision of £390 million should be recognised for the year ended 30 September 2015; in addition to the provision of £420 million raised in 2014, resulting in total unutilised provisions of £774 million at 30 September 2015. This includes recognition of a provision for a proactive customer contact and redress programme following the Past Business Review, increased costs of administering the remediation programme and higher than expected customer initiated complaint volumes.

3.9.2 Interest Rate Hedging Products and Other Conduct

Although PPI redress is the most significant conduct-related risk for CYBG Group, CYBG Group has raised provisions for other conduct-related matters during the period under review. The most significant item covered by the provision for other conduct was the provision for the review of IRHP/FRTBL matters, which had an unutilised amount of £192 million as at 30 September 2015 with the provision including the amount set aside for the Standalone IRHP review, Voluntary Scope TBLs and the complaint-led review of FRTBLs. As at 30 September 2015, CYBG Group had raised cumulative provisions of £506 million in respect of IRHP/FRTBL matters. The income statement effect of the provision for IRHP/FRTBL matters for the years ended 30 September 2012, 2013 and 2014 was nil, due to the recognition of an off-setting receivable from NAB. In August 2015, CYBG Group recognised a charge of £75 million for IRHP and FRTBL matters. The total provision for customer redress and other conduct-related matters, including IRHP, was £212 million as at 30 September 2015. The reduction in the unutilised amount was mainly due to the utilisation of £245 million during the year ended 30 September 2015 to cover programme costs and customer acceptance of redress offered for the complaint led review of FRTBLs and the move towards completion of the Standalone IRHP and Voluntary Scope TBL reviews.

On 29 June 2012, the FSA announced that it had reached agreement with eight other UK banks in relation to a review and redress exercise on sales of Standalone IRHP to small and medium businesses. CYBG Group agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and embarked on a programme to identify small and medium sized customers that may have been affected since 2001. The exercise also encompasses a voluntary review of certain of CYBG Group's Voluntary Scope TBLs as well as the regulated review of Standalone IRHP identified in the FSA's notice. In order to be included within the FSA redress exercise, claims had to be submitted by 31 March 2015 and accordingly, the Standalone IRHP scheme has been closed to new entrants. All redress offers had been delivered to all customers affected by the Standalone IRHP review by 31 October 2015 (as well as those customers within the Voluntary Scope TBLs review). The scheme is fully provided for with an amount of unutilised provisions remaining of £55 million as at 30 September 2015 to cover future costs. Whilst the FCA's response to the Treasury Select Committee report is unknown and there can be no certainty that further action will not be required, the CYBG Directors expect that any outstanding offers of redress will settle by the first quarter of 2016 and the CYBG Directors believe that the risk of any formal reopening of this issue is low. Notwithstanding the closure of the scheme, customers will continue to have the ability to complain and decide to proceed with litigation or with an alternative method of seeking redress.

In addition, CYBG Group has agreed to undertake a complaints-led review of FRTBLs, which fall outside the scope of the FSA's review. This review encompasses new walk-in and previously closed complaints. CYBG Group has estimated that it sold approximately 10,000 FRTBLs, with more than half of such loans having an original maturity of 5 years or less. The CYBG Directors believe that loans having an original maturity of 5 years or less are generally less likely to have a basis for demonstrating detriment. The redress paid per upheld complaint varies significantly based on a number of factors including the nature of the specific product sold, loan size, maturity, interest rates over the life of the loan and break fees. The number of new complaints received declined in the second and third quarter of 2015, compared to the first quarter of 2015, and the CYBG Directors expect complaints to continue to decline and the issue to be substantially resolved by the first half of 2017. CYBG Group currently estimates that unutilised provisions of £137 million as at 30 September 2015 in respect of FRTBLs will cover approximately 18 months of redress and settlement of these matters is progressing though the provision remains sensitive to an increasing trend in the number of complaints received and accordingly remains under review.

Other conduct provisions also include provisions in respect of legal proceedings and claims arising in the ordinary course of CYBG Group's business. This covers a number of historic matters, including CYBG Group's contribution to the banking industry response to the scheme of arrangement for Affinion International, a provider of card and identity protection products.

CYBG Group has invested in recent years in reviewing its back book to identify any potential conduct issues. In addition, significant cultural and process changes, including the Customer Fairness Model, the Conduct Framework and the Product Governance Framework, have been implemented across the enterprises which are intended to ensure that CYBG Group's business model and supporting practices ensure the fair treatment of customers.

3.9.3 Provisions

The table below sets out CYBG Group's total provisions raised, total provisions utilised and unutilised provisions remaining as at 30 September 2015.

As at 30 September 2015	Total Provisions Raised	Total Provisions Utilised	Unutilised Provisions Remaining
		£m	
PPI			
Redress:			
Walk-ins/Past Business Review	578	277	301
Remediation(1)	270	-	270
Costs to do(2)	348	145	203
Total PPI	**1,196**	**422**	**774**
IRHP/FRTBLs			
IRHP	268	213	55
FRTBLs	238	101	137
Total IRHP/FRTBLs(3)	**506**	**314**	**192**
Other(4)	48	28	20
Total	**1,750**	**764**	**986**

(1) Represents total provisions raised to cover previously closed complaints that are being reassessed.

(2) Represents total expected administrative costs for remediating PPI customer complaints.

(3) Includes costs to do.

(4) Excludes provisions previously raised and resolved. Includes industry wide scheme issues including Affinion and other specific conduct issues of CYBG Group.

CYBG Group has undertaken substantial investment to reduce conduct risk in the front book, comprising products sold in the last twelve months, and has adopted robust governance policies and procedures to address legacy conduct issues and to mitigate future conduct risks.

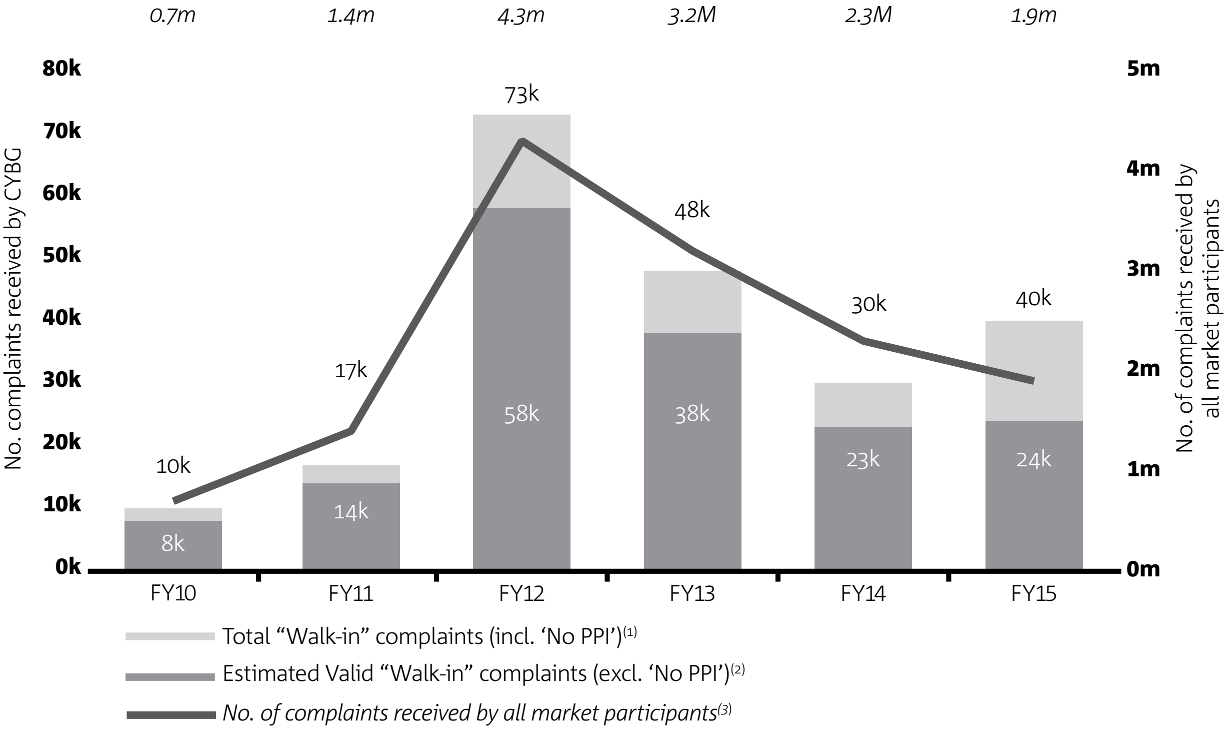
CYBG Group has raised substantial provisions to cover PPI matters, including the Past Business Review and the remediation programme. CYBG Group has also raised provisions to cover IRHP and FRTBL related matters. In addition to total unutilised provisions of £986 million, CYBG Group expects the £1.115 billion available under the Capped Indemnity to cover a severe stress test of CYBG Group's existing provisioning models and a range of stresses (beyond those considered necessary to be applied by CYBG Group for provisioning purposes) to the key assumptions used in establishing provision levels, including the number of complaints, uphold rates and average redress payable for PPI claims, as well as response rates to proactive engagement pursuant to the Past Business Review.

3.9.3.1 Walk-ins/Past Business Review

The provision for walk-ins and the Past Business Review covers the estimated cost of the Past Business Review and additional walk-in complaints for PPI related matters assuming there is a decline in the number of walk-in complaints over time. The provision covers an estimate of 175,000 further PPI complaints, this estimate includes the redress costs for the proactive engagement exercise under the Past Business Review and includes both valid and 'no PPI' walk-in complaints (but it does not cover cost to do for those complaints as they are provisioned separately).

Section Three:
Overview of CYBG Group

The graph below sets out the number of CYBG Group's PPI walk-in complaints and the number of complaints received by all market participants between 2010 and 2015.



(1) Chart excludes pre-2010 complaints.

(2) The status of a valid walk-in complaint is based on the initial assessment that takes place at the time the complaint is received, which is subject to change until the complaint is closed.

(3) Data for CYBG Group is provided for the years ended 30 September. Industry data is provided for the years ended 31 December. For the year ended 31 December 2015, industry data is a pro rata figure based on the six months ended 31 December 2014.

CYBG Group reports walk-in data for PPI based on the number of complaints received, as opposed to the number of policies associated with a single complaint. Each walk-in complaint typically involves more than one policy and therefore, its reported average redress amounts are higher than many other market participants that report on a redress per policy basis. The average redress payment per PPI walk-in complaint varies by product and by the number of policies requiring redress per walk-in.

Since 2012, the number of CYBG Group's PPI walk-in complaints has declined, although increased activity by claims management companies has driven an increase in total PPI complaints for the year ended 30 September 2015. In the year ended 30 September 2015, the number of CYBG Group's PPI walk-in complaints averages approximately 3,300 per month. The average redress per upheld complaint (excluding costs to do) since August 2014, the date of implementing a revised PPI complaint handling policy, has been approximately £4,000.

In order to provision for the number of additional walk-ins, CYBG Group uses model scenarios to account for its recent experience and comparisons to projections provided by other UK banks by looking at the proportion of future expected complaints to total life cycle expectations. For provisioning purposes, CYBG Group has positioned its future volume/total life cycle assumption higher than other UK banks, recognising that these banks have largely completed their past business review programmes whereas CYBG Group will not begin its Past Business Review until early 2016. The provision model assumes complaints will gradually decline in the future through to June 2017.

The number of walk-in complaints processed under the revised PPI complaint handling policy and the review of historical complaints has provided empirical information over time to help make assessments of PPI redress provisions. Whilst the FCA consultation on time barring PPI claims raises the possibility of a limit being imposed on the bringing of future claims, any such time barring could lead to an increase in the level of potential claims ahead of any such cut-off date. The FCA's response to the *Plevin* case on the handling of PPI complaints and remediation is also unknown and the impact of the *Plevin* case may have a material impact on CYBG Group's estimates and assumptions relating to future conduct risk. Accordingly, the position remains uncertain and CYBG Group's provision levels remain under review in response to changing circumstances. Due to the level of uncertainty in relation to the FCA consultation on time barring and the *Plevin* case, these items are contingent liabilities in the Historical Financial Information.

Provisions for the Past Business Review are based on a number of assumptions and information including that drawn from other UK banks' actual experience as reported in their accounts and the FCA. A key assumption in calculating provisions is the response rate to mailing. Other key assumptions include the number of complaints, the uphold rate and the average redress for walk-ins which is used to estimate the average redress for customers that would be remediated through the Past Business Review.

CYBG Group conducted the Past Business Review with an approach that was similar to that of the five large UK banks. CYBG Group expects to contact approximately 114,000 customers, the total number of customers in scope for the Past Business Review. The 114,000 customers expected to be contacted excludes approximately 61,000 customers that are excluded on the basis of having already made walk-in complaints and also accounts for some overlap with future walk-in levels (an overlap that will continue to increase as customers within the scope of proactive engagement pursuant to the Past Business Review make walk-in complaints before they are contacted by CYBG Group). CYBG Group has assumed an estimated response rate of 40% compared to the industry wide response rate of 35% as set out in the FCA's Thematic Review 14/14 "Redress for payment protection insurance (PPI) mis-sales" ("**TR 14/14**"). For each 1% change in the estimated Past Business Review response rate, CYBG Group estimates that provisions would change by approximately £5 million.

CYBG Group has conducted sampling exercises of limited sets of historical data, which indicated that customers purchased between two and three PPI policies on average. In many cases, CYBG Group sold multiple PPI policies to the same customer over time.

Based on historical data, CYBG Group estimates that it earned approximately £1 billion in gross written premiums (net of refunds) between the mid-1970s and 2011 (approximately 80% of which was single premium personal loan PPI with the remainder comprising regular premium personal loan PPI, credit card PPI, mortgage PPI and a small amount of asset finance PPI), as compared to total gross written premiums generated in the UK retail banking sector from PPI sales of approximately £44 billion between 1990 and 2010 based on the FCA's TR 14/14. Historical datasets for PPI, in a number of cases, contain elements of missing data and are generally more difficult or impossible to analyse with the accuracy which can be applied to more recently stored data and records. Consequently, estimates of gross written premium and average number of policies per customer are subject to more uncertainty and subject to more assumptions than more recent financial and operational data.

3.9.3.2 Remediation for PPI

Prior to the introduction of the revised PPI complaints handling policy, CYBG Group had processed and closed approximately 180,000 PPI walk-in complaints as at the end of July 2014 out of 226,000 total walk-in complaints received to 30 September 2015. CYBG Group is reassessing approximately 180,000 previously closed walk-in complaints for potential remediation. In 2015, CYBG Group raised a provision of £270 million, which was unutilised as at 30 September 2015, to remediate these prior walk-in complaints.

CYBG estimates that in approximately 60% of cases reviewed, it will either provide redress in cases where redress was previously not offered or provide additional redress to that provided when the relevant complaint was previously closed. For each 1% change in the estimated remediation rate of 60%, CYBG Group estimates that provisions would change by approximately £8 million. This sensitivity assumes that the cases to be remediated are cases where redress was previously not offered and customers are therefore redressed in full.

3.9.3.3 Costs to do for PPI

Costs to do for PPI related matters reflect total costs of dealing with customer complaints including the necessary work to review CYBG Group's extensive records and files dating back over more than 30 years and across a number of different products in order to establish whether a complainant had or held a policy and/or multiple policies. These costs also include costs related to investigating complaints raised by or on behalf of complainants who turn out not to have been sold a PPI policy.

The provision for costs to do is based on CYBG Group's past experience and future expectations and is reviewed regularly and revised as necessary. These costs cover PPI related matters and vary across each of the Past Business Review, remediation and walk-in redress exercises.

The costs for remediation have been calculated in conjunction with a third-party outsourcing provider experienced in this area. The unutilised provisions remaining of £203 million, as at 30 September 2015, for costs to do represent CYBG Group's best estimate for future cost of handling and processing complaints in respect of walk-ins, remediation and the Past Business Review.

As at 30 September 2015, CYBG Group had two sites, one in Glasgow and one in Reading, with approximately 1,450 FTEs, including outsourced providers, dealing with PPI complaint handling (of these 312 FTEs are CYBG Group employees, the cost of which are also included in the provision. CYBG Group is establishing a third site near London to further support remediation and the Past Business Review, the site management and staff training costs for which are already included within the cost to do provision. CYBG Group provides weekly operational updates to the Board and regulators on its PPI operations.

3.10 CYBG Directors

The management expertise and experience of each of the executive CYBG Directors ("**Executive CYBG Directors**") and the non-executive CYBG Directors ("**Non-Executive CYBG Directors**") is set out below:

James Pettigrew, Chairman, Non-Executive CYBG Director

James Pettigrew joined CYBG Group in September 2012 and is a member of the CYBG Board's Remuneration Committee. He has over 30 years of experience as a chartered accountant. James' previous roles include Group Finance Director of ICAP PLC, Chief Executive Officer of CMC Markets PLC, Chief Operating Officer of Ashmore Group PLC and Group Treasurer of Sedgwick Group Plc. James is President of the Institute of Chartered Accountants of Scotland. James is also Chairman and Non-Executive Director of The Edinburgh Investment Trust PLC, Senior Independent Non-Executive Director of Crest Nicholson Holdings PLC and Chairman of its Remuneration Committee, Deputy Chairman and Non-Executive Director of RBC Europe Limited (which is a Manager of the Institutional Offer) and Non-Executive Director of Aberdeen Asset Management PLC and Chairman of its Audit Committee.

David Duffy, CYBG Group Chief Executive Officer

David Duffy joined CYBG Group in June 2015 as CEO. David has held a number of senior roles in the international banking industry including, most recently, the position of Chief Executive Officer of Allied Irish Banks. David was also previously Chief Executive Officer of Standard Bank International covering Asia, Latin America, the UK and Europe. He was also previously Head of Global Wholesale Banking Network of ING Group and President and Chief Executive Officer of the ING franchises in the US and Latin America. Prior to that he worked with Goldman Sachs International in various senior positions including Head of Human Resources Europe.

Ian Smith, CYBG Group Chief Financial Officer

Ian Smith has over 20 years' experience in finance, audit and consultancy across the UK banking sector. He joined CYBG Group in November 2014 from Deloitte where he was a partner specialising in financial services for a combined total of 13 years. Ian has also held senior finance roles in HBOS PLC and Lloyds Banking Group plc between 2008 and 2010.

Debbie Crosbie, CYBG Group Chief Operating Officer

Debbie Crosbie has over 20 years of experience in banking and is a fellow of the Chartered Institute of Bankers. Since joining CYBG Group in 1997, Debbie has held a variety of positions in CYBG Group including Head of Technology Governance, Head of Strategic Projects and Head of CYBG Group's Development Centre. She was Chief Information Officer from 2008 to 2011 and, from 2011, Operations and IT Director. She was a Non-Executive Director of the Scottish Court Service and Chairman of its Audit Committee from 2009 to 2014.

David Bennett, Independent Non-Executive Director & Deputy Chairman

David Bennett joined CYBG Group in October 2015 and is the Deputy Chairman of CYBG and Clydesdale Bank. He is a member of the CYBG Board's Audit Committee, Risk Committee, Remuneration Committee and Governance and Nomination Committee. He has over 30 years' experience in banking, having held a range of executive and senior positions in Retail banking both in the UK and overseas, including the USA and Australasia. He was Group Finance Director of Alliance & Leicester for six years before becoming its Group Chief Executive in 2007. Following the acquisition of Alliance & Leicester by Santander, he was appointed to the Board of Abbey Plc as an Executive Director in 2008. He is a Non-Executive Director of Ashmore Group plc, Paypal (Europe), S.a.r.l et Cie, S.C.A., Jerrold Holdings Ltd and is Chair of Homeserve Membership Ltd. Until March 2015 he was a Non-Executive Director of Bank of Ireland UK, and he left easyJet plc after 9 years as a Non-Executive Director in September 2014.

Richard Gregory OBE, Senior Independent Non-Executive CYBG Director

Richard Gregory joined CYBG Group in March 2000 and is a member of the CYBG Board's Audit Committee, Governance and Nomination Committee and is the Chairman of the CYBG Board's Risk Committee. He is the senior independent non-executive director. Richard represents Yorkshire Bank within the business community and at customer events as Yorkshire Bank Chair. Richard has more than 20 years board experience across banking, television, digital media, the NHS, innovation and higher education. Chairmanships have included Chesterfield Royal Hospital NHS Foundation Trust, Science City York CLG, Imagesound PLC, Sheffield Hallam University, Yorkshire Innovation, Chairman of the Yorkshire Bank Pension Trust, Chairman of the Yorkshire Initiative International Business Convention Limited and Deputy Chairman of Yorkshire Forward. Directorships have included the Foundation Trust Network, Sheffield University Enterprises Ltd and Business in the Community. His 22 year executive career was in ITV, with Granada, Yorkshire Tyne-Tees, and Yorkshire TV in programming and broadcasting including membership of the ITV Broadcast Board. He retired as managing director broadcasting of YTV in 2002. He is also a non-executive director of Sheffield Children's Hospital NHS Foundation Trust.

David Allvey, Independent Non-Executive CYBG Director

David Allvey joined CYBG Group in May 2012 and is a member of the CYBG Board's Risk Committee and Chairman of the CYBG Audit Committee. He has over 35 years of experience as a chartered accountant. Previous roles included Group Finance Director of BAT Industries PLC, Chief Operating Officer for Zurich Financial Services Group and Group Finance Director of Barclays Bank Plc. David was a member of the UK Accounting Standards Board for 11 years and of the Insurance International Accounting Committee.

David was the Senior Independent Director for Intertek Group PLC, William Hill Plc and Resolution Plc and was a non-executive director of Thomas Cook PLC. David is the Non-Executive Chairman of Costain Group Plc and Non-Executive Director of Aviva Life Group Limited and other Aviva group companies. David has indicated his intention to retire from the CYBG Board. The exact date for his departure is yet to be agreed but is expected to be during the first half of 2016 following the appointment of a successor.

David Browne, Independent Non-Executive CYBG Director

David Browne joined CYBG Group in May 2012 and is a member of the CYBG Board's Audit, Risk and Remuneration Committees. He has over 30 years of experience in debt capital markets, treasury and investor relations. Between 1987 and 2001 David held the positions of Assistant Vice President, Vice President and Managing Director at JP Morgan and from 2001 to 2011 was Head of Group Funding & External Relations at Man Group PLC. He was a founding partner of Pinnacle Partners Limited, a treasury consulting firm. David is a trustee and director of the charity London Youth Rowing.

Adrian Grace, Independent Non-Executive CYBG Director

Adrian Grace joined CYBG Group in December 2014 and is Chairman of the CYBG Board's Remuneration Committee. He started his career with Leeds Permanent Building Society in 1979, before joining Mercantile Credit in 1984. In 2001, he joined Sage Group PLC as Managing Director of the Small Business Division. In 2004 Adrian joined Barclays Insurance as Chief Executive.

In 2007 Adrian joined HBOS as Managing Director of Commercial Banking within the Corporate Division. In 2009, Adrian joined Aegon UK as Group Business Development Director and on 4 April 2011 he became the Chief Executive Officer.

Adrian has been a member of the Global Management Board for AEGON N.V. since February 2012.

Barbara Ridpath, Independent Non-Executive CYBG Director

Barbara Ridpath joined CYBG Group in May 2012 and is a member of the CYBG Board's Risk Committee and Chairperson of the Governance and Nomination Committee. She has over 30 years of experience as an economist and financial analyst. Barbara joined the Federal Reserve Bank of New York as an economist in 1980 and Standard & Poors in 1983. From 1986 Barbara held various positions across the Standard & Poors European network including Executive Managing Director and Head of Ratings Services, Europe. Barbara was Senior Credit Officer at JP Morgan from 1993-1998. Barbara is also a member of the World Economic Forum's Global Advisory Council on the Global Financial System and head of department, St Paul's Institute at St Paul's Cathedral. Barbara has indicated her intention to retire from the CYBG Board shortly after completion of the Demerger and UK Admission. The exact date for her departure has not yet been agreed but is expected to be during the first half of 2016.

Teresa Robson-Capps, Independent Non-Executive CYBG Director

Teresa Robson-Capps joined CYBG Group in October 2014 and is a member of the CYBG Board's Audit Committee. She has over 30 years of experience as a chartered management accountant across a number of industries including telecommunications, financial services and banking. She has a Doctorate in Accounting and Management Control. For four years from 1991 Teresa held the positions of Finance Director, Chief Operating Officer and Acting Managing Director with BT Mobile. From 1995 onwards she held a variety of Executive positions at Sears plc, Eagle Star/Zurich Financial Services, Cable & Wireless, Reality and Accenture. She joined HSBC in 2006 and from 2010 was Deputy Head, Direct Bank & First Direct.

Alex Shapland, Independent Non-Executive CYBG Director

Alex Shapland joined CYBG Group in May 2012 and is a member of the CYBG Board's Risk Committee and Governance and Nomination Committee. He has over 34 years of experience in the financial services industry. From 1997 Alex was Director, Financial Services Regulatory Practice with PricewaterhouseCoopers. From 1999 he became Deputy Chief Executive and Chief Operating Officer of Dealwise Ltd and later Managing Director of Amber Credit Ltd (part of the Skipton Building Society Group). In 2001 Alex returned to PricewaterhouseCoopers and was made a Partner in 2006 in the Financial Services Regulatory Practice. Alex has indicated his intention to retire from the CYBG Board shortly after completion of the Demerger and UK Admission. The exact date for his departure has not yet been agreed but is expected to be during the first half of 2016.

Richard Sawers, Non-Executive CYBG Director

Richard Sawers joined CYBG Group in July 2012 as a director appointed by NAB and will remain on the CYBG Board as a proposed Non-Executive CYBG Shareholder Director if NAB retains an interest in CYBG Shares by way of Retained Stake Shares representing at least 20% of CYBG Shares on issue at UK Admission. He has over 43 years of experience in banking and financial market risk in Australia including 33 years with NAB and 10 years with the ANZ Banking Group. In previous roles Mr Sawers served on NAB's Group Executive Committee leading Products & Markets, led global Wholesale Banking activities, was Deputy Chief Executive Officer of NAB Capital and Group Treasurer for NAB. He is a member of the Australian Institute of Company Directors, a Fellow of the Financial Services Institute of Australia and a Director (and past Chairman) of the Australian Financial Markets Association.

Going forward, the CYBG Board and the Governance and Nomination Committee will seek to maintain a strong executive and non-executive leadership team with an appropriate balance of skills, experience and diversity and this may result in further changes over time.

3.11 Compensation and remuneration

3.11.1 Compensation

In the financial year ended 30 September 2015, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to the current CYBG Directors and current Senior Managers by members of CYBG Group was £11 million. Of this amount, remuneration to each of the CYBG Directors was paid as set out below.

2015 £'000	Salary and fees	Benefits & Allowances	Short term incentives(1)	Long term incentives(2)	Total Emoluments
Executive Directors					
David Duffy(3)	318	78	950	1,500	2,846
Debbie Crosbie	367	119	450	450	1,386
Ian Smith(4)	253	53	253	450	1,009
Non-Executive Directors					
David Allvey	92	-	-	-	92
David Bennett(5)	-	-	-	-	-
David Browne	80	-	-	-	80
Adrian Grace(6)	47	-	-	-	47
Richard Gregory OBE	140	-	-	-	140
James Pettigrew	300	-	-	-	300
Barbara Ridpath	70	-	-	-	70
Teresa Robson-Capps(7)	67	-	-	-	67
Alexander Shapland	70	-	-	-	70
Richard Sawers(8)	-	-	-	-	-
Total Directors	1,804	250	1,653	2,400	6,107

(1) The short-term incentives referred to above include both cash and deferred elements. The deferred elements will be awarded in CYBG Shares following Demerger. The figures also include David Duffy's commencement award of £500,000 which was awarded over NAB shares (see Part 8 of Annexure G).

(2) The long-term incentives will be granted under the DEP following Demerger (see "*Approach to remuneration*" below).

(3) David Duffy was appointed as an executive director of CYBI on 5 June 2015. The figures in the table above represent his emoluments from that date.

(4) Ian Smith was appointed as an executive director of CYBI on 11 March 2015. The figures in the table above represent his emoluments from that date and not from the date of his appointment as Chief Financial Officer.

(5) David Bennett was appointed as a non-executive Deputy Chairman of CYBI on 22 October 2015.

(6) Adrian Grace was appointed as a non-executive director of CYBI on 23 December 2014. The figures in the table above represent his emoluments from that date.

(7) Teresa Robson-Capps was appointed as a non-executive director of CYBI on 8 October 2014. The figures in the table above represent her emoluments from that date.

(8) Richard Sawers was remunerated as an employee of NAB.

The total amount within the aggregated total remuneration shown above that is set aside or accrued by CYBG Group to provide pension, retirement or other similar benefits to the current CYBG Directors and current Senior Managers is £0.2 million.

3.11.2 Remuneration

3.11.2.1 Approach to remuneration

CYBG Group's overall philosophy to remuneration is designed to support both its culture and its business strategy. It is based on the approach that remuneration should be linked to the performance and behaviour of an individual, business results, shareholder outcomes and fair customer outcomes.

CYBG Group's remuneration arrangements are fully compliant with all regulatory requirements, in particular the PRA Remuneration Code. Remuneration arrangements will operate in line with the PRA Remuneration Code as amended from time to time.

The remuneration approach is intended to:

- provide competitive, transparent and fair rewards, benefits and conditions;
- reward achievement of short and long-term individual objectives and business strategy;
- align the interests of employees and shareholders through employee share ownership;
- deliver outcomes over short and long-term horizons with appropriate performance and risk adjustments, ensuring performance assurance principles are applied;
- support the Risk Management Framework; and
- attract, recognise, motivate and retain high performers.

When awarding variable pay, CYBG Group operates a balanced scorecard approach for all employees, with individual objectives linked to business strategy. Employees are required to meet both the balanced scorecard objectives and a number of compliance hurdles to qualify for variable pay. A review of the variable pay structure is currently underway by CYBG Group with the aim of simplifying and harmonising the schemes currently in operation. The intention is for any changes to be in place during the 2015/16 financial year.

In light of CYBG Group's desire to encourage employee share ownership, it is intended that shortly after the Demerger, all employees who are employed by CYBG Group on the date of the Demerger will receive an award of CYBG Shares with a value of £500 under the SIP.

Shortly after the Demerger, the Executive CYBG Directors and certain other employees will be granted awards of CYBG Shares under the DEP. The terms of the DEP summarised in Part 8 of Annexure G, including the limits on issuing CYBG Shares, will apply to the awards. The awards will be made instead of 2015 awards being granted under the LTIP.

The awards are designed to support the retention and motivation of the leadership team after the Demerger. For the Executive CYBG Directors, the awards will be over CYBG Shares with a value at grant equal to 150% of base salary as at 30 September 2015 (being (£1,500,000) for the CEO of CYBG PLC and 100% of base salary as at 30 September 2015 for the other Executive CYBG Directors (being £450,000). The number of CYBG Shares subject to the awards will be calculated by dividing the monetary value of the award by the average of the middle market quotations of a CYBG Share during the three dealing days immediately before grant.

CYBG Shares will be awarded within the 2:1 cap on variable to fixed remuneration for the 2015 Financial Year and will be subject to malus and clawback in line with the PRA Remuneration Code and to forfeiture if the individual leaves the CYBG Group in certain circumstances. CYBG Shares will vest on the third anniversary of grant if CYBG PLC achieves its cumulative profit before tax plan as adjusted by its prudent valuation adjustment figure for the previous three financial years. If the performance target is not met, the awards will lapse in full. Further information on the performance target will be disclosed once it is no longer deemed commercially sensitive.

It is anticipated that the total initial value of the £500 awards to all employees and the awards to Executive Directors and certain other employees under the DEP will total £8.5 million.

At the Chairman of the CYBG Board's discretion, an additional fee of up to 50% of a Non-Executive CYBG Director's total 2015 Financial Year fees may be paid post the date of UK Admission to recognise a Non-Executive CYBG Director's additional duties and increased time commitment in connection with the Demerger and Institutional Offer.

The structure and quantum of CYBG Group's ongoing remuneration arrangements for the Executive CYBG Directors and material risk takers is in line with a 2:1 cap on variable to fixed remuneration as set out in the PRA Remuneration Code and which NAB as the current sole shareholder of CYBG PLC has already approved.

3.11.2.2 Executive CYBG Directors Remuneration Policy

Remuneration for Executive CYBG Directors is designed to be compliant with the PRA Remuneration Code and has been structured with due consideration of market practice. Executive CYBG Director remuneration is benchmarked against peer companies of equivalent size and complexity.

On UK Admission, Executive CYBG Directors' remuneration will comprise of a base salary, a short-term incentive award, a long-term incentive award and appropriate pension and benefit arrangements.

(a) Salary

An Executive CYBG Director's salary takes into account the individual's professional experience, individual performance, level of responsibility, the scope and nature of their role and with reference to the market. Base salaries will typically be reviewed annually. Further details on the salaries of Executive CYBG Directors are set out in Part 8 of Annexure G.

(b) Short-term incentive plan

The Executive CYBG Directors are eligible to receive an annual bonus. The annual bonus is designed to reward performance and is based on the achievement of pre-determined performance conditions relating to customer experience, financial soundness, risk culture and employee satisfaction.

The maximum award level will not exceed 100% of base salary.

A proportion of any bonus shall be made in the form of awards over CYBG Shares which vest over a maximum three-year period and are to the extent required by the PRA Remuneration Code, subject to a retention period of at least six months upon vesting. The deferred share award will be made under the DEP, a summary of which is set out in Part 8 of Annexure G.

(c) Long-term incentive plan

The Executive CYBG Directors are eligible to participate in the LTIP. The introduction of the LTIP provides a direct link to the achievement of sustainable performance over the longer term.

The maximum LTIP award for any Executive CYBG Director in any financial year is 100% of base salary.

Awards granted under the LTIP will vest after a performance period (intended to be three years initially), subject to the achievement of satisfactory levels of performance up until the point of vesting.

A summary of the LTIP and its intended operation is set out in Part 8 of Annexure G.

(d) Pensions and benefits

Each Executive CYBG Director has pension and other benefits.

(e) CYBG Share ownership guidelines

The CEO of CYBG PLC will be subject to a shareholding requirement of 200% of base salary and other Executive CYBG Directors to 150% base salary. Ordinary Shareholding requirements must be achieved within five years of UK Admission or commencing employment (if later). CYBG Shares received (after the payment of tax) under incentive arrangements would normally have to be held until these requirements have been met. CYBG Shares held on UK Admission can be used to count towards this threshold.

(f) Other CYBG share plans

The Executive CYBG Directors are also eligible to participate in the SIP and, if operated in the future, the SAYE Plan (see Part 8 of Annexure G for further details).

3.12 CYBG Board Committees

Consistent with the recommendations of the Code, the CYBG Board has established Governance and Nomination, Remuneration, Audit and Risk Committees, each with formally delegated duties and responsibilities with written terms of references. From time to time, separate committees may be set up by the CYBG Board to consider specific issues when the need arises.

3.12.1 CYBG Governance and Nomination Committee

The CYBG Board's Governance and Nomination Committee assists the CYBG Board in discharging its responsibilities relating to the composition and make up of the Board. The CYBG Board's Governance and Nomination Committee is responsible for evaluating the balance of skills, experience, independence and knowledge on the CYBG Board, the size, structure and composition of the CYBG Board, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the CYBG Board on such matters. The CYBG Board's Governance and Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the CYBG Board in the future.

The Code provides that a majority of the members of a company's Nomination Committee should be independent non-executive directors.

The CYBG Board's Governance and Nomination Committee is composed of four members, namely Richard Gregory, Barbara Ridpath, Alex Shapland and David Bennett who are independent Non-Executive CYBG Directors. The chairman of the CYBG Governance and Nomination Committee is Barbara Ridpath. CYBG therefore considers that it complies with the Code recommendations regarding the composition of a company's Nomination Committee.

The CYBG Board's Governance and Nomination Committee will meet at least twice a year and otherwise as required.

3.12.2 CYBG Board's Remuneration Committee

The CYBG Board's Remuneration Committee assists the CYBG Board in determining its responsibilities in relation to remuneration, including making recommendations to the CYBG Board on CYBG's policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors within the CYBG Group, including pension rights and any compensation payments and determining the remuneration arrangements of senior management who sit below CYBG Board level.

The CYBG Board itself will determine the remuneration of non-executive directors within the limits set out in the Articles. Refer to Part 8 of Annexure G for further information. No director or senior manager shall be involved in committee decisions as to his or her own remuneration.

The UK Corporate Governance Code provides that the CYBG Board's Remuneration Committee should consist of at least three members who are all independent non-executive directors. In addition, the Chairman of CYBG may be a member of, but not chair, the Committee if he/she was considered independent on appointment as Chairman.

The CYBG Board's Remuneration Committee is comprised of four Non-Executive CYBG Directors namely Adrian Grace, David Browne, James Pettigrew, the Chairman of CYBG and David Bennett. The chairman of the CYBG Board's Remuneration Committee is Adrian Grace. CYBG therefore considers that following the Demerger it will comply with the Code recommendations regarding the composition of the CYBG Board's Remuneration Committee.

The CYBG Board's Remuneration Committee will meet at least four times a year and otherwise as required.

3.12.3 CYBG Board's Audit Committee

The CYBG Board's Audit Committee assists the CYBG Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing CYBG PLC's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of CYBG Group's internal audit activities, internal controls and risk management systems. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the CYBG Board.

The UK Corporate Governance Code recommends that the audit committee should comprise of at least three members who should all be independent non-executive directors, and that at least one member should have recent and relevant financial experience.

The membership of the CYBG Board's Audit Committee comprises five independent Non-Executive CYBG Directors (namely, David Allvey, David Browne, Richard Gregory, Teresa Robson-Capps and David Bennett), all of whom are considered by the CYBG Board to have recent and relevant financial experience. The chairman of the CYBG Board's Audit Committee is David Allvey. CYBG PLC therefore considers that it complies with the Code recommendations regarding the composition of the CYBG Board's Audit Committee.

The CYBG Board's Audit Committee will meet at least four times a year and otherwise as required and will meet jointly with the CYBG Risk Committee at least annually.

3.12.4 CYBG Board's Risk Committee

The CYBG Board's Risk Committee is responsible for providing oversight and advice to the CYBG Board in relation to current and potential future risk exposures of CYBG Group and future risk strategy, reviewing and approving various formal reporting requirements, promoting a risk awareness culture within CYBG Group and ensuring that CYBG Group's strategy, principles, policies and resources are aligned to its risk appetite, as well as to regulatory and industry best practices.

The membership of the CYBG Board's Risk Committee comprises six independent Non-Executive CYBG Directors (namely, Richard Gregory, David Allvey, David Browne, Barbara Ridpath, Alex Shapland and David Bennett). The chairman of the CYBG Board's Risk Committee is Richard Gregory.

The CYBG Board's Risk Committee will meet at least four times a year and hold a joint meeting with the CYBG Board's Audit Committee at least annually.

3.13 CYBG Group Financial Information

All CYBG Group financial information in this Section is reflected in the currency of Pounds Sterling unless otherwise stated. This Section contains the following historical financial information of CYBG Group:

- Historical financial information ("**CYBG HFI**") to provide a historical overview of CYBG Group performance and financial position reflecting adjustments to apply consistent accounting policies in all periods in accordance with the UK Listing Rules, comprising;
  - Consolidated historical income statements for the years ended 30 September 2015, 2014, 2013 and 2012 ("**CYBG HFI Income Statement**") as set out in Section 3.13.2; and
  - The consolidated historical balance sheets as at 30 September 2015, 2014, 2013 and 2012 ("**CYBG HFI Balance Sheet**") as set out in Section 3.13.3.

  The CYBG HFI is consistent with the CYBG Group historical financial information presented in the Clydesdale Bank Business Updates.
- Pro forma historical financial information ("**CYBG Pro Forma Historical Financial Information**"), derived from the CYBG HFI, to illustrate the effect of the Demerger on CYBG Group's financial position. The pro forma consolidated historical balance sheet as at 30 September 2015 ("**CYBG Pro Forma Historical Balance Sheet**") is set out in Section 3.13.7. No pro forma adjustments have been included with respect to the CYBG HFI Income Statement, and therefore pro forma historical income statements have not been presented. The effect of the Insurance Intermediary Business's earnings as outlined in Section 3.13.2, incremental costs to be incurred by CYBG PLC as a standalone listed entity as described in Section 3.14, and the arrangements to replace existing AT1 Notes and Tier 2 Notes with new AT1 Notes and Tier 2 Notes as described in Section 4.10.2.3 should be taken into account when assessing CYBG Group's future earnings.

This Section also contains Management Basis consolidated income statements ("**CYBG HFI Income Statement – Management Basis**") presented for the years ended 30 September 2015, 2014, 2013 and 2012 included in Section 3.13.4. This financial information includes adjustments to present items CYBG Directors believe are non-recurring in nature and not otherwise indicative of the underlying performance of CYBG Group's ongoing operations.

The Investigating Accountant has prepared an Independent Limited Assurance Report in respect of CYBG Pro Forma Historical Balance Sheet, which is included in Section 7. The comments made in relation to the scope and limitations of the Independent Limited Assurance Report should be noted. The CYBG HFI and the CYBG HFI Income Statements – Management Basis are not audited or reviewed.

3.13.1 CYBG HFI

3.13.1.1 Basis of preparation

The CYBG HFI has been derived from the financial reports of CYBG Group for the years ended 30 September 2015, 2014, 2013 and 2012 adjusted to reflect consistent accounting policies for the years ended 30 September 2014, 2013 and 2012, as described below.

CYBG Group's financial reports for the years ended 30 September 2015, 2014, 2013 and 2012 have been subject to audit, in accordance with International Standards on Auditing (UK and Ireland) and the audit opinion issued by Ernst & Young LLP (UK) to the members of CYBG Group was unqualified ("**Audited Annual Reports**").

The CYBG HFI has been prepared in accordance with the requirements of the UK Prospectus Directive Regulation, the UK Listing Rules, and the recognition and measurement principles contained in IFRS as issued by the IASB as adopted by the European Union ("**EU**") and IFRIC Interpretations other than that it includes adjustments which have been prepared in a manner consistent with IFRS that reflect the impact of accounting policies as if they applied consistently from 1 October 2011. Consequently, adjustments have been made to apply a consistent set of accounting policies for the years ended 30 September 2014, 2013 and 2012 presented in the CYBG HFI resulting in differences between the historical financial information presented in the CYBG HFI to that previously presented in the Audited Annual Reports of CYBG Group for the years ended 30 September 2014, 2013 and 2012. Refer to the audited financial report of CYBG Group for the year ended 30 September 2015 for the full details of the accounting policies applied. The main differences are set out below:

- Reclassification of income statement line items including:
  - The reclassification of payments protection insurance redress costs from other operating income to other operating expense. This change was first applied in the Audited Annual Report for the year ended 30 September 2014. The comparative information for the year ended 30 September 2013 was retrospectively adjusted. This change was not applied in the Audited Annual Reports for the years ended 30 September 2013 and 30 September 2012.
  - The reclassification of the Financial Services Compensation Scheme levy from interest expense and similar charges to other operating expenses. This change was first applied in the year ended 30 September 2015. The comparative information for the year ended 30 September 2014 was retrospectively adjusted. This change was not applied in the Audited Annual Reports for the years ended 30 September 2014, 30 September 2013 and 30 September 2012.
  - The reclassification of income between categories of non-interest income. This change was first applied in the year ended 30 September 2015. The comparative information for the year ended 30 September 2014 was retrospectively adjusted. This change was not applied in the Audited Annual Reports for the years ended 30 September 2014, 30 September 2013 and 30 September 2012.
- Reclassification of pension amounts and associated tax between the income statement and other comprehensive income as a result of the adoption of IAS 19: *Employee Benefits*. The revised IFRS requirements were first applied in the Audited Annual Report for the year ended 30 September 2014. The comparative information for the year ended 30 September 2013 was retrospectively adjusted. This change was not applied in the Audited Annual Reports for the years ended 30 September 2013 and 30 September 2012.
- Reclassification of accrued interest between assets and liabilities, and within categories of assets and liabilities. This change was first applied in the Audited Annual Report for the year ended 30 September 2014. The comparative information for the year ended 30 September 2013 was retrospectively adjusted. This change was not applied in the Audited Annual Reports for the years ended 30 September 2013 and 30 September 2012.

There is no change in the net asset position of CYBG Group between the CYBG HFI and the Audited Annual Reports.

Reference to IFRS hereafter contained within this Section 3 should be construed as references to IFRS as adopted by the EU.

On 17 November 2015 NAB lodged with ASX the Audited Annual Report of CYBG Group for the year ended 30 September 2015. Earlier this year on 7 July 2015, NAB lodged with ASX the Audited Annual Reports for CYBG Group for the 3 years ended 30 September 2014, 2013 and 2012. A full copy of these financial statements is available on the **http://www.nab.com.au/about-us/shareholder-centre/uk-banking-business-update/** website.

3.13.2 CYBG HFI Income Statement

Table 9 sets out CYBG HFI Income Statement for the years ended 30 September 2015, 2014, 2013 and 2012.

Table 9: CYBG HFI Income Statement

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Interest income and similar income	1,110	1,135	1,209	1,461
Interest expense and similar charges	(323)	(350)	(441)	(584)
Net interest income	**787**	**785**	**768**	**877**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	238	205	225	399
Non-interest income	**240**	**197**	**190**	**255**
Total operating income	**1,027**	**982**	**958**	**1,132**
Personnel expenses	(266)	(287)	(302)	(329)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(868)	(777)	(485)	(645)
Restructuring expenses	(17)	-	-	(149)
Total operating and administrative expenses before impairment losses	**(1,234)**	**(1,142)**	**(863)**	**(1,198)**
Operating profit/(loss) before impairment losses	**(207)**	**(160)**	**95**	**(66)**
Impairment losses on credit exposures	(78)	(74)	(144)	(737)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Analysed as:				
Profit/(loss) before tax, Net gain on capital restructuring and debt buy back, Pension benefits, Payment protection insurance redress expense, Payment protection insurance complaint handling fine, Restructuring expenses, IRHP/FRTBL redress expense, Other conduct expenses, Separation costs and Impairment of intangible assets & goodwill	159	222	131	(464)
Net gain on capital restructuring and debt buy back	61	-	-	-
Pension scheme reforms benefit	-	-	-	130
Pension increase exchange gain	18	-	-	-
Payment protection insurance redress expense	(390)	(420)	(130)	(120)
Payment protection insurance complaint handling fine	(21)	-	-	-
IRHP/FRTBL redress expense	(75)	-	-	-
Other conduct expenses	-	(13)	(50)	(23)
Restructuring expenses	(17)	-	-	(149)
Separation costs	(10)	-	-	-
Impairment of intangible assets and goodwill	(10)	(23)	-	(177)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	-	8	-	9
	(225)	**(190)**	**(44)**	**(647)**

Insurance Intermediary Business Restructure

NAB and CYBG Group entered into a sale and purchase agreement on 30 September 2015 pursuant to which NAB sold its entire shareholding in the Insurance Intermediary Business for cash consideration of approximately £4 million. The Insurance Intermediary Business acts as an intermediary for a number of third party providers of insurance and investment products, specialising in home insurance, motor insurance and personal lines. CYBG Group distributes these products through its retail mortgage and retail banking advisors to its customers in the United Kingdom.

As the Insurance Intermediary Business formed part of the consolidated CYBG Group from 30 September 2015:

- the assets and liabilities of the Insurance Intermediary Business have been consolidated within the CYBG Group HFI Balance Sheet as at 30 September 2015; and
- the CYBG Group HFI Income Statement does not reflect the income, expenses and net earnings of the Insurance Intermediary Business for the year ended 30 September 2015 (as over the course of the year it was not yet part of the consolidated CYBG Group).

The earnings of the Insurance Intermediary Business should be taken into account when assessing CYBG Group's future earnings. Table 9A set outs the summary historical income statement of the Insurance Intermediary Business for the years ended 30 September 2015, 2014, 2013 and 2012.

Table 9A: Insurance Intermediary Business summary historical financial performance

	FY15 GBP	FY14 GBP	FY13 GBP	FY12 GBP
Total operating income	£22m	£23m	£31m	£41m
Total operating expenses	£6m	£8m	£9m	£11m
Underlying profit on ordinary activities before tax	£16m	£15m	£22m	£30m
Tax	£3m	£3m	£5m	£8m
Net profit attributable to owners	£13m	£12m	£17m	£22m

The results for the Insurance Intermediary Business set out above comprise the gross income and expenses of the business, which includes an expense for existing income share arrangements with CYBG Group of £5 million in the financial year ending 30 September 2015 (2014: £6 million, 2013: £7 million, 2012: £10 million). Accordingly, the impact to CYBG Group's results arising from the consolidation of the Insurance Intermediary Business would have been additional operating income of £17 million in financial year ending 30 September 2015 (2014: £17 million, 2013: £24 million, 2012: £31 million) additional operating expenses of £1 million (2014: £2 million, 2013: £2 million, 2012: £1 million) and a tax charge of £3 million (2014: £3 million, 2013: £5 million, 2012: £8 million).

3.13.3 CYBG HFI Balance Sheet

Table 10 sets out the CYBG HFI Balance Sheet for CYBG Group as at 30 September 2015, 2014, 2013 and 2012. The legacy CRE portfolio was reported in assets held for sale as at 30 September 2012. As a result, there is no Management Basis of presentation applicable to the consolidated balance sheet.

Table 10: CYBG HFI Balance Sheet

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Assets				
Customer loans(1)	28,783	27,696	26,424	27,575
Cash and balances with central banks	6,431	5,986	6,720	7,927
Investments – available for sale	1,462	1,168	975	1,041
Due from related entities	786	1,487	1,390	1,256
Defined benefit pension assets	52	49	-	-
Accrued interest receivable on customer loans	80	92	81	101
Assets held for sale(2)	-	-	-	5,225
Other assets	1,111	914	1,158	1,257
Total assets	**38,705**	**37,392**	**36,748**	**44,382**
Liabilities				
Customer deposits(3)	26,349	23,989	24,266	26,528
Bonds and notes	3,766	3,453	3,085	3,187
Notes in circulation	1,791	1,831	1,709	1,567
Due to related entities	998	2,677	3,036	7,716
Provisions	1,006	952	315	292
Accrued interest payable on customer deposits	125	175	212	236
Retirement benefit obligations	4	4	202	306
Other liabilities	1,223	1,773	1,474	1,931
Total liabilities	**35,262**	**34,854**	**34,299**	**41,763**
Total equity	3,443	2,538	2,449	2,619
Total liabilities and equity	**38,705**	**37,392**	**36,748**	**44,382**

(1) Customer loans comprise gross loans and advances to customers, loans and advances included in other financial assets at fair value and due from customers on acceptances (excluding accrued interest receivable) as presented in the historical financial information of CYBG Group.

(2) Assets held for sale were £5,225 million as at 30 September 2012 and comprised predominantly legacy CRE assets and associated loans net of provisions. CYBG Group transferred assets held for sale to NAB in October 2012.

(3) Customer deposits comprise amounts due to customers and other financial liabilities at fair value (excluding accrued interest payable) as presented in the historical financial information of CYBG Group.

3.13.3.1 Customer loans

Table 11 sets out a breakdown of CYBG Group's customer loans.

Table 11: CYBG Group customer loan details

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Mortgages	20,504	18,444	16,148	15,369
Business lending	7,061	7,970	9,002	10,896
Unsecured personal lending	1,218	1,282	1,274	1,310
Customer loans	**28,783**	**27,696**	**26,424**	**27,575**
Loans and advances to customers	27,687	26,121	24,265	24,777
Other financial assets at fair value	1,092	1,570	2,155	2,791
Due from customers on acceptances	4	5	4	7
Customer loans	**28,783**	**27,696**	**26,424**	**27,575**

The mortgage book comprises CYBG Group's largest asset portfolio and has had a significant impact on its overall financial performance. Since the strategic review undertaken in 2012, CYBG Group has focussed on growing the retail mortgage portfolio through all distribution channels, although the intermediary channel has contributed the most significant growth in the portfolio during the period under review.

Table 12 sets out the composition of mortgages by interest rate type.

Table 12: CYBG Group Summary of mortgage exposures

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Mortgages:				
Fixed rate	12,710	9,454	5,712	3,851
Variable rate	5,169	6,124	7,299	8,152
Tracker	2,625	2,866	3,137	3,366
Total mortgages	**20,504**	**18,444**	**16,148**	**15,369**

The mortgage portfolio increased by 11.2% from £18,444 million as at 30 September 2014 to £20,504 million as at 30 September 2015, reflecting CYBG Group's strategy to grow the mortgage book as set out in paragraph 3.4 of Part 5 of Annexure G. The increase in the proportion of fixed rate mortgages has been driven by customer preference to secure low rates in a macro-economic environment where base rates are expected to increase. The increase in fixed rate mortgages has been offset in part by reductions in the variable rate mortgage portfolio as customers switch to fixed rate mortgages or refinance elsewhere, and a decrease in the tracker book, which was withdrawn from sale to the general public in 2008, except on a limited basis for CYBG Group's employees under a staff scheme. The decrease in the variable rate mortgage portfolio is mainly driven by customers switching to fixed rate mortgages or refinancing elsewhere.

Business lending comprises term business loans, overdrafts and other lending, which predominantly comprises asset and invoice finance. Business lending decreased by 11.4% from £7,970 million as at 30 September 2014 to £7,061 million as at 30 September 2015. This decrease was primarily due to the managed reduction of the low yielding non-core business lending portfolio.

CYBG Group's unsecured personal lending book comprises personal loans, credit cards and overdrafts originated by CYBG Group through branches or by way of digital or other direct channels. Unsecured personal lending decreased by 5.0% from £1,282 million as at 30 September 2014 to £1,218 million as at 30 September 2015. This decrease was primarily due to a net reduction of £61 million in the personal loan book from £824 million as at 30 September 2014 to £763 million as at 30 September 2015. The reduction in personal loans was driven by a significant reduction in gross new lending through digital from £293 million for the year ended 30 September 2014 to £131 million for the year ended 30 September 2015. The reduction in personal loans was partly offset by growth in credit card lending following the launch of CYBG Group's new "Gold" proposition.

3.13.3.2 Customer deposits

CYBG Group has actively managed its deposit liabilities by successfully increasing the balance of its lower cost current accounts and savings accounts, while reducing the balances of more expensive fixed rate term deposits and other wholesale deposits. Table 13 sets out a breakdown of total customer deposits as at each of the dates indicated.

Table 13: Summary of CYBG Group customer deposits

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Personal deposits(1)				
Current accounts				
Interest-bearing demand deposits	6,865	6,426	5,840	5,420
Non-interest-bearing demand deposits	79	88	98	82
Total current accounts	6,944	6,514	5,938	5,502
Variable rate savings accounts	6,013	4,434	3,891	3,381
Fixed rate term deposits	4,519	4,412	5,231	6,603
	17,476	15,360	15,060	15,486
Business deposits:				
Current account				
Interest-bearing demand deposits	4,131	3,756	3,677	3,691
Non-interest-bearing demand deposits	1,907	1,761	1,589	1,555
Total current accounts	6,038	5,517	5,266	5,246
Variable rate savings accounts	1,777	1,731	1,870	1,853
Fixed rate term deposits(2)	964	1,262	1,690	3,319
	8,779	8,510	8,826	10,418
Other wholesale deposits	94	119	380	624
Total customer deposits	**26,349**	**23,989**	**24,266**	**26,528**

(1) Personal deposits include deposits through private banking.

(2) Business fixed rate term deposits include other financial liabilities at fair value.

Customer deposits increased by £2,360 million, or 9.8%, to £26,349 million as at 30 September 2015 from £23,989 million as at 30 September 2014, primarily as a result of an increase in personal deposit balances of £2,116 million, or 13.8%, to £17,476 million as at 30 September 2015, from £15,360 million as at 30 September 2014. CYBG Group made the decision to grow customer funding during the first half of the year ending 30 September 2015, in order to provide funds for the continuing mortgage growth, to fund the redemption of secured funding and to reduce the level of NAB funding in advance of the Demerger. The majority of the growth was in variable rate cash ISAs, due to their relatively attractive pricing compared to other instant access savings accounts. The growth in variable rate cash ISAs was in part due to the timing of RMBS issuances. CYBG Group issued two tranches of RMBS in August 2015. Personal current accounts also increased by £430 million, or 6.6%, to £6,944 million as at 30 September 2015 from £6,514 million as at 30 September 2014, in part due to customers holding higher balances in current accounts in a low interest rate environment, in addition to CYBG Group's £150 current account switching bonus offered to new customers. Deposit balances from business customers have increased from £8,510 million at 30 September 2014 to £8,779 million at 30 September 2015, reflecting continued growth in business current accounts. The back book of fixed rate term deposits, including CYBG Group's offshore business in Guernsey, which formally closed on 30 September 2015, has continued to run-off.

3.13.4 CYBG HFI Income Statement – Management Basis

Table 14 sets out consolidated income statement data for CYBG Group that, unless otherwise specified, has been extracted or derived, without material adjustment, from the CYBG HFI Income Statement for the years ended 30 September 2015, 2014, 2013 and 2012. The income statement data for the year ended 30 September 2012 includes adjustments relating to the disposed CRE portfolio that are unaudited. The consolidated income statement data is presented on the Management Basis, which CYBG Directors believe provides useful supplemental information to assist in evaluating the underlying operating performance of CYBG Group's business and to facilitate more meaningful period-to-period comparisons. The Management Basis information includes adjustments to present items that CYBG Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the CYBG HFI Income Statement to the Management Basis information presented below in Section 3.13.5. These adjustments and CYBG Group's underlying results of operations on the Management Basis are both discussed in Annexure G.

In the year ended 30 September 2015, underlying profit on ordinary activities before tax decreased to £159 million from £222 million in the year ended 30 September 2014. This was primarily due to a decrease in non-interest income reflecting CYBG Group's strategy to change the current account charging structure, and an increase in marketing to support balance sheet growth and increased levels of investment. Net interest income remained relatively flat in 2015 compared to 2014, primarily due to reductions in hedging derivative interest income largely being offset by reductions in customer funding costs.

Section Three:
Overview of CYBG Group

Table 14: CYBG HFI Income Statement Data – Management Basis

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		*(unaudited)*
Interest income and similar income	1,110	1,135	1,209	1,300
Interest expense and similar charges	(323)	(350)	(441)	(494)
Net interest income	**787**	**785**	**768**	**806**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	175	205	225	264
Non-interest income	**177**	**197**	**190**	**120**
Total operating income	**964**	**982**	**958**	**926**
Personnel expenses	(282)	(287)	(302)	(315)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(362)	(321)	(305)	(325)
Total operating and administrative expenses before impairment losses	**(727)**	**(686)**	**(683)**	**(715)**
Operating profit before impairment losses	**237**	**296**	**275**	**211**
Impairment losses on credit exposures	(78)	(74)	(144)	(173)
Underlying profit on ordinary activities before tax	**159**	**222**	**131**	**38**
Pension scheme reforms benefit	-	-	-	130
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	-	-	-
IRHP/FRTBL redress expense	(75)	-	-	-
Other conduct	-	(13)	(50)	(23)
Impairment of intangible assets	(10)	(23)	-	(36)
Impairment losses on goodwill	-	-	-	(141)
Disposed legacy CRE portfolio impact	-	-	-	(502)
Restructuring expenses	(17)	-	-	(149)
Separation costs	(10)	-	-	-
Net gain on capital restructuring and debt buy back	61	-	-	-
Pension increase exchange gain	18	-	-	-
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	-	8	-	9
	(225)	**(190)**	**(44)**	**(647)**

3.13.4.1 Operating and administrative expenses before impairment losses – Management Basis

Operating and administrative expenses before impairment losses comprise personnel expenses, depreciation and amortisation expenses, other operating and administrative expenses and restructuring expenses. The following table sets out operating and administrative expenses on the Management Basis for the periods indicated.

Table 15: CYBG Group operating and administrative expenses – Management Basis

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Personnel expenses:				
Salaries, wages and non-cash benefits	175	173	185	189
Other personnel expenses	33	42	39	41
Defined benefit pension expense	29	29	40	36
Related personnel expenses	22	22	21	23
Defined contribution pension expense	16	14	13	15
Equity based compensation	7	7	4	11
	282	**287**	**302**	**315**
Depreciation and amortisation expense:				
Amortisation of intangible assets	57	54	52	52
Depreciation of property, plant and equipment	26	24	24	23
	83	**78**	**76**	**75**
Other operating and administrative expenses:				
Other operating expenses	272	243	230	228
Other occupancy charges	38	39	42	42
Operating lease rental	32	31	32	38
Related entity recharges	20	8	1	17
	362	**321**	**305**	**325**
Total operating and administrative expenses before impairment losses	**727**	**686**	**683**	**715**

Operating and administrative expenses before impairment losses ("operating costs") increased by £41 million or 6.0% on the Management Basis to £727 million for the year ended 30 September 2015 from £686 million for the year ended 30 September 2014. This increase was principally due to the increased level of marketing and investment to support balance sheet growth and franchise investment which has been partly offset by the restructuring benefits which are evident in the reduction of personnel related costs. Other operating and administrative expenses increased to £362 million in the year ended 30 September 2015, reflecting an increase in spend to support CYBG Group's growth agenda and its brand, marketing and refreshed proposition, in addition to higher intercompany charges with NAB. The amount of the bank levy for the year ended 30 September 2015 was £0.8 million. The CYBG Directors expect the run rate of total operating costs in the year ended 30 September 2016 on the Management Basis to remain broadly in line with the amount of £381 million incurred in the second half of 2015, on an annualised basis (including FSCS levy) (i.e. £762 million on an annualised basis), principally as CYBG Group incurs additional costs as it establishes itself as a standalone entity and maintains a higher level of investment, partially offset by the benefits from planned restructurings.

3.13.4.2 Key performance indicators

Management uses a variety of key performance indicators to aid in assessing CYBG Group's financial performance. The CYBG Directors believe that each of these measures provides useful supplemental information with respect to the performance of CYBG Group's business and operations. Table 16 sets out key performance indicators for CYBG Group as at and for each of the years ended 30 September 2015, 2014, 2013 and 2012.

The key performance indicators presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides CYBG Group with certain discretion in making its calculations. Because of the discretion that CYBG Group and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these measures with similar measures used by other banks.

Table 16: Summary of CYBG Group key performance metrics

	As at and for the year ended 30 September			
	2015	**2014**	**2013**	**2012**
	(%, unless otherwise specified)			
Profitability ratios:				
Net interest margin[1]	2.20	2.30	2.18	2.07
Management Basis net interest margin[2]	2.20	2.30	2.18	2.20
Return on tangible equity ("**ROTE**")[3]	(10.3)	(9.4)	(2.1)	(26.1)
Management Basis ROTE[4]	5.1	7.7	4.4	0.5
Cost-to-income ratio[5]	120	116	90	106
Management Basis cost-to-income ratio[6]	75	70	71	77
Asset quality ratios:				
Impairment charge to average customer loans[7]	0.21	0.30	0.60	0.74
90+ DPD to customer loans[8]	0.50	0.66	0.84	0.84
Gross impaired assets to customer loans[9]	0.91	1.35	1.61	1.64
90+ DPD plus gross impaired assets to customer loans[10]	1.41	2.01	2.45	2.48
Specific provision to gross impaired assets[11]	39.2	37.3	36.9	30.3
Total provision to customer loans[12]	0.93	1.15	1.39	1.36
Indexed loan-to-value ("**LTV**") of mortgage portfolio[13]	55.3	58.8	63.5	66.6
Regulatory capital ratios:				
CET1 Ratio[14]	13.2	9.4	9.6	7.7
Tier 1 Ratio[15]	15.7	11.0	11.1	8.9
Total Capital Ratio[16]	18.9	17.7	17.5	14.4
Leverage Ratio[17]	7.1	5.2	5.1	4.6
Liquidity ratios:				
Loan-to-deposit ratio[18]	109	115	109	104
LCR[19][21]	136	110	119	N/A
NSFR[20][21]	120	108	106	N/A

For relevant footnotes please see following page

Footnotes for Table 16 (on previous page):

(1) Net interest margin is defined as net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(2) Management Basis net interest margin is defined as Management Basis net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(3) ROTE is defined as profit/(loss) after tax less preference share dividends, non-controlling interest distributions and Additional Tier 1 Capital distributions as a percentage of average tangible equity (total equity less intangible assets excluding non-controlling interest, Additional Tier 1 Capital and preference shares) for a given period. Average tangible equity has been calculated using tangible equity spot balances at each of the month ends of the applicable period. Average tangible equity was £2,366 million, £2,102 million, £2,138 million and £2,537 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively.

(4) Management Basis ROTE is defined as underlying profit after tax less preference share dividends, non-controlling interest distributions and Additional Tier 1 distributions as a percentage of average tangible equity (total equity less intangible assets excluding minorities, Additional Tier 1 Capital and preference shares) for a given period. Underlying profit after tax is defined as underlying profit before tax less tax charge (or plus tax credit, as the case may be). Underlying profit after tax was equal to £28 million, £94 million, £171 million and £139 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. The Management Basis tax credit/(charge) is calculated by applying the statutory tax rate for the relevant period (30 September 2015: 20.5%; 30 September 2014: 22.0%; 30 September 2013: 23.5%; 30 September 2012: 25.0%) to the taxable items adjusted on the Management Basis. The taxable items comprise PPI redress expense, IRHP and FRTBL redress expense, other conduct, disposed legacy CRE portfolio impact, part of separation costs and part of restructuring expenses. In computing taxable profits, the gross gain on the capital restructure was non-taxable and distributions on Additional Tier 1 Capital were taken as a deduction for tax purposes although recorded as a dividend payable for accounting purposes. Distributions on AT1 Notes are expected to be deductible based on the prevailing mainstream rate of corporation tax and, commencing 1 January 2016, the banking surcharge. The pension scheme reform benefit and the pension increase exchange gain were also non-taxable. CYBG Group had an unrecognised deferred tax asset of £16m (representing trading losses with a gross value of £80m) at the balance sheet date, reflecting the uncertainty of projections towards the end of the period over which such differences might be expected to reverse. Average tangible equity has been calculated using the tangible equity spot balances at each of the month ends of the applicable period. Average tangible equity was £2,366 million, £2,102 million, £2,138 million and £2,537 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively.

(5) Cost-to-income ratio is defined as total operating expenses as a percentage of total operating income for a given period.

(6) Management Basis cost-to-income ratio is defined as Management Basis total operating expenses as a percentage of Management Basis total operating income for a given period.

(7) Impairment charge to average customer loans is defined as impairment charges on total customer loans as a percentage of average customer loans for a given period. Impairment charge is defined as impairment losses on credit exposures plus credit risk adjustments on fair value loans. This ratio excludes £564 million of impairment charges and £5,652 million of loans from the average loan balance in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average customer loans were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(8) 90+ DPD to customer loans is defined as customer loans that are more than 90 days overdue as a percentage of total customer loans at a given date. This ratio excludes £144 million of more than 90 days overdue loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(9) Gross impaired assets to customer loans is defined as gross impaired assets as a percentage of total customer loans at a given date. This ratio excludes £842 million of gross impaired loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012. Unsecured personal lending is written-off once it becomes 180 days past due and is never designated as impaired.

(10) 90+ DPD plus gross impaired assets to customer loans is defined as customer loans that are more than 90 days overdue plus gross impaired assets as a percentage of total customer loans at a given date. This ratio excludes £144 million of more than 90 days overdue loans, £842 million of gross impaired loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(11) Specific provision to gross impaired assets is defined as the specific impairment provision on credit exposures as a percentage of gross impaired assets at a given date. This ratio excludes £309 million of specific provisions and £842 million of gross impaired loans in respect of the disposed CRE portfolio at 30 September 2012.

(12) Total provision to customer loans is defined as total impairment provision on credit exposures as a percentage of total customer loans at a given date. This ratio excludes £463 million of provisions and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(13) Indexed LTV of mortgage portfolio is defined as mortgage portfolio weighted by balance and indexed using the Halifax house price index at a given date.

(14) CET1 Ratio is defined as Common Equity Tier 1 Capital divided by risk-weighted assets at a given date. The CET1 Ratios as at 30 September 2012 and 2013 were calculated under Basel II. The CET1 Ratio as at 30 September 2014 was calculated under CRD IV regulations. As at 30 September 2015, the CET1 Ratio was calculated in accordance with the revised CRD IV regulations applicable from 1 January 2015.

(15) Tier 1 Ratio is defined as Tier 1 Capital resources divided by risk-weighted assets at a given date.

(16) Total Capital Ratio is defined as total capital resources divided by risk-weighted assets at a given date. As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's interest in CYBG Group's existing AT1 Notes and Tier 2 Notes, with new AT1 Notes and Tier 2 Notes to be issued by CYBG PLC on the Demerger Date and initially held by NAB. Refer to Section 4.10.2.3 for details.

(17) Leverage Ratio is calculated in accordance with the relevant EU legislation and applicable guidance at the balance sheet date.

(18) Loan-to-deposit ratio is defined as customer loans as a percentage of customer deposits at a given date.

(19) CYBG Group monitors the LCR based on its own interpretations of current guidance available for CRD IV LCR reporting. Therefore, the reported LCR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, CYBG Group's ratio may not be directly comparable with those of other financial institutions.

(20) CYBG Group monitors the NSFR based on its own interpretations of current guidance available for CRD IV NSFR reporting. Therefore, the reported NSFR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, CYBG Group's ratio may not be directly comparable with those of other financial institutions.

(21) CYBG Group reports this ratio for all material operating entities within CYBG Group, excluding consolidated securitisation entities. This ratio reflects the regulatory view with respect to oversight of CYBG Group's liquidity position and resources.

(a) Net interest income and margin

Net interest margin on the Management Basis has remained relatively stable during the period under review. Net interest margin on the Management Basis fell to 2.20% for the year ended 30 September 2015 from 2.30% in the year ended 30 September 2014, driven by the reduction in interest income on hedging derivatives. For the year ended 30 September 2015, the reduction in Swap Income contributed a seven basis point reduction in net interest margin, compared to the year ended 30 September 2014. In addition, the mix of the balance sheet shifted towards mortgages with interest rates which were lower than higher risk business and unsecured personal lending. For the year ended 30 September 2015, movements in the asset mix (comprising total customer loans, liquid assets and amounts due from related entities) contributed a 13 basis point reduction in net interest margin, and movements in the liability mix (comprising total customer deposits, wholesale funding, bonds and notes and amounts due to related entities) contributed a nine basis point increase in net interest margin, compared to the year ended 30 September 2014.

For the year ended 30 September 2015, net interest income increased by £2 million, or 0.3%, to £787 million from £785 million for the year ended 30 September 2014, primarily due to reductions in interest expense, which offset the decrease in the average yield on interest-earning assets and the lower income from hedging derivatives. Average interest-bearing liabilities increased by 3.9% to £29,985 million in the year ended 30 September 2015 compared to the year ended 30 September 2014. During this period, interest expense decreased 7.7%, mainly due to CYBG Group's active management of the funding mix to replace relatively expensive term deposits with current accounts and variable savings accounts.

Based on expectations as to interest rates and the broader macro-economic (as described in paragraph 4 of Part 2 of Annexure G), and competitive environment (as described in the Clydesdale Bank Business Updates), the CYBG Directors expect, through the delivery of CYBG Group's strategy (as described in Section 3.3), net interest margin to be broadly stable in the near term with the potential for some modest widening, commensurate with current market expectations for movements in interest rates, over the five year period following UK Admission.

(b) Restructuring and cost reduction

As part of the 2012 strategic review, CYBG Group implemented a restructuring plan that primarily comprised a reduction in staff, the closure of 29 business and private banking centres, the relocation of nine business and private banking centres and the closure of six back office locations. CYBG Group recorded a restructuring provision £149 million in 2012. A related charge of £36 million was also taken in the year ended 30 September 2012 for software impairment, predominantly for business banking systems.

The restructuring programme following the strategic review led to annualised cost savings of £82 million, which were above the original target of £74 million, and a reduction of over 1,400 FTEs. While the majority of staff reductions came from business banking, CYBG Group completed some broader streamlining activity across other areas of the bank. In the year ended 30 September 2015, CYBG Group closed 24 branches and spent £10 million on various improvements to its banking network, including the relocation of 4 branches, the extensive refurbishment of 15 branches as well as minor improvements to a number of other branches.

The cost-to-income ratio on the Management Basis has fallen from 77% for the year ended 30 September 2012 to 71% for the year ended 30 September 2013, 70% for the year ended 30 September 2014 before rising to 75% for the year ended 30 September 2015.

In addition, CYBG Group continues to review its operational efficiencies across middle and back office activities; this review has focused on process improvements to enhance the customer experience and has included a review of CYBG Group's property footprint across the UK.

(c) Impairment Losses on Credit Exposures

Table 17 sets out CYBG Group's impairment losses on credit exposures for the years indicated, and ratios of impairment charges to assets.

Table 17: Summary of CYBG Group credit losses

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		(£m, except %)		
Impairment losses on credit exposures:				
Mortgages	18	6	14	10
Business lending(1)	45	46	102	134
Unsecured personal lending	15	22	28	29
Total impairment losses on credit exposures	**78**	**74**	**144**	**173**
Fair value loans	(18)	6	14	32
Total impairment losses on credit exposures including fair value loan credit risk	**60**	**80**	**158**	**205**
Impairment charge to customer loans ratio:				
Impairment charge to mortgages ratio(2)	0.09%	0.03%	0.09%	0.07%
Impairment charge to business lending ratio(3)	0.37%	0.62%	1.16%	1.41%
Impairment charge to unsecured personal lending ratio(4)	1.18%	1.70%	2.18%	2.14%
Total impairment charge to average customer loans(5)	0.21%	0.30%	0.60%	0.74%

(1) Impairment losses on credit exposures of £564 million in respect of the CRE portfolio that was disposed of on 5 October 2012 have been excluded from business lending for the year ended 30 September 2012.

(2) Impairment charge to mortgages ratio is defined as impairment charges on mortgages for a given period as a percentage of average mortgages for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average mortgages were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(3) Impairment charge to business lending ratio is defined as impairment charges on business loans plus impairment charges on other financial assets at fair value for a given period as a percentage of average business loans plus other financial assets at fair value for a given period. This ratio excludes £564 million of impairment charges and £5,652 million of total business lending in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average business loans plus other financial assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(4) Impairment charge to unsecured personal lending ratio is defined as impairment charges on unsecured personal lending for a given period as a percentage of average unsecured personal lending for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average unsecured personal lending was calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(5) Impairment charge to average customer loans ratio is defined as impairment charges on total customer loans as a percentage of average customer loans for a given period. This ratio excludes £564 million of impairment charges and £5,652 million of loans from the average loan balance in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average customer loans were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

Total impairment losses on credit exposures, including fair value loans, fell during the period under review to £60 million for the year ended 30 September 2015, from £80 million for the year ended 30 September 2014, £158 million for the year ended 30 September 2013 and £205 million for the year ended 30 September 2012. The primary driver of the improvement in the year ended 30 September 2015 was the write back on fair value loans as a result of the continued reduction of the fair value loan portfolio. The key drivers in the fair value credit risk adjustment include losses or recoveries on individual loans and changes in the provisions for fair value loans held for future losses to reflect movements in credit quality and the run-off of this portfolio. The amount of £(18) million (representing a credit) for fair value loan credit risk adjustment in the year ended 30 September 2015 was primarily driven by a collective provision release resulting from the run-off of the fair value loan portfolio rather than underlying credit quality. During the period under review, the sustained low interest rates, improving macro-economic conditions, management actions to reduce exposure to higher risk sectors and customers deleveraging have contributed to the reduction in impairments.

The impairment charge to customer loans ratio has improved during the period under review, driven by CYBG Group's tightened risk appetite, the improving macroeconomic environment for CYBG Group's customers and the repayments and attrition on the business portfolio which, in addition to mortgage growth, has changed the shape of CYBG Group's balance sheet. The asset quality of unsecured personal lending, in particular, improved partly due to improvement in the client risk profile from the launch of the direct personal lending proposition.

CYBG Group expects the asset quality of the mortgage and business lending portfolios to continue to be a primary factor in determining levels of impairment charges in CYBG Group's results of operations moving forward. The CYBG Directors believe that a material and sustained improvement in asset quality has been achieved. As a result of an improved economic environment, the CYBG Directors believe the impairment charge to average customer loans ratio at the end of the financial year 2015 will be close to or at a cyclical low.

3.13.5 Consolidated Income Statement Data – Reconciliation of the CYBG HFI Income Statement to the Management Basis

Tables 18 and 19 set out a reconciliation of the CYBG HFI Income Statement to the Management Basis for the years ended 30 September 2015, 2014, 2013 and 2012. Unless otherwise specified, the information in the tables below has been extracted or derived, without material adjustment, from the CYBG HFI Income Statement.

Table 18: Summary of Historical Financial Performance (CYBG HFI and Management Basis)

	Year ended 30 September 2015			Year ended 30 September 2014		
	CYBG HFI Income Statement	**Presentation Differences**	**Management Basis**	**CYBG HFI Income Statement**	**Presentation Differences**	**Management Basis**
		£m			*£m*	
Interest income and similar income	1,110	-	1,110	1,135	-	1,135
Interest expense and similar charges	(323)	-	(323)	(350)	-	(350)
Net interest income	**787**	**-**	**787**	**785**	**-**	**785**
Gains less losses on financial instruments at fair value	2	-	2	(8)	-	(8)
Other operating income[1]	238	(63)	175	205	-	205
Non-interest income	**240**	**(63)**	**177**	**197**	**-**	**197**
Total operating income	**1,027**	**(63)**	**964**	**982**	**-**	**982**
Personnel expenses[2][9]	(266)	(16)	(282)	(287)	-	(287)
Depreciation expense	(83)	-	(83)	(78)	-	(78)
Other operating and administrative expenses[1][3][4][5][6][7]	(868)	506	(362)	(777)	456	(321)
Restructuring expenses[8]	(17)	17	-	-	-	-
Total operating and administrative expenses before impairment losses	**(1,234)**	**507**	**(727)**	**(1,142)**	**456**	**(686)**
Operating profit/(loss) before impairment losses	**(207)**	**444**	**237**	**(160)**	**456**	**296**
Impairment losses on credit exposures	(78)	-	(78)	(74)	-	(74)
Underlying profit on ordinary activities before tax	**(285)**	**444**	**159**	**(234)**	**456**	**222**
PPI redress expense[3]	-	(390)	(390)	-	(420)	(420)
PPI complaint handling fine[4]	-	(21)	(21)	-	-	-
IRHP/FRTBL redress expense[5]	-	(75)	(75)	-	-	-
Other conduct[6]	-	-	-	-	(13)	(13)
Impairment of intangible assets[7]	-	(10)	(10)	-	(23)	(23)
Restructuring expenses[8]	-	(17)	(17)	-	-	-
Separation costs[9]	-	(10)	(10)	-	-	-
Net gain on capital restructuring and debt buy-back[1]	-	61	61	-	-	-
Pension increase exchange gain[2]	-	18	18	-	-	-
Loss on ordinary activities before tax	**(285)**	**-**	**(285)**	**(234)**	**-**	**(234)**
Tax credit	60	-	60	44	-	44
Loss for the year	**(225)**	**-**	**(225)**	**(190)**	**-**	**(190)**
Attributable to:						
Equity holders of the parent	(225)	-	(225)	(198)	-	(198)
Non-controlling interest	-	-	-	8	-	8
	(225)	**-**	**(225)**	**(190)**	**-**	**(190)**

For relevant footnotes please see following page

Footnotes for table 18 (on previous page):

(1) During the year ended 30 September 2015, other operating income included a gain of £61 million relating to the December 2014 capital restructure, which was undertaken to replace instruments that were non-compliant for CRD IV purposes with CRD IV compliant instruments. The gain was a result of the repurchase of £650 million of subordinated liabilities at fair value. The subordinated debt was replaced with an issue of £350 million of ordinary shares and £150 million of AT1 Notes. Other operating and administrative expenses included costs incurred in connection with the capital restructuring of £2 million. A further gain of £2 million was made in the year ended 30 September 2015 on the early redemption of medium-term funding with NAB. There is no equivalent amount for the year ended 30 September 2014.

(2) During the year ended 30 September 2015, CYBG Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After taking independent financial advice, the member may be entitled to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. This policy change resulted in a credit to the income statement of £18 million within personnel expenses, resulting in a reduction in the defined benefit pension expense to £11 million. There is no equivalent amount for the year ended 30 September 2014.

(3) PPI redress expense provision costs of £390 million and £420 million for the years ended 30 September 2015 and 2014, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

(4) On 14 April 2015, the FCA issued a fine of £21 million against CYBG Group for failings in CYBG Group's PPI complaint handling processes between May 2011 and July 2013. As a result, CYBG Group recorded other operating expenses of £21 million relating to a PPI complaint handling fine in the year ended 30 September 2015. There is no equivalent amount for the year ended 30 September 2014.

(5) CYBG Group recorded a charge of £75 million for IRHP and FRTBL redress expenses for the year ended 30 September 2015 within other operating and administrative expenses. These expenses have been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2014.

(6) Other conduct charges of £13 million for the year ended 30 September 2014 were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2015.

(7) Impairment charges on intangible assets of £10 million and £23 million for the years ended 30 September 2015 and 2014, respectively, were recorded within other operating and administrative expenses. These costs comprise impairment on capitalised software costs and have been excluded from the results on the Management Basis.

(8) CYBG Group recorded a charge of £17 million in restructuring costs for the year ended 30 September 2015, principally for headcount reductions across the front and back offices. There is no equivalent amount for the year ended 30 September 2014.

(9) Separation costs of £10 million for the year ended 30 September 2015 were recorded within personnel expenses (£2 million) and within other operating and administrative expenses (£8 million). These costs were incurred for pre day one separation activities, and, due to their non-recurring nature, have been excluded from the results on the Management Basis.

Table 19: Summary of Historical Financial Performance (CYBG HFI and Management Basis)

	Year ended 30 September 2013			Year ended 30 September 2012			
	CYBG HFI Income Statement	**Presentation Differences**	**Management Basis**	**CYBG HFI Income Statement**	**Presentation Differences**	**Presentation Differences relating to the disposed CRE portfolio[1]** *(unaudited)*	**Management Basis**
		£m			*£m*		
Interest income and similar income	1,209	-	1,209	1,461	-	(161)	1,300
Interest expense and similar charges	(441)	-	(441)	(584)	-	90	(494)
Net interest income	**768**	**-**	**768**	**877**	**-**	**(71)**	**806**
Gains less losses on financial instruments at fair value	(35)	-	(35)	(144)	-	-	(144)
Other operating income[2]	225	-	225	399	(130)	(5)	264
Non-interest income	**190**	**-**	**190**	**255**	**(130)**	**(5)**	**120**
Total operating income	**958**	**-**	**958**	**1,132**	**(130)**	**(76)**	**926**
Personnel expenses	(302)	-	(302)	(329)	-	14	(315)
Depreciation expense	(76)	-	(76)	(75)	-	-	(75)
Other operating and administrative expenses[3][4][5][6]	(485)	180	(305)	(645)	320	-	(325)
Restructuring expenses[7]	-	-	-	(149)	149	-	-
Total operating and administrative expenses before impairment losses	**(863)**	**180**	**(683)**	**(1,198)**	**469**	**14**	**(715)**
Operating profit/(loss) before impairment losses	**95**	**180**	**275**	**(66)**	**339**	**(62)**	**211**
Impairment losses on credit exposures	(144)	-	(144)	(737)	-	564	(173)
Underlying profit on ordinary activities before tax	**(49)**	**180**	**131**	**(803)**	**339**	**502**	**38**
Pension scheme reforms benefit[2]	-	-	-	-	130	-	130
PPI redress expense[3]	-	(130)	(130)	-	(120)	-	(120)
Other conduct[4]	-	(50)	(50)	-	(23)	-	(23)
Impairment of intangible assets[5]	-	-	-	-	(36)	-	(36)
Impairment losses on goodwill[6]	-	-	-	-	(141)	-	(141)
Disposed legacy CRE portfolio impact[1]	-	-	-	-	-	(502)	(502)
Restructuring expenses[7]	-	-	-	-	(149)	-	(149)
Loss on ordinary activities before tax	**(49)**	**-**	**(49)**	**(803)**	**-**	**-**	**(803)**
Tax credit	5	-	5	156	-	-	156
Loss for the year	**(44)**	**-**	**(44)**	**(647)**	**-**	**-**	**(647)**
Attributable to:							
Equity holders of the parent	(44)	-	(44)	(656)	-	-	(656)
Non-controlling interest	-	-	-	9	-	-	9
	(44)	**-**	**(44)**	**(647)**	**-**	**-**	**(647)**

For relevant footnotes please see following page

Footnotes for Table 19 (on previous page):

(1) These amounts are unaudited. The £502 million amount disclosed above represents the impact of the disposed CRE portfolio on the results for the year ended 30 September 2012. The legacy CRE portfolio was reclassified as held for sale at 30 September 2012 and the £5,225 million of predominantly CRE assets and associated loans net of provisions was transferred to NAB in October 2012. The presentation of results on the Management Basis excludes the results, including impairment losses, of the disposed legacy CRE portfolio during the year ended 30 September 2012. Accordingly, interest income of £161 million, interest expense of £90 million, other operating income of £5 million, personnel expenses of £14 million and an impairment loss on credit exposures of £564 million have all been removed from the results on the Management Basis and are instead shown as a single loss on the disposed legacy CRE portfolio of £502 million. The interest expense of £90 million has been calculated by applying the contractual rates that were in place for the majority of the funding to all of the funding arrangements supporting the CRE portfolio prior to the disposal. There is no equivalent amount for the year ended 30 September 2013.

(2) In the year ended 30 September 2012, CYBG Group received a one-off pension contribution of £130 million from NAB in respect of the defined benefit pension scheme. This amount was recognised as a one-off gain in other operating income, but has been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

(3) PPI redress expense provision costs of £130 million and £120 million for the years ended 30 September 2013 and 2012, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

(4) Other conduct charges of £50 million and £23 million for the years ended 30 September 2013 and 2012, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

(5) Impairment charges on intangible assets of £36 million for the year ended 30 September 2012 were recorded within other operating and administrative expenses. These costs comprise impairment on capitalised software costs, predominantly with respect to business banking systems in 2012 and have been excluded from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

(6) A goodwill impairment charge of £141 million was recorded within other operating and administrative expenses for the year ended 30 September 2012. It represents a reduction in the value of CYBG Group's investment in Clydesdale Bank, reflecting the results, including impairment losses, on the legacy CRE portfolio and other restructuring costs that the business incurred in that period. This cost has been removed from the results on the Management Basis due to its non-recurring nature. There is no equivalent amount for the year ended 30 September 2013.

(7) CYBG Group recorded a charge of £149 million for restructuring for the year ended 30 September 2012, principally for headcount reductions and the closure or relocation of certain business and private banking centres and back office locations, as part of the 2012 strategic review. This charge has been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

3.13.6 CYBG Pro Forma Historical Financial Information

This Section consists of the CYBG Pro Forma Historical Balance Sheet and selected key pro forma performance metrics of CYBG Group which has been prepared for illustrative purposes to assist NAB Shareholders in understanding the impact of the Demerger on the financial position of CYBG Group.

No pro forma adjustments have been made to the CYBG HFI Income Statement, and therefore pro forma historical income statements have not been presented for the CYBG Group. The effect of the Insurance Intermediary Business's earnings as outlined in Section 3.13.2, incremental costs to be incurred by CYBG PLC as a standalone listed entity described below in Section 3.14, and the arrangements to replace existing AT1 Notes and Tier 2 Notes with new AT1 Notes and Tier 2 Notes as described in Section 4.10.2.4 should be taken into account when assessing CYBG Group's future earnings.

3.13.6.1 Basis of preparation

The CYBG Pro Forma Historical Balance Sheet has been prepared to illustrate the effect of the separation of CYBG Group from NAB, which will result in the settlement of certain intercompany balances and reclassification of balances with related parties as external counterparties for outstanding balances.

For the purposes of preparing the CYBG Pro Forma Historical Balance Sheet, it has been assumed that the above transactions were effected and completed on 30 September 2015. A pro forma adjustment has not been included in the CYBG Pro Forma Historical Balance Sheet for the replacement of CYBG Group's existing AT1 Notes and Tier 2 Notes, with new AT1 Notes and Tier 2 Notes.

The pro forma adjustments above are reflected in the NAB (after the Demerger) Pro Forma Historical Financial Information presented in Section 2.8, presented as Australian dollar equivalents.

The CYBG Pro Forma Historical Balance Sheet does not purport to represent the CYBG Group financial position that would have occurred had CYBG Group not been part of NAB during the period presented.

The CYBG Pro Forma Historical Balance Sheet has been derived from the CYBG HFI after adjusting for the effects of the transactions described above.

The CYBG Pro Forma Historical Balance Sheet has been prepared in accordance with the recognition and measurement principles prescribed in the International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IASB**"), and as adopted by the European Union ("**EU**") and IFRIC Interpretations, other than that it includes adjustments which have been prepared in a manner consistent with IFRS, that reflect the impact of certain transactions as if they occurred on 30 September 2015.

The CYBG Pro Forma Historical Balance Sheet is presented in an abbreviated form and does not contain all of the presentation and disclosures that are usually provided in an annual financial report prepared in accordance with IFRS.

3.13.7 CYBG Pro Forma Historical Balance Sheet as at 30 September 2015

The CYBG Pro Forma Historical Balance Sheet as at 30 September 2015 is set out in Table 20 below.

Table 20: CYBG Pro Forma Historical Balance Sheet

	30 September 2015[1]	Adjustment for Settlement/ Reclassification of intercompany balances[2]	Pro forma balance sheet as at 30 September 2015[3]
Assets			
Cash and balances with central banks	6,431	-	6,431
Due from related entities	786	(786)	-
Due from other banks	128	679	807
Investments – available for sale	1,462	-	1,462
Other financial assets at fair value	1,097	-	1,097
Derivative financial instruments	285	-	285
Loans and advances to customers	27,482	-	27,482
Due from customers on acceptances	4	-	4
Current tax assets	4	-	4
Property, plant and equipment	109	-	109
Investment properties	32	-	32
Property inventory	-	-	0
Investments in controlled entities and associates	2	-	2
Intangible assets	265	-	265
Deferred tax assets	389	-	389
Defined benefit pension assets	52	-	52
Other assets	177	-	177
Total assets	38,705	(107)	38,598
Liabilities			
Due to other banks	393	891	1,284
Other financial liabilities at fair value	67	-	67
Derivative financial instruments	534	-	534
Due to customers	26,407	-	26,407
Liabilities on acceptances	4	-	4
Current tax liabilities	-	-	-
Provisions	1,006	-	1,006
Due to related entities	998	(998)	-
Bonds and notes	3,766	-	3,766
Retirement benefit obligations	4	-	4
Deferred tax liabilities	10	-	10
Other liabilities	2,073	-	2,073
Total liabilities	**35,262**	**(107)**	**35,155**
Net assets	**3,443**	**-**	**3,443**
Total equity	**3,443**	**-**	**3,443**

For relevant footnotes please see following page

Footnotes for Table 20 (on previous page):

(1) The consolidated balance statement as at 30 September 2015 is extracted from the historical financial information of CYBG Group.

(2) Represents the post separation cash settlement of certain balances and recognition of outstanding balances between CYBG Group and NAB assumed to remain at separation as external counterparties. Further details of the outstanding intercompany balances as at 30 September 2015 are disclosed in Section 4.10.

(3) On 8 February 2016, CYBG PLC will become the new holding entity of CYBG Group. CYBG PLC was incorporated on 18 May 2015 as a wholly owned subsidiary of NAB with a share capital of £1 which was increased to £50,000 on 11 September 2015. A share for share exchange will be carried out on 8 February 2016, by which, CYBG PLC will acquire the entire share capital of CYBG Group in exchange for the issue of 879,275,256 new ordinary shares. Under the principles of accounting for common control transactions, the accounting records reflect a continuation of the underlying business of CYBG PLC. The Pro Forma Historical Balance Sheet as at 30 September 2015 is, therefore, equivalent to the aggregated net assets of CYBG PLC and CYBG Group following this group reconstruction. Consequently no pro forma adjustment to Pro Forma Historical Balance Sheet has been prepared in respect of this group reconstruction.

No pro forma adjustment has been made in relation to the changes in the AT 1 Notes and Tier 2 Notes as the gain or loss of the arrangement and the amount to be recognised in the balance sheet on the Demerger Date are not yet known.

Table 21: Selected CYBG Group Pro Forma Key Metrics

	Reported 30 September 2015	Pro forma 30 September 2015
Return on Tangible Equity – statutory basis[(1)]	(10.3%)	(10.3%)
Return on Tangible Equity – Management Basis[(1)]	5.1%	5.1%
CET1 Ratio[(2)]	13.2%	13.2%
Tier 1 Ratio[(2)]	15.7%	15.7%
Total Capital Ratio[(2)]	18.9%	18.9%
Leverage Ratio[(2)]	7.1%	7.1%
NIM	2.20%	2.20%
Cost to Income-Management Basis[(3)]	75%	75%
Risk-weighted assets	£18.2bn	£18.2bn

(1) Key income statement measures include return on tangible equity, which is defined as profit/(loss) after tax less preference share dividends, non-controlling interest distributions and Additional Tier 1 Capital distributions as a percentage of average tangible equity (total equity less intangible assets, preference shares and Additional Tier 1 Capital instruments classified within equity for IFRS purposes) for a given period. Average tangible equity has been calculated using tangible equity spot balances at each of the month ends of the applicable period. Key balance sheet measures include regulatory capital resources and ratios of CYBG Group. These measures are presented immediately before and after the transactions described in footnote (2) in Table 20 above, as if these transactions had occurred at the relevant balance sheet date.

(2) Common Equity Tier 1 Ratio, Tier 1 Ratio, Total Capital Ratio and Leverage Ratio are calculated based on the most recent update of CRD IV guidance which was effective from 1 January 2015.

(3) Management Basis cost-to-income ratio is defined as Management Basis total operating expenses as a percentage of Management Basis total operating income for a given period.

3.14 Additional corporate costs as a listed entity

Following the Demerger, CYBG PLC will be a standalone entity, proposed to be listed on the LSE and ASX, and will incur additional corporate operating costs, which it did not incur as part of NAB. These costs principally include share registry costs, company secretariat costs, and other costs. CYBG Group will also incur additional costs associated with certain corporate functions, services and internal management systems that have previously been provided by or in conjunction with NAB, such as information technology, insurance, accounting, treasury, investor relations, legal, human resources and marketing.
Overall, it is estimated that these additional costs will have an incremental net impact on CYBG Group's total operating costs of between approximately £15 million and £25 million per year. These additional costs include estimated costs to be incurred under the TSAs between members of CYBG Group and NAB, less the net corporate costs currently being recharged from NAB to CYBG Group. The effect of these additional costs has not been included within the CYBG Group Pro Forma Historical Financial Information disclosed in Section 3.13.6 but should be taken into account when assessing CYBG Group's future earnings.

3.15 Risk factors

CYBG Group's business will be subject to different risks than NAB (or the NAB after the Demerger) because it operates in the UK only and on a smaller scale than NAB.

Below is a list of risks to which CYBG Group is exposed. The details of those risks are outlined in Part 1 of Annexure G and a high-level summary of CYBG Group's business risks has been outlined in Item 4.11 of Section 1.

- Risks relating to the macro-economic environment in which CYBG Group operates
  - CYBG Group is subject to risks arising from macro-economic conditions in the UK.
  - CYBG Group faces risks related to volatility in UK house prices.
  - CYBG Group is exposed to risks relating to the supply and affordability of property in the UK.
  - CYBG Group faces risks associated with interest rate levels and volatility.
  - CYBG Group is exposed to risks relating to higher levels of unemployment, principally in the UK.
  - CYBG Group's business and financial performance could be adversely affected by macro economic conditions in the Eurozone and globally.
  - CYBG Group face risks relating to a proposed referendum on the UK's continued membership in the EU.
- Risks relating to the operation of CYBG Group's business
  - CYBG Group faces risks associated with compliance with a wide range of laws and regulations.
  - CYBG Group faces risks associated with the implementation of its strategy.
  - The reputation of CYBG Group and its brands may be damaged by the actions, behaviour or performance of numerous persons.
  - CYBG Group's business is subject to risks relating to the cost and availability of liquidity and funding.
  - The amount and quality of CYBG Group's capital is subject to regulatory capital requirements and market influence.
  - CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses.
  - CYBG Group faces risks from the highly competitive environment in which it operates.
  - CYBG Group is exposed to risks relating to its relationships with mortgage intermediaries.
  - CYBG Group is a supplier of credit to the buy-to-let sector in the UK. Many borrowers in the sector have yet to operate through an entire economic cycle, and any weakness in their credit quality may impact the financial and operational performance of CYBG Group.
  - CYBG Group is exposed to the risk of customers who have interest-only owner-occupied mortgage loans being unable to repay their loans in full at maturity.
  - CYBG Group is subject to risks associated with customer and counterparty non-performance.
  - Concentration of credit risk could increase CYBG Group's potential for significant losses.
  - CYBG Group faces risks associated with its dependence on third party service providers for certain functions.
  - CYBG Group is exposed to the risks associated with cyber crime and fraud.
  - CYBG Group is subject to risks associated with its hedging and treasury operations, including potential negative fair value adjustments.
  - CYBG Group could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties.
  - A downgrade in the credit rating of CYBG PLC or Clydesdale Bank, the UK banking sector or the UK government may have an adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

Section Three: Overview of CYBG Group

- Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS, covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes.
- Since August 2012 the UK Government has provided significant support to UK financial institutions pursuant to the FLS. Any significant reduction or withdrawal of the FLS or other funding schemes could increase competition for other sources of funding which could adversely impact CYBG Group.
- CYBG Group's risk management policies and procedures may not be effective in protecting it against all the risks faced by its business, and any failure to manage properly the risks that it faces could harm CYBG Group and its prospects.
- CYBG Group is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events.
- CYBG Group is exposed to risks associated with its IT systems.
- CYBG Group faces risks relating to its exposure to UK Government debt.
- CYBG Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate.
- CYBG Group's financial performance as set out in its historical financial information may not in all respects be indicative of its future performance as an independent, publicly listed company.
- CYBG Group may fail to attract or retain executives, senior managers or other key employees.
- CYBG Group could be exposed to industrial action and increased labour costs resulting from employee trade union membership.
- CYBG Group faces risks associated with a failure to manage changes in taxation rates or applicable tax laws, or from a misinterpretation of such tax laws.
- CYBG Group has carried forward tax losses that may not be available to set off against profits.

- Risks relating to CYBG Group's relationship with NAB
  - CYBG Group's reliance on transitional services arrangements with NAB exposes CYBG Group to a range of potential operational and regulatory risks.
  - CYBG Group faces potential risks associated with its separation from NAB.
  - CYBG Group faces potential risks associated with migration from the arrangements under the TSA to new standalone arrangements.
- Risks relating to pension schemes
  - CYBG Group may be required to increase its contributions to the DB Scheme to fund deficits.
  - CYBG Group may be required to make contributions to the DB Scheme based on a more onerous "buy out" funding basis.
  - CYBG Group is subject to additional regulatory capital requirements associated with defined benefit pension scheme risk.
  - CYBG Group's reported accounts may be adversely impacted.
- Regulatory risks
  - CYBG Group is subject to substantial and changing prudential regulation.
  - Clydesdale Bank is subject to substantial and changing conduct regulations.
  - CYBG Group is subject to the potential impacts of UK and European banking and financial services reform initiatives.
  - CYBG Group is subject to substantial and increasing industry-wide regulatory and governmental oversight.
  - CYBG Group must comply with data protection regulations.
  - CYBG Group must comply with anti-money laundering, anti-bribery and sanctions regulations.
  - As a result of any of the foregoing risks, CYBG Group may tbe subject to the provisions of the *UK Banking Act* in the future.
- Risks relating to the offer and the shares
  - Following UK Admission, NAB will continue to be able to exercise substantial influence over CYBG Group's business.
  - There has been no prior trading market for CYBG Shares.
  - CYBG PLC is expected to have a shareholder base that will be predominantly based in Australia.
  - Significant trading volumes of CYBG Shares or CYBG CDIs in the public market in the period post-Demerger could adversely impact the share price.
  - Investors with a reference currency other than Pounds Sterling will become subject to foreign exchange rate risk when investing in or holding CYBG Shares.
  - The value of CYBG Shares may fluctuate significantly.
  - There are restrictions on the ability of CYBG PLC to pay dividends.
  - The issue of additional shares in CYBG PLC in connection with the conversion of potential future Additional Tier 1 Capital instruments issued by CYBG Group into CYBG Securities may dilute other shareholdings in CYBG PLC.

- The issue of additional shares in CYBG PLC in connection with the termination of the Capped Indemnity, future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings.
- CYBG Shareholders outside the UK may not be able to participate in future equity offerings. The Articles of CYBG PLC provide rights for any new offer of CYBG Shares to first be offered to CYBG Shareholders before such an offer is made to anyone else, unless such rights are disapplied by a CYBG Shareholder resolution. In the event of a future equity offer, there may be certain circumstances in which CYBG Shareholders outside the UK may not be able to participate. Securities laws of Australia and certain other foreign jurisdictions may restrict CYBG PLC's ability to allow participation by CYBG Shareholders from such jurisdictions in future offers or impose material obligations which make the proposed offers impracticable. Thus Australian and/or other foreign CYBG Shareholders may be excluded from such future equity offers, which may result in their shareholding in CYBG PLC being diluted. In particular, CYBG Shareholders in the United States may not be entitled to exercise these rights unless either the rights and CYBG Shares are registered under the *US Securities Act*, or the rights and CYBG Shares are offered pursuant to an exemption from, or a transaction not subject to, the registration requirements of the *US Securities Act*.
- Payments on CYBG Securities may be subject to U.S. withholding tax under FATCA.

Section Four

Details of the Demerger

Section Four:
Details of the Demerger

4.1 Background

CYBG PLC and CYBI are both currently wholly-owned subsidiaries of NAB.

Pursuant to the Demerger, all of the CYBI Shares will be transferred by NAB to CYBG PLC and CYBG PLC will become a standalone company. It is proposed that CYBG Shares will be admitted to the premium listing segment of the UKLA Official List and to trading on the LSE's main market for listed securities (LSE: CYBG) (if UK Admission becomes effective) and CYBG CDIs will be quoted on ASX (ASX: CYB) (if Australian Admission is granted by ASX). There is no guarantee that CYBG Securities will be admitted to either market. The Demerger is not conditional on UK Admission becoming effective or Australian Admission being granted.

Following the Demerger, CYBG PLC will own the Clydesdale Bank and Yorkshire Bank brands and will operate them independently of NAB (other than in respect of certain transitional arrangements outlined in Section 4.8.5 and other ongoing arrangements described in Section 4.10) and will have its own independent board of directors and management.

After the Demerger, the majority of the current NAB business will remain with NAB.

4.2 The Demerger steps

4.2.1 Overview

The steps associated with the implementation of the Demerger include:

- NAB Shareholders will be asked to consider the Scheme Resolution at the Scheme Meeting (as described in Section 4.2.2).
- NAB Shareholders and NAB Tier 1 Securityholders will be asked to consider the NAB Capital Reduction Resolution, and NAB Shareholders will be asked to consider the CYBG Capital Reduction Resolution, at the General Meeting (as described in Section 4.2.3).
- If the Scheme Resolution and the NAB Capital Reduction Resolution are passed by the requisite majorities of NAB Shareholders and NAB Tier 1 Securityholders (as applicable) at the Meetings, the Court approves the Scheme and all other Conditions Precedent to the Scheme are satisfied or waived:
  - The Scheme will take effect.
  - NAB will undertake the NAB Capital Reduction and transfer the CYBI Shares to CYBG PLC in consideration for the issue by CYBG PLC of CYBG Shares as follows:
    - 659,486,442 CYBG Shares (representing 75% of the issued share capital of CYBG PLC immediately following Demerger) to NAB as nominee and bare trustee for Scheme Participants or the Sale Agent (as applicable); and
    - 219,788,814 CYBG Shares (representing (when taken together with NAB's existing shareholding in CYBG PLC immediately prior to the Demerger) 25% of the issued share capital of CYBG PLC immediately following Demerger) to NAB legally and beneficially.
  - The Capital Reduction Portion of each Scheme Participant will be satisfied in accordance with the terms of the Scheme.
  - Eligible Shareholders (other than Selling Shareholders) will receive:
    - if they are Eligible AUSNZ Shareholders one CYBG CDI (unless they make a Share Election);[(6)] and
    - if they are Eligible Overseas Shareholders one CYBG Share (unless they make a CDI Election);[(6)]

    for every four NAB Shares which they hold as at the Scheme Record Date.
  - Selling Shareholders (including Ineligible Shareholders) will receive the Sale Facility Proceeds of the sale of their CYBG Securities in accordance with the Sale Facility process described in Section 4.5 (or such proceeds will be donated to the charity ShareGift if so elected by any Small Shareholders). Any interest earned on sale proceeds will be retained by NAB. It is anticipated that the Sale Facility Proceeds will be dispatched no later than 4 April 2016.
  - CYBG PLC, the holding company of CYBG Group, will be established as a separate listed company which is not part of NAB.

If the number of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of CYBG Securities. Fractions arising from rounding down will be aggregated and sold under the Sale Facility and the proceeds remitted to NAB.

There is no guarantee that ASX will grant CYBG PLC either a standard listing or a foreign exempt listing. The Demerger is not conditional on UK Admission becoming effective or Australian Admission being granted.

4.2.2 Scheme Meeting

On 7 December 2015 at the First Court Hearing, the Court ordered that a meeting of NAB Shareholders be convened to consider and, if thought fit, approve the Scheme, with or without modifications or conditions ("**Scheme Meeting**").

(6) Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, then Share Elections will be disregarded and be of no effect and it is proposed that all Eligible Shareholders (other than Selling Shareholders) will receive CYBG CDIs instead of CYBG Shares under the Demerger.

Section Four: Details of the Demerger

The Scheme Meeting is scheduled to be held at the Melbourne Convention and Exhibition Centre at 10:00am on 27 January 2016.

The terms of the Scheme are contained in Annexure A and the Notice of Scheme Meeting is set out in Annexure C. The fact that the Court has ordered that the Scheme Meeting be convened is no indication that the Court has a view as to the merits of the Scheme or as to how NAB Shareholders should vote. On these matters, NAB Shareholders must reach their own decision.

Each NAB Shareholder who is registered on the NAB Share Register as the holder of a NAB Share at 7:00pm on the Voting Record Date (25 January 2016) is entitled to attend and vote at the Scheme Meeting. Voting at the Scheme Meeting will be by poll.

For the Demerger to proceed, the Scheme Resolution must be approved by a majority in number of NAB Shareholders present and voting at the Scheme Meeting (whether in person (including by attorney or by a corporate representative) or by proxy), and whose votes in favour of the Scheme Resolution are in aggregate at least 75% of the total number of all votes cast on the Scheme Resolution. If both these thresholds are met, and all Conditions Precedent to the Scheme are satisfied or waived and the Court approves the Scheme, all NAB Shareholders will be bound by the Scheme, including those who voted against the Scheme and those who did not cast a vote.

The Conditions Precedent to the Scheme include that the NAB Capital Reduction Resolution is approved by NAB Shareholders and NAB Tier 1 Securityholders at the General Meeting. This means that if the NAB Capital Reduction Resolution is not passed, the Scheme will not become Effective and the Demerger will not proceed. If the Demerger does not proceed, the Institutional Offer will not proceed.

The NAB Directors unanimously believe that the Scheme is in the best interests of NAB Shareholders as a whole. The NAB Directors unanimously recommend that NAB Shareholders vote in favour of the Scheme Resolution, as they intend to do in respect of their own holdings of NAB Shares.

The Independent Expert has concluded that the Demerger is in the best interests of NAB Shareholders.

4.2.3 General Meeting

The NAB Board has convened the General Meeting to consider and, if thought fit, approve the NAB Capital Reduction Resolution and the CYBG Capital Reduction Resolution. Details of these resolutions are set out in the Notice of General Meeting in Annexure D.

The General Meeting is scheduled to be held at the Melbourne Convention and Exhibition Centre at 10:15am or immediately after the conclusion of the Scheme Meeting (whichever occurs later), on 27 January 2016.

Each NAB Shareholder who is registered on the NAB Share Register at 7:00pm on the Voting Record Date (25 January 2016) is entitled to attend the General Meeting and vote on the resolutions to be considered at that meeting. Voting at the General Meeting will be by poll.

Each NAB Tier 1 Securityholder who is registered on a NAB Tier 1 Security Register at 7:00pm on the Voting Record Date (25 January 2016) is entitled to attend the General Meeting and vote on the NAB Capital Reduction Resolution to be considered at that meeting. Voting at the General Meeting will be by poll.

NAB Tier 1 Securityholders are not entitled to vote on the CYBG Capital Reduction Resolution.

NAB Capital Reduction Resolution

NAB has proposed the NAB Capital Reduction Resolution to permit NAB to reduce its share capital on the Demerger Date. The NAB Capital Reduction will be satisfied by the issue of CYBG Shares.

The NAB Capital Reduction is conditional on the Scheme becoming Effective. This means that NAB will not undertake the NAB Capital Reduction unless the Scheme Resolution is passed and unless the Scheme becomes Effective.

The NAB Capital Reduction Resolution must be approved by a simple majority of votes cast on the resolution in order to be passed.

The NAB Directors are of the view that, taking into account all relevant matters, the NAB Capital Reduction is fair and reasonable to the members of NAB as a whole and will not materially prejudice the ability of NAB to pay its creditors. The NAB Directors unanimously recommend that NAB Shareholders and NAB Tier 1 Securityholders vote in favour of the NAB Capital Reduction Resolution, as they intend to do in respect of the NAB Shares and NAB Tier 1 Securities controlled by them.

In the opinion of the NAB Directors, the Demerger will not, if implemented, materially prejudice NAB's ability to pay its creditors.

The Independent Expert has also concluded that the NAB Capital Reduction will not materially prejudice NAB's ability to pay its creditors.

CYBG Capital Reduction Resolution

NAB has proposed the CYBG Capital Reduction Resolution in connection with the CYBG Capital Reduction. The CYBG Capital Reduction is proposed to create distributable reserves in CYBG PLC. NAB has (as the current sole shareholder of CYBG PLC) passed a special resolution approving the CYBG Capital Reduction. As NAB Shareholders will become CYBG Securityholders if the Demerger is implemented, confirmatory approval of the NAB Shareholders to the CYBG Capital Reduction will be sought at the General Meeting pursuant to the CYBG Capital Reduction Resolution.

The CYBG Capital Reduction Resolution must be approved by a simple majority of votes cast by NAB Shareholders (either in person or by proxy) on the resolution in order to be passed. The CYBG Capital Reduction is conditional, amongst other things, on the CYBG Capital Reduction Resolution being passed.

The NAB Directors unanimously recommend that NAB Shareholders vote in favour of the CYBG Capital Reduction Resolution, as they intend to do in respect of the NAB Shares controlled by them.

4.3 Conditions Precedent to implementation of the Demerger

The Scheme will become binding on NAB and NAB Shareholders, and the Demerger will proceed, if all of the Conditions Precedent to the Scheme are satisfied or waived. The Conditions Precedent are contained in the Scheme as set out in Annexure A.

The Conditions Precedent are, in summary:

- **NAB Directors' recommendation** – between the date of this Scheme Booklet and the Scheme Meeting, a majority of NAB Directors recommend and do not change or withdraw their recommendation to NAB Shareholders to vote in favour of the Scheme Resolution and to NAB Shareholders and NAB Tier 1 Securityholders to vote in favour of the NAB Capital Reduction Resolution.
- **Shareholder approval** – NAB Shareholders approve the Scheme Resolution by the required majorities and NAB Shareholders and NAB Tier 1 Securityholders approve the NAB Capital Reduction Resolution by the required majority.
- **Regulatory approvals** – all Regulatory Approvals are obtained and not revoked before 8:00am on the Second Court Date either unconditionally or on conditions reasonably satisfactory to the NAB Board.
- **Court approval** – the Court approves the Scheme and a copy of the Court order is lodged with ASIC.
- **No restrictions** – no temporary restraining order, preliminary or permanent injunction or other order is issued by any court of competent jurisdiction and no other legal restraint or prohibition preventing the Demerger is in effect as at 8:00am at the Second Court Hearing.

The "Regulatory approvals" and "No restrictions" Conditions Precedent referred to above may be waived by written agreement between NAB and CYBG PLC, but none of the other Conditions Precedent can be waived. If all the Conditions Precedent are not satisfied or waived by 31 August 2016 (or such other date agreed by NAB and CYBG PLC), then the Scheme will lapse and be of no effect and the Demerger will not proceed.

4.4 Entitlement to participate in the Demerger

4.4.1 General

NAB Shareholders as at the Scheme Record Date will be entitled to a Capital Reduction Portion and will participate in the Scheme.

For the purposes of determining which NAB Shareholders will be eligible to receive a Capital Reduction Portion and participate in the Scheme, dealings in NAB Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered on the NAB Share Register as the holder of the relevant NAB Shares as at the Scheme Record Date; and
- in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the NAB Share Registry before the Scheme Record Date with sufficient time to allow for registration of the transferee on or before the Scheme Record Date (and the transferee remains registered on the Scheme Record Date).

For the purpose of determining who is a NAB Shareholder as at the Scheme Record Date and their respective entitlements, NAB will not accept for registration or recognise any transfer or transmission application in respect of NAB Shares received after the Scheme Record Date, or received prior to that time but not in registrable form.

The Capital Reduction Portion will be satisfied by:

- one CYBG Share for every four NAB Shares held by a CDI Receiving Shareholder at the Scheme Record Date being distributed to the Authorised Nominee who will then issue one CYBG CDI to the CDI Receiving Shareholder for every CYBG Share the Authorised Nominee received in respect of the CDI Receiving Shareholder;
- one CYBG Share[7] being distributed to a Share Receiving Shareholder for every four NAB Shares held by the Share Receiving Shareholder at the Scheme Record Date; or
- one CYBG Security being distributed to the Sale Agent for every four NAB Shares held by a Selling Shareholder at the Scheme Record Date.

If the number of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of CYBG Securities. The remaining fractional entitlements will be aggregated and transferred to the Sale Agent to be sold in the Sale Facility, the proceeds of which will be remitted to NAB. No Scheme Participant has any right or entitlement at any time to any cash amount (other than in their capacity as a Selling Shareholder) or any fractions of CYBG Securities to which they would otherwise have been entitled had their Capital Reduction Portion not been rounded down.

(7) Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, then Share Elections will be disregarded and be of no effect and it is proposed that all Eligible Shareholders (except Selling Shareholders) will receive CYBG CDIs instead of CYBG Shares under the Demerger.

Section Four: Details of the Demerger

The CYBG Shares to be distributed to or for the benefit of Scheme Participants under the Demerger will first be allotted and issued by CYBG PLC to NAB in accordance with the terms of the Sale and Purchase Agreement, who will hold the legal title to those CYBG Shares as nominee and bare trustee for the Scheme Participants or the Sale Agent (as applicable) and will then, at the Transfer Time, transfer the legal title to those CYBG Shares to or for the benefit of the Scheme Participants or the Sale Agent (as applicable).

If you are a NAB Shareholder who as at the Scheme Record Date has more than one registered holding of NAB Shares, you will have a separate Capital Reduction Portion for each separate holding.

If you are a NAB Shareholder as at the Scheme Record Date, the way in which you participate in the Scheme will depend on whether you are an Eligible Shareholder or a Selling Shareholder (being either an Ineligible Shareholder or a Small Shareholder who elects to participate in the Sale Facility).

As NAB Tier 1 Securities are not NAB Shares, NAB Tier 1 Securityholders do not participate in the Scheme, cannot vote at the Scheme Meeting, are not entitled to receive any CYBG Securities under the Demerger and accordingly cannot vote on the CYBG Capital Reduction Resolution. There is no change to the terms of the NAB Tier 1 Securities.

4.4.2 Eligible Shareholders

You are an Eligible Shareholder if you are a NAB Shareholder whose registered address on the NAB Share Register as at the Scheme Record Date is in Australia, New Zealand, UK, United States (excluding Californian Shareholders), Singapore, Hong Kong, Japan, Ireland or Canada. NAB has determined that it is not prohibited and not unduly onerous or impractical to implement the Scheme and to transfer CYBG Shares or issue CYBG CDIs to Eligible Shareholders in those jurisdictions.

If you are an Eligible Shareholder, you will continue to hold the same number of NAB Shares that you held prior to the Demerger (unless you otherwise sell all or some of them or purchase any additional NAB Shares).

4.4.3 Security Election mechanisms

4.4.3.1 Eligible AUSNZ Shareholders

Eligible AUSNZ Shareholders (other than Selling Shareholders) can elect to receive one CYBG Share instead of one CYBG CDI for every four NAB Shares that they hold on the Scheme Record Date. This is referred to as a "**Share Election**". CYBG Shares cannot be traded on ASX.

Eligible AUSNZ Shareholders can make a Share Election by completing the Share Election Form and returning it to the NAB Share Registry by 5:00pm on the Election Date (3 February 2016). Eligible AUSNZ Shareholders can obtain a Share Election Form by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days. Alternatively, they can download the Share Election Form online at **www.clydesdaledemerger.com.au**.

A valid Share Election made by an Eligible AUSNZ Shareholder will apply to all of the NAB Shares in the relevant holding of the Eligible AUSNZ Shareholder (unless the Eligible AUSNZ Shareholder holds NAB Shares as a trustee, nominee or custodian) as at the Scheme Record Date and will be valid if the Share Election Form is received before 5:00pm on the Election Date (3 February 2016) by the NAB Share Registry.

A Share Election must be made in accordance with the terms and conditions set out in this Scheme Booklet and the Share Election Form. If no Share Election is made, or a Share Election is invalid, incomplete or it is received after the Election Date, an Eligible AUSNZ Shareholder (other than Selling Shareholders) will receive CYBG CDIs which will be able to be traded on ASX assuming Australian Admission becomes effective.

By making a valid Share Election, an Eligible AUSNZ Shareholder will acknowledge and agree for the benefit of NAB and CYBG PLC that any CYBG Shares transferred to them under the Demerger are transferred to them on terms that they are subject to the Articles and agree to be bound by the Articles in respect of any CYBG Shares transferred to them.

Eligible AUSNZ Shareholders may withdraw their Share Election by lodging a Security Election Withdrawal Form provided that it is received by the NAB Share Registry by 5:00pm on the Election Date (3 February 2016).

All items and documents (including Share Election Forms) sent to, from, by or on behalf of NAB Shareholders are sent entirely at the NAB Shareholders' risk.

If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, Share Elections will be disregarded and be of no effect and it is proposed that all Eligible AUSNZ Shareholders (other than Selling Shareholders) will receive CYBG CDIs.

4.4.3.2 Eligible Overseas Shareholders

Eligible Overseas Shareholders (other than Selling Shareholders) can elect to receive one CYBG CDI instead of one CYBG Share for every four NAB Shares that they hold on the Scheme Record Date. This is referred to as a "**CDI Election**".

They can make a CDI Election by completing the CDI Election Form and returning it to the NAB Share Registry by 5:00pm on the Election Date (3 February 2016). Eligible Overseas Shareholders can obtain a CDI Election Form by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days. Alternatively, they can download the CDI Election Form online at **www.clydesdaledemerger.com.au**.

A valid CDI Election made by an Eligible Overseas Shareholder will apply to all of the NAB Shares in the relevant holding of the Eligible Overseas Shareholder (unless the Eligible Overseas Shareholder holds NAB Shares as a trustee, nominee or custodian) as at the Scheme Record Date and will be valid if the CDI Election Form is received before 5:00pm on the Election Date (3 February 2016) by the NAB Share Registry.

A CDI Election must be made in accordance with the terms and conditions set out in this Scheme Booklet and the CDI Election Form. If no CDI Election is made, or a CDI Election is invalid, incomplete or it is received after the Election Date, an Eligible Overseas Shareholder will receive CYBG Shares.(8)

By making a valid CDI Election, an Eligible Overseas Shareholder will acknowledge and agree for the benefit of NAB and CYBG PLC that any CYBG CDIs issued to them under the Demerger are issued to them on terms that they are subject to the Articles and agree to be bound by the Articles in respect of any CYBG CDIs issued to them.

Eligible Overseas Shareholders may withdraw their CDI Election by lodging a Security Election Withdrawal Form provided that it is received by the NAB Share Registry by 5:00pm on the Election Date (3 February 2016).

Where NAB is required to withhold any tax in connection with the distribution of CYBG Securities to an Eligible Overseas Shareholder under the Scheme, it reserves the right to sell all of the CYBG Securities to which the relevant Eligible Overseas Shareholder would otherwise have been entitled and remit the proceeds of that sale (net of the amount required to satisfy the withholding tax liability and excluding any interest) to the relevant Eligible Overseas Shareholder.

All items and documents (including CDI Election Forms) sent to, from, by or on behalf of NAB Shareholders are sent entirely at the NAB Shareholders' risk.

4.4.3.3 Trustee or nominee shareholders – Security Elections

NAB Shareholders who hold one or more parcels of NAB Shares as trustee or nominee for, or otherwise on account of, another person ("**Underlying Beneficiary**"), may make separate Security Elections in accordance with the Security Election process in relation to each of those parcels of NAB Shares, to reflect the instructions of the beneficial owners of NAB Shares as to how they wish to receive their Capital Reduction Portion.

If a nominee holder makes separate elections in relation to parcels of NAB Shares it holds for Underlying Beneficiaries, then, for the purposes of the Scheme, the Capital Reduction Portion of the nominee holder will be calculated and rounded down based on each nominated parcel of NAB Shares held by the nominee holder for an Underlying Beneficiary. If a nominee holder does not make separate elections in relation to parcels of NAB Shares it holds for Underlying Beneficiaries, then, for the purposes of the Scheme, the Capital Reduction Portion of the nominee holder will be calculated and rounded down based on the aggregate number of NAB Shares held by the nominee holder in those parcels for Underlying Beneficiaries.

Trustees or nominees who would like further information on how to make a separate Security Election in relation to parcels of NAB Shares should contact the NAB Share Registry on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.

4.4.4 Capital Reduction Portion

If the Demerger is implemented, NAB Shareholders on the NAB Share Register as at the Scheme Record Date will be credited with their Capital Reduction Portion.

Under the Demerger, those NAB Shareholders will not receive their Capital Reduction Portion in cash. The entitlement of NAB Shareholders to the Capital Reduction Portion will be satisfied by:

- (**CDI Receiving Shareholders**) one CYBG Share for every four NAB Shares held by each CDI Receiving Shareholder at the Scheme Record Date being distributed to the Authorised Nominee who will then issue one CYBG CDI to each CDI Receiving Shareholder for every CYBG Share the Authorised Nominee received in respect of that CDI Receiving Shareholder.
- (**Share Receiving Shareholders**) one CYBG Share(9) being distributed to each Share Receiving Shareholder for every four NAB Shares held by that Share Receiving Shareholder at the Scheme Record Date.
- (**Selling Shareholders**) one CYBG Security being distributed to the Sale Agent for every four NAB Shares held by the Selling Shareholder at the Scheme Record Date.

The CYBG Shares to be distributed to or for the benefit of Scheme Participants or the Sale Agent (as applicable) under the Demerger will first be allotted and issued by CYBG PLC to NAB in accordance with the terms of the Sale and Purchase Agreement. NAB will hold the legal title to those CYBG Shares as nominee and bare trustee for the Scheme Participants or the Sale Agent (as applicable) and will then, at the Transfer Time, transfer the legal title to those shares to or for the benefit of the Scheme Participants or the Sale Agent (as applicable).

(8) Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, then Share Elections will be disregarded and be of no effect and it is proposed that all Eligible Overseas Shareholders (except Selling Shareholders) will receive CYBG CDIs instead of CYBG Shares under the Demerger.

(9) Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, then Share Elections will be disregarded and be of no effect and it is proposed that all Eligible Shareholders (other than Selling Shareholders) will receive CYBG CDIs instead of CYBG Shares under the Demerger.

Section Four: Details of the Demerger

If the number of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of CYBG Securities. The remaining fractional entitlements will be aggregated and transferred to the Sale Agent to be sold in the Sale Facility.

4.4.5 CYBG CDIs

All Eligible AUSNZ Shareholders will receive CYBG CDIs instead of CYBG Shares under the Demerger, to allow such NAB Shareholders to continue to hold an investment in CYBG PLC via an ASX quoted instrument (Eligible AUSNZ Shareholders will also be able to elect to receive CYBG Shares instead of CYBG CDIs,(10) by making a Share Election). NAB has also decided to offer all Eligible Overseas Shareholders the option to receive CYBG CDIs instead of CYBG Shares under the Demerger.

CYBG CDIs will be able to be traded on ASX if Australian Admission is granted. If UK Admission becomes effective, CYBG Shares will be able to be traded on the LSE, but will not be able to be traded on ASX. This is because ASX rules require all trading settlement to take place on CHESS (ASX's electronic transfer and settlement system), and CYBG Shares cannot be held directly under the CHESS system or traded on ASX directly as UK regulations do not permit CHESS to be used for electronic transferring and holding of legal title to securities in companies incorporated under the *Companies Act (UK)*. CDIs have been created to facilitate electronic settlement and transfer of title in Australia for companies in this situation.

CYBG CDIs are a type of depositary interest which provide the holder with beneficial ownership of the underlying CYBG Shares. The legal title to those underlying CYBG Shares is held by the Authorised Nominee, an Australian depositary entity, being an approved general participant of ASX Settlement and a wholly-owned Subsidiary of ASX. The Authorised Nominee does not charge CYBG PLC or investors any fees for acting as the Authorised Nominee in respect of CDIs. The Authorised Nominee will be the registered holder of those CYBG Shares.

Each CYBG CDI will represent a beneficial interest in one CYBG Share and, unlike CYBG Shares, each CYBG CDI will be able to be transferred and settled electronically on CHESS.

Each CDI Receiving Shareholder will be deemed to acknowledge and agree for the benefit of NAB and CYBG PLC that they are bound by the Articles in respect of any CYBG CDIs issued to them.

On the Demerger Date, CYBG PLC will issue to NAB CYBG Shares to which the CDI Receiving Shareholders are entitled under the Demerger, and NAB will hold those CYBG Shares as nominee and bare trustee for the CDI Receiving Shareholders. At the Transfer Time, NAB will transfer the legal title to those CYBG Shares to the Authorised Nominee. The Authorised Nominee will in turn issue CYBG CDIs to the CDI Receiving Shareholders.

Unlike CYBG Shares, each CYBG CDI will be able to be traded electronically on ASX with settlement occurring in CHESS in much the same way as NAB Shares may be currently traded. However, there are a number of differences between holding CYBG CDIs and CYBG Shares. The major differences are that:

- As noted above, CYBG CDI Holders will not have legal title in the underlying CYBG Shares to which the CYBG CDIs relate, as legal title to the CYBG Shares will be held by the Authorised Nominee. CYBG CDI Holders will, however, have beneficial ownership of the underlying CYBG Shares and legal and beneficial ownership of the CYBG CDIs.
- A CYBG CDI Holder will not be able to vote personally as a CYBG Shareholder at a meeting of CYBG PLC. Instead, CYBG CDI Holders will be provided with a voting instruction form which will enable them to instruct the Authorised Nominee, as legal owner of the CYBG Shares, in relation to the exercise of voting rights. In addition, a CYBG CDI Holder will be able to request the Authorised Nominee to appoint the CYBG CDI Holder or a third party nominated by the CYBG CDI Holder as its proxy so that the proxy so appointed may attend meetings and vote personally as the Authorised Nominee's proxy (refer to Sections 9.11.4.4 and 9.11.4.5 for further details).

Alternatively, CYBG CDI Holders can convert their CYBG CDIs into CYBG Shares before the relevant meeting, in which case they will be able to vote personally as CYBG Shareholders.

Refer to Sections 9.11.4 and 9.12 for further details of the rights attaching to CYBG CDIs. In particular, as set out in Section 9.12, the rights and entitlements of CYBG CDI Holders are subject to the exercise by a Relevant Resolution Authority or a Resolution Power.

You may convert your holding of CYBG CDIs to CYBG Shares or vice versa at any time after the Demerger Date by contacting your broker or CYBG Share Registry. Where CYBG Shares are converted into CYBG CDIs, the relevant provisions of the Articles will apply to the CYBG CDIs resulting from such conversion. There may be a fee associated with the conversion from CYBG CDIs to CYBG Shares and vice versa. The CYBG Share Registry or your broker can advise you of this at the time of conversion. For more details about the conversion procedure, refer to Section 9.11.4.7 and in relation to certain tax consequences, refer to Section 6.

4.5 Selling Shareholders and the Sale Facility

You are a Selling Shareholder if you are a Small Shareholder who makes a valid Sale Election or an Ineligible Shareholder.

(10) Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, then Share Elections will be disregarded and be of no effect and it is proposed that all Eligible Shareholders (other than Selling Shareholders) will receive CYBG CDIs instead of CYBG Shares under the Demerger.

4.5.1 Ineligible Shareholders

You are an Ineligible Shareholder if you are a NAB Shareholder whose registered address on the NAB Share Register as at the Scheme Record Date is not in Australia, New Zealand, UK, United States (excluding California), Singapore, Hong Kong, Japan, Ireland or Canada.

If you are an Ineligible Shareholder, you will still be entitled to the Capital Reduction Portion on the same basis as all Eligible Shareholders. However, you may not make any Security Election, and neither CYBG Shares nor CYBG CDIs will be distributed to you. Instead, CYBG Shares to which you would otherwise have been entitled under the Demerger will be distributed to the Sale Agent on your behalf and will be dealt with as described in Section 4.5.4.

You will continue to hold the same number of NAB Shares that you held prior to the Demerger (unless you otherwise sell all or some of them or purchase any additional NAB Shares).

4.5.2 Small Shareholders

If you are an Eligible Shareholder who individually holds 2,000 NAB Shares or less as at the Scheme Record Date, you are a Small Shareholder. As a Small Shareholder, you may elect to participate in the Sale Facility and sell all (but not only some) of the CYBG Securities to which you are entitled under the Demerger and have the Sale Facility Proceeds:

- remitted to you (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax); or
- if you so elect, donated to the charity ShareGift.

Small Shareholders who wish to participate in the Sale Facility can do so by either lodging a Sale Election online through the Demerger Website (follow the instructions and prompts) or by completing and returning the enclosed Sale Facility Form so that it is received by the NAB Share Registry by 5:00pm on 3 February 2016.

Small Shareholders may withdraw their Sale Election online through the Demerger Website or by lodging a Sale Election Withdrawal Form, in each case provided that it is received by the NAB Share Registry by 5:00pm on the Election Date (3 February 2016).

Small Shareholders who do not elect to participate in the Sale Facility may keep, sell or otherwise deal with the CYBG Securities received by them pursuant to the Scheme.

You will continue to hold the same number of NAB Shares that you held prior to the Demerger (unless you otherwise sell all or some of them or purchase any additional NAB Shares).

If you are a Small Shareholder and make both a Sale Election and a Security Election, the Sale Election will take precedence and the Security Election will be disregarded.

4.5.3 Trustee or nominee shareholders – Sale Elections

NAB Shareholders who hold one or more parcels of NAB Shares as trustee or nominee for, or otherwise on account of, another person, may make separate Sale Elections in accordance with the Sale Election process in relation to each of those parcels of NAB Shares that qualify to participate in the Sale Facility as at the Scheme Record Date, to reflect the instructions of the beneficial owners of those NAB Shares.

In order to make separate elections, the trustee or nominee must establish sufficient distinct holdings in the NAB Share Register to cater for their underlying client's instructions for the election. On each of these separate holdings that qualify to participate in the Sale Facility as at the Scheme Record Date, the trustee or nominee must make a distinct Sale Election.

4.5.4 Operation of the Sale Facility

The Sale Facility will be used to sell:

- CYBG Securities that otherwise would have been received by Ineligible Shareholders;
- CYBG Securities that Small Shareholders have elected to sell through the Sale Facility by making a Sale Election;
- Fractional entitlements to which a NAB Shareholder would otherwise be entitled under the Demerger arising from rounding down CYBG Securities to the nearest whole number; and
- certain CYBG Securities in respect of the NAB Employee Equity Plans to pay withholding tax in respect of those CYBG Securities, if NAB so elects.

Such CYBG Securities will be transferred to the Sale Agent to be sold on their behalf under the Sale Facility.

Under the Sale Facility, the Sale Agent will, as soon as reasonably practicable (and in any event not more than 6 weeks after the Demerger Date), sell for the benefit of each Selling Shareholder (and NAB in respect of the fractional entitlements) the CYBG Shares on the LSE's main market for listed securities (assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date) or CYBG CDIs on ASX (assuming Australian Admission is granted). The Sale Facility Proceeds will be remitted to Selling Shareholders or, if a Selling Shareholder so elects, ShareGift (and NAB in respect of the fractional entitlements).

The Sale Agent will sell those CYBG Shares on the LSE's main market for listed securities (assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date) or CYBG CDIs on ASX (assuming Australian Admission is granted) at such price or prices and on such other terms as the Sale Agent determines in good faith (and at the risk of the Selling Shareholders or NAB, as applicable), having due regard to the desire to achieve the best price reasonably available at the time of sale, ensuring that Selling Shareholders are treated fairly. Any proceeds from the sale of CYBG Shares on the LSE by the Sale Agent under the Sale

Section Four: Details of the Demerger

Facility will be converted into Australian dollars using the AUD/GBP exchange rate on the day the Sale Agent receives the proceeds of the sale.

As the market price of CYBG Securities will be subject to change from time to time and the conversion of the sale proceeds may be subject to currency exchange movements, neither the sale price of those CYBG Securities nor the proceeds of that sale can be guaranteed. Selling Shareholders will be able to obtain information on the market price of CYBG Shares on **www.cybg.com** and CYBG CDIs on **www.cybg.com**.

The amount of money received by each Selling Shareholder or ShareGift (if applicable), being the Sale Facility Proceeds, will be calculated on an averaged basis so that all Selling Shareholders receive the same price for each CYBG Security sold on their behalf, subject to rounding down to the nearest whole Australian cent (before any conversion of the Sale Facility Proceeds into Australian dollars, New Zealand dollars, Pounds Sterling or US dollars (as applicable)). Consequently, the amount received by Selling Shareholders for each CYBG Security may be more or less than the actual price that is received by the Sale Agent for that particular CYBG Security. Any interest earned on sale proceeds will be retained by NAB.

Unless a Selling Shareholder makes an election to donate their Sale Facility Proceeds to the charity ShareGift (Ineligible Shareholders are not able to make such an election), the Sale Facility Proceeds will be remitted to a Selling Shareholder (free of any brokerage costs or stamp duty but after excluding any interest and deducting any applicable withholding tax) by:

- Direct credit to Selling Shareholders with registered addresses in Australia, New Zealand, the United Kingdom and the United States who have a nominated bank account noted in the NAB Share Register at the Scheme Record Date. The conversion rate for direct credit in each of the respective currencies will be set at the prevailing market rate on 22 March 2016 at 4:00pm.
- By cheque in Australian dollars to Selling Shareholders who do not have a nominated bank account noted on the NAB Share Register at the Scheme Record Date.

Small Shareholders who elect to participate in the Sale Facility and donate their Sale Facility Proceeds to the charity ShareGift will not receive the proceeds, instead those proceeds will be provided directly to ShareGift.

Selling Shareholders who have elected to donate all of their Sale Facility Proceeds to ShareGift may be liable for any capital gains tax arising from the sale of CYBG Securities, the proceeds of which were donated. However, Selling Shareholders may generally be entitled to a tax deduction for the proceeds donated. See Section 6.2.3.2 for the tax consequences of donating the Sale Facility Proceeds to ShareGift.

It is anticipated that the Sale Facility Proceeds will be dispatched no later than 4 April 2016. Selling Shareholders will not receive any interest on the Sale Facility Proceeds relating to their CYBG Securities.

The payment of the Sale Facility Proceeds from the sale of CYBG Securities will be in full satisfaction of the rights of Selling Shareholders under the Demerger. Full details of this process are contained in clause 4 of the Scheme (which is set out in Annexure A).

Under the Demerger, each Selling Shareholder appoints NAB as its agent to receive on its behalf any financial services guide or other notices which may be issued by the Sale Agent to that Selling Shareholder.

4.6 Implementation of the Demerger

4.6.1 Entitlement to and distribution of CYBG Shares or CYBG CDIs

If the Demerger is implemented, NAB Shareholders on the NAB Share Register as at the Scheme Record Date will be credited with their Capital Reduction Portion.

Under the Demerger, those NAB Shareholders will not receive their Capital Reduction Portion in cash. The entitlement of NAB Shareholders to the Capital Reduction Portion will be satisfied by:

- (**CDI Receiving Shareholders**) One CYBG Share for every four NAB Shares held by each CDI Receiving Shareholder at the Scheme Record Date being distributed to the Authorised Nominee who will then issue one CYBG CDI to each CDI Receiving Shareholder for every CYBG Share the Authorised Nominee received in respect of that CDI Receiving Shareholder.
- (**Share Receiving Shareholders**) One CYBG Share(11) being distributed to each Share Receiving Shareholder for every four NAB Shares held by that Share Receiving Shareholder at the Scheme Record Date.
- (**Selling Shareholders**) One CYBG Share being distributed to the Sale Agent for every four NAB Shares held by the Selling Shareholder at the Scheme Record Date.

The obligation to procure the issue of CYBG CDIs to CDI Receiving Shareholders or the distribution of CYBG Shares to Share Receiving Shareholders and to the Sale Agent (in respect of Selling Shareholders) will be discharged by NAB as follows:

- as required under the Sale and Purchase Agreement, NAB will transfer the CYBI Shares to CYBG PLC in consideration for:
    - the allotment and issue of 659,486,442 CYBG Shares to NAB (it being acknowledged that these shares will be held by NAB as nominee and bare trustee for the Scheme Participants or the Sale Agent (as applicable)).

(11) Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, then Share Elections will be disregarded and be of no effect and it is proposed that all Eligible Shareholders (other than Selling Shareholders) will receive CYBG CDIs instead of CYBG Shares under the Demerger.

NAB will then, at the Transfer Time, transfer the legal title to those shares to the Share Receiving Shareholders, NATL, the Sale Agent or the Authorised Nominee (as applicable); and

- the allotment and issue of 219,788,814 CYBG Shares to NAB legally and beneficially (to be on-sold by NAB pursuant to the Institutional Offer if it proceeds).

In respect of the registration of CYBG CDIs and CYBG Shares, NAB and CYBG will procure that:

- initially NAB and then, following the transfer of the legal title to the relevant CYBG Shares by NAB to the Share Receiving Shareholders, NATL, the Sale Agent and the Authorised Nominee (as applicable), the names of the Share Receiving Shareholders, the Authorised Nominee, NATL and the Sale Agent (as applicable) are entered in the CYBG Register in respect of the CYBG Shares transferred to them; and
- the CYBG CDIs are registered on the CYBG CDI sub-register.

Refer to Section 4.8 for further details as to the agreements relating to the Demerger.

Except for Eligible Shareholders' tax file numbers, any binding instruction or notification between an Eligible Shareholder and NAB relating to NAB Shares as at the Scheme Record Date (including any instructions relating to payment of dividends or to communications from NAB, including bank account details, email addresses and communication preferences) will, unless otherwise determined by CYBG PLC, be deemed to be a similarly binding instruction or notification to CYBG PLC in respect of relevant CYBG Securities. CYBG Shareholders and CYBG CDI Holders may subsequently revoke or amend such instructions or notifications online or by written notice to CYBG PLC at its registered address or at the CYBG Share Registry.

4.6.2 CREST

CREST is the UK system for the paperless settlement of trades in listed securities and the holding of uncertificated listed securities, operated by Euroclear UK & Ireland Limited. It avoids the need for share certificates which delay trading. The Articles will permit the holding of CYBG Shares within CREST and CYBG PLC will apply for the CYBG Shares to be admitted to CREST with effect from the Demerger Date.

Share Receiving Shareholders can choose to have their CYBG Shares delivered to their CREST account. To do this:

- **Eligible Overseas Shareholders** must complete the CREST Details Form and return it in accordance with the instructions on the CREST Details Form so that it is received by the NAB Share Registry by 5:00pm on the Election Date (3 February 2016).
- **Eligible AUSNZ Shareholders who make a Share Election** must include their CREST account details on their Share Election Form. Refer to Section 4.4.3.1 for details on how to make a Share Election.

If a Share Receiving Shareholder does not have a CREST account or does not provide their CREST account details, they will receive their CYBG Shares in certificated form. If Share Receiving Shareholders receive their CYBG Shares in certificated form they will, subject to certain eligibility conditions, be able to sell their CYBG Shares through banks, stockbrokers or intermediaries offering share dealing facilities. However, such Share Receiving Shareholders will not be able to trade their CYBG Shares on the LSE following UK Admission becoming effective without first dematerialising them into CREST.

4.6.3 Entry on the CYBG Register

The principal CYBG Register will be maintained in the UK, with an overseas branch register maintained in Australia.

It is expected that Share Receiving Shareholders will have their CYBG Shares entered on the relevant CYBG Register by 10 February 2016.

It is expected that CYBG CDI Holders will have their CYBG CDIs registered on the CHESS CDI sub-register or issuer-sponsored CDI subregister by 10 February 2016. The CYBG CDI sub-register will be maintained in Australia.

CYBG PLC will maintain (for so long as CYBG Shares are represented by CYBG CDIs) the Australian Branch Register in accordance with the *Companies Act (UK)* on which the Authorised Nominee's CYBG Shares will be registered for CYBG CDI issuance and cancellation purposes.

4.6.4 Consequences of approving the Demerger

If NAB Shareholders and NAB Tier 1 Securityholders (as applicable) pass each of the Demerger Resolutions, the Court approves the Scheme and all other Conditions Precedent to the Scheme are satisfied or waived, then NAB will lodge the Court order approving the Scheme with ASIC. As a consequence:

- The Scheme will become Effective on the Effective Date (expected to be 2 February 2016). At the close of trading on ASX on the Effective Date, NAB Shares will cease trading cum-Capital Reduction Portion.
- On the Demerger Date (expected to be 8 February 2016):
  - NAB will undertake the NAB Capital Reduction.
  - NAB will transfer the CYBI Shares to CYBG PLC in consideration for the allotment and issue by CYBG PLC of CYBG Shares as follows:
    - 659,486,442 CYBG Shares (representing 75% of the issued share capital of CYBG PLC immediately following Demerger) to NAB as nominee and bare trustee for Scheme Participants or the Sale Agent (as applicable); and

- 219,788,814 CYBG Shares (representing (when taken together with NAB's existing shareholding in CYBG PLC immediately prior to the Demerger) 25% of the issued share capital of CYBG PLC immediately following Demerger) to NAB legally and beneficially,

  in accordance with the Sale and Purchase Agreement and the Scheme.

- If you were a NAB Shareholder at the Scheme Record Date, your Capital Reduction Portion will be satisfied by the:
  - (**CDI Receiving Shareholders**) issue of CYBG CDIs under the Demerger to you if you are a CDI Receiving Shareholder (and transfer of the corresponding number of CYBG Shares to the Authorised Nominee);[12]
  - (**Share Receiving Shareholders**) distribution of CYBG Shares under the Demerger to you if you are a Share Receiving Shareholder; and
  - (**Selling Shareholders**) distribution of CYBG Securities under the Demerger to the Sale Agent if you are a Selling Shareholder.
- The CYBG Shares to be distributed to or for the benefit of Scheme Participants or the Sale Agent (as applicable) under the Demerger will first be allotted and issued by CYBG PLC to NAB, who will hold the legal title to those CYBG Shares as nominee and bare trustee for the Scheme Participants or the Sale Agent (as applicable) and NAB will, at the Transfer Time, transfer the legal title to those shares to or for the benefit of the Scheme Participants or the Sale Agent (as applicable).
- As a result of the implementation of the Scheme and the Institutional Offer, CYBG PLC and CYBG Group will cease to be part of NAB.

- On 8 February 2016 in the UK, if UK Admission becomes effective, CYBG Shares will be admitted to the premium segment of the UKLA Official List and to trading of CYBG Shares on the LSE's main market for listed securities on an unconditional basis. (Prior to this time, it is expected that the CYBG Shares will have been trading on a conditional basis from 2 February 2016).

4.6.5 UK Admission

CYBG PLC will apply to the UKLA for all of the issued and to be issued CYBG Shares to be admitted to the premium listing segment of the UKLA Official List and to the LSE for such shares to be admitted to trading on the LSE's main market for listed securities.

Conditional dealings in CYBG Shares are expected to commence on the LSE at 8:00am (GMT) on 2 February 2016. It is expected that UK Admission will become effective and that unconditional dealings in CYBG Shares will commence on the LSE at 8:00am (GMT) on 8 February 2016. All dealings in CYBG Shares before the commencement of unconditional dealings will be on a "when issued" basis and of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

If you are a Share Receiving Shareholder who will receive CYBG Shares,[13] it is your responsibility to determine your entitlement to CYBG Shares before trading those CYBG Shares, to avoid the risk of selling CYBG Shares that you do not or will not own. If you sell CYBG Shares without receiving confirmation of your entitlement, you do so at your own risk.

If you are a Share Receiving Shareholder who will receive CYBG Shares in certificated form, CYBG Share certificates are expected to be dispatched to you by 16 February 2016. This certificate will be sent to you by pre-paid post to your address on the NAB Share Register.

If UK Admission does not become effective, CYBG Shares will not trade on the LSE's main market for listed securities. If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date then any Security Election will be disregarded and be of no effect and if the Scheme becomes Effective, it is proposed that Eligible Shareholders (except Selling Shareholders) will receive CYBG CDIs instead of CYBG Shares under the Demerger. The Demerger is not conditional on UK Admission becoming effective.

4.6.6 Australian Admission

CYBG PLC will apply to ASX for admission to the ASX Official List as an ASX foreign exempt listing and for official quotation of all CYBG CDIs on ASX, or as a standard listing if UK Admission does not become effective. There is no guarantee that ASX will grant CYBG PLC either a standard listing or a foreign exempt listing and the Demerger is not conditional on receipt of approval for Australian Admission.

If the Scheme becomes Effective and assuming Australian Admission is granted by ASX, CYBG CDIs will trade on ASX (ASX: CYB), and are expected to commence trading on ASX on a deferred basis on 3 February 2016 and on a normal T+3 settlement basis on or about 17 February 2016.

If you are a CDI Receiving Shareholder, it is your responsibility to determine your entitlement to CYBG CDIs before trading those CYBG CDIs, to avoid the risk of selling CYBG CDIs that you do not or will not own. If you sell CYBG CDIs without receiving confirmation of your entitlement, you do so at your own risk.

If you are a CDI Receiving Shareholder, holding statements for CYBG CDIs are expected to be dispatched to you by 16 February 2016. A holding statement will be sent to you by pre-paid post to your address on the NAB Share Register. If you are a joint shareholder, holding statements for CYBG CDIs will be sent to the address of the CDI Receiving Shareholder whose name first appears on the NAB Share Register.

(12) CYBG Shares will be transferred to the Authorised Nominee at the Transfer Time and CYBG CDIs issued as soon as practical thereafter, expected to be no later than 10 February 2016.

(13) Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date.

4.7 Effect of the Demerger

4.7.1 Fundamental Demerger Principle

Under the Demerger Deed, the parties intend that following the Demerger, as a fundamental Demerger Principle as between NAB and CYBG Group:

- CYBG Group will have:
  - the entire economic benefit and risk and liabilities of the CYBG Group post-Demerger business and former CYBG Group businesses as if CYBG Group had owned and operated the CYBG Group post-Demerger business and former CYBG Group businesses at all times; and
  - none of the economic benefit or risk or liabilities of the NAB post-Demerger business or former NAB businesses; and
- NAB (after the Demerger) will have:
  - the entire economic benefit and risk and liabilities of the NAB post-Demerger business and former NAB businesses as if the post-Demerger group had owned and operated the NAB post-Demerger business and former NAB businesses at all times; and
  - none of the economic benefit or risk or liabilities of the CYBG Group post-Demerger business or former CYBG Group businesses.

The Demerger Principle is subject to anything to the contrary set out in the Conduct Indemnity Deed (discussed further in Section 4.9) or in any other Transaction Document.

Further details of the Demerger Deed (and other key agreements relating to the Demerger) are set out in Section 4.8.

4.7.2 Creditors

In the opinion of the NAB Directors, the Demerger will not, if implemented, materially prejudice NAB's ability to pay its creditors.

4.8 Summaries of agreements relating to the Demerger

NAB and members of the CYBG Group have entered or have agreed to enter into a number of arrangements as part of the Demerger. These include:

- agreements which relate to the implementation of the Demerger (such as the Implementation Deed, the Demerger Deed, the Scheme and the Sale and Purchase Agreement); and
- agreements which govern the ongoing relationship between CYBG Group and NAB after the Demerger (Conduct Indemnity Deed, Cash Security Agreement and Transitional Services Agreements).

Other arrangements will also exist between CYBG Group and NAB after the Demerger, which are summarised in Section 4.10.

4.8.1 Implementation Deed

NAB, CYBI, CYBG PLC and Clydesdale Bank have entered into the Implementation Deed which sets out the steps required to be taken by each of NAB, CYBI, CYBG PLC and Clydesdale Bank to effect the Scheme and the NAB Capital Reduction, and other steps necessary to give effect to the Demerger and if NAB so decides, the Institutional Offer, in accordance with the agreed timetable.

The key terms of the Implementation Deed are as follows:

4.8.1.1 Obligations of NAB

NAB agrees to take all steps reasonably required to give effect to the Demerger (and to prepare for the Institutional Offer, if NAB decides to proceed with it), including:

- convening the Scheme Meeting in accordance with the Court order of the First Court Hearing and convening the General Meeting to be held on the same day as the Scheme Meeting;
- assisting CYBG PLC with the preparation of the Prospectus, and taking such actions as may be necessary to implement the Institutional Offer (subject always to NAB's discretion as to whether or not to proceed with the Institutional Offer);
- using reasonable endeavours to ensure that ASX grants approval to CYBG PLC's application to ASX for Australian Admission (both as a foreign exempt listing and as a standard listing);
- until the Demerger Date, using reasonable endeavours to ensure that any reasonable requirements of the FCA, LSE or ASX are satisfied in relation to Admission or the listing of CYBG PLC (as applicable) and that UK Admission becomes effective and ASX approves Australian Admission, and that conditional trading in CYBG Shares commences on LSE on the date of publication of the Prospectus and that trading in CYBG CDIs commences on ASX on a deferred settlement basis one Business Day after the Effective Date;
- if the NAB Capital Reduction is approved and the Scheme Resolution is passed by the required majorities, applying to the Court for approval of the Scheme, and (if the Scheme is approved) lodging the Court order with ASIC;
- if the Scheme becomes Effective:
  - effecting the NAB Capital Reduction; and
  - on the Demerger Date:
    - transferring the CYBI Shares to CYBG PLC in accordance with the Sale and Purchase Agreement; and
    - doing everything necessary for the Capital Reduction Portion of each Scheme Participant to be satisfied in accordance with the terms of the Scheme and doing everything reasonably necessary to give effect to the distribution of CYBG Shares or CYBG CDIs to Scheme Participants or the Authorised Nominee (as applicable) (or the Sale Agent in respect of Selling Shareholders) and, where the Institutional Offer proceeds, the transfer of any CYBG Shares sold under the Institutional Offer to the Managers.

4.8.1.2 Obligations of CYBI and CYBG PLC

CYBI and CYBG PLC each agrees to take all steps reasonably required to give effect to the Demerger and (if NAB so decides) the Institutional Offer, including:

- preparing and lodging the Prospectus, including by ensuring its compliance with applicable laws and regulations;
- preparing and lodging the application for UK Admission, and preparing and lodging all other relevant documents required for the purpose of UK Admission;
- using best endeavours to ensure that ASX grants approval for Australian Admission;
- until the Demerger Date, using its best endeavours to ensure the satisfaction of any FCA, LSE or ASX requirements in relation to the Admission or listing of CYBG PLC (as applicable), that UK Admission becomes effective and ASX approves Australian Admission, and that conditional trading in CYBG Shares commences on LSE on the date of publication of the Prospectus and that trading in CYBG CDIs on a deferred settlement basis commences on ASX one Business Day after the Effective Date;
- taking such action requested by NAB as may be necessary in order to implement the Institutional Offer (subject to NAB's discretion as to whether to proceed with the Institutional Offer); and
- if the Scheme becomes Effective,
  - on (or, where applicable, as soon as practicable following) the Demerger Date, doing everything necessary for the Capital Reduction Portion in respect of each Scheme Participant to be satisfied in accordance with the terms of the Scheme and doing everything reasonably necessary to give effect to the distribution of CYBG Shares or CYBG CDIs to Scheme Participants or the Authorised Nominee (as applicable) (or the Sale Agent in respect of Selling Shareholders); and
  - on, or as soon as practicable following, the Demerger Date, registering or causing to be registered the Share Receiving Shareholders, Authorised Nominee, NATL and Sale Agent (and recipients under the Institutional Offer, if applicable) as holders of CYBG Shares, and on, or as soon as practicable following, the Demerger Date registering or causing to be registered the CDI Receiving Shareholders and Sale Agent as holders of CYBG CDIs (as relevant).

4.8.2 Other provisions

The Implementation Deed also contains provisions in respect of:

- obligations on NAB and CYBG PLC to each procure that the Sale Agent sells the CYBG Securities referable to Selling Shareholders and pays the proceeds of that sale in accordance with the terms of the Sale Facility and the Scheme;
- obligations on CYBG PLC to forward to Scheme Participants (or the Authorised Nominee in respect of CDI Holders or Sale Agent in respect of Selling Shareholders) CREST account statements, holding statements or share certificates for CYBG Shares or CYBG CDIs (as applicable) to which they are entitled;
- general obligations for each of NAB and CYBG PLC to do all things necessary to implement and give effect to the Scheme and the Demerger and, if NAB so decides, the Institutional Offer;
- the rights of either party to terminate the Implementation Deed if the Scheme has not become Effective on or before the End Date; and
- each of NAB and CYBG Group, preparing and entering into agreements at or prior to the Demerger, which are necessary to allow the repurchase of existing CYBG Group AT1 Notes and Tier 2 Notes held by NAB and the issuance of new AT1 Notes and Tier 2 Notes by CYBG PLC on the Demerger Date, in the case of AT1 Notes, subject to the concurrent exercise of the options granted by NAB in CYBG Group's favour and the preparation of listing documents for the new AT1 Notes and Tier 2 Notes to enable the listing of such securities on the official lists of the Irish Stock Exchange and UKLA, respectively.

4.8.3 Demerger Deed

NAB and CYBG PLC have entered into the Demerger Deed to facilitate the orderly separation of CYBG Group from NAB and the transition and emergence of CYBG Group as an independently owned corporate group, in accordance with the fundamental Demerger Principle.

The key terms of the Demerger Deed are as follows:

4.8.3.1 Rights against the other party

The parties agree that the Demerger and transactions giving effect to the Demerger will not give rise to any rights or obligations of a party (or any member of its group) as against the other party (or any member of its group) except those expressly contained in the Demerger Deed and the Transaction Documents or any other agreement entered into between the parties after the date of the Demerger Deed.

To the extent permitted by law, and except as otherwise provided, both parties (on their own behalf and on behalf of their group) release the other (and their group) from any liability arising directly or indirectly from or in respect of the Demerger (including the Scheme and the NAB Capital Reduction), Admission, the Institutional Offer or the operation of the relevant post-Demerger businesses or former businesses, except as provided in the Demerger Deed and the Transaction Documents.

4.8.3.2 Indemnities

To the extent permitted by law, both parties indemnify the other against claims brought by their respective group entities in relation to conduct covered by the above releases, except as provided in the Demerger Deed and the Transaction Documents or any other agreement entered into between the parties after the date of the Demerger Deed.

The parties also agree to indemnify each other against, among other things, liabilities arising from successful claims in respect of this Scheme Booklet, the Prospectus, relevant marketing materials and the listing memoranda. In the case of NAB, the indemnity only applies to the extent that the failure or breach is caused by or arises in relation to, NAB Information, but does not apply where the failure or breach is or was the result of any wilful misconduct, negligent act or omission or fraud of CYBG PLC. In the case of CYBG PLC, the indemnity only applies to the extent that the failure or breach is caused by or arises in relation to, CYBG Information, but does not apply where the failure or breach is or was the result of any wilful misconduct, negligent act or omission or fraud of NAB.

4.8.3.3 Demerger costs

Both parties agree to use best endeavours to proactively manage Demerger costs to ensure that (as far as reasonably practicable) costs are kept within the Demerger budget agreed by the parties. The agreed Demerger budget allocates all material known and reasonably anticipated Demerger costs between the parties, and the parties have agreed procedures to determine responsibility for new or additional costs not provided for in the Demerger budget. Both parties take responsibility for the Demerger costs allocated to them and NAB indemnifies CYBG PLC in respect of the Demerger costs for which they are responsible.

4.8.3.4 Treatment of required assets

The Demerger Deed contains a regime which provides for the:

- transfer or grant of assets primarily relating to NAB (post-Demerger) to NAB; and
- transfer or grant of assets primarily relating to CYBG Group to CYBG Group.

In certain circumstances where either party identifies such assets in the period of 2 years from completion of the Demerger, and where such assets were either transferred by mistake or not transferred to the correct group member. If the parties agree that an asset should be transferred, they must agree in good faith the terms of the transfer of that asset and the fair transfer value of that asset (having regard to certain factors specified in the Deed).

4.8.3.5 Contracts

The parties have agreed to use reasonable endeavours to procure that:

- the relevant entity obtains or retains the full benefit and all risks and liabilities of contracts exclusively relating to their business; and
- shared contracts are separated to allow both corporate groups to continue to benefit from them.

Subject to certain limitations, NAB and CYBG PLC each agree to indemnify, and must procure that their group members indemnify, each other and each other's groups for any liabilities arising directly or indirectly under, or in connection with, contracts assigned, novated or separated.

4.8.3.6 Intellectual property

The parties agree to do all things reasonably necessary to effect the transfer or assignment of any names (e.g. for CYBG PLC, "Clydesdale") to the relevant party prior to completion of the Demerger Deed, and all other things reasonably requested by the other party to assist them to perfect their interest in the relevant names.

Generally, if other intellectual property was acquired or developed primarily for the benefit of:

- the CYBG Group business, then the relevant CYBG Group entity will own that intellectual property; or
- the NAB business (post-Demerger), then the relevant member of NAB will own that intellectual property.

The parties grant to each other a licence to use copyright in certain documents (e.g. manuals and policies) for the purpose of conducting the post-Demerger businesses. Subject to certain limitations, the parties release each other from liabilities arising in respect of intellectual property developed or procured for potential application within the other party's business.

4.8.3.7 Business liabilities

Consistent with the Demerger Principle, and subject to the Transaction Documents, both parties accept responsibility for business liabilities of their business that remain with, or are incurred by, any member of the other party's group following completion. Both parties indemnify the other against any such liability.

4.8.3.8 Litigation

The Demerger Deed provides for the ongoing management of existing litigation matters and the management of claims arising after completion of the Demerger Deed.

Existing litigation matters (except for certain insurance claims) of CYBG Group will be managed by CYBG Group, at its cost and existing litigation matters of NAB will be managed by NAB, at its cost. Any joint litigation matters are to be conducted by the party with primary responsibility for the conduct of the matter, in accordance with agreed principles (e.g. in relation to keeping the other party fully informed).

The parties will each be responsible for the management of claims brought against them after completion of the Demerger, except in certain circumstances where the subject matter of the claim brought against one party relates to the business or assets of the other party, or the claim is one in respect of which an indemnity has been provided by the other party.

Certain allegations and claims are excluded from the above regime due to the nature of the matter (e.g. allegations of fraud, dishonesty or wilful concealment).

The parties acknowledge that, in accordance with the Demerger Principle, they do not have a right to make a claim against the other party in respect of a liability arising in connection with existing litigation, except as provided in the Demerger Deed or any other Transaction Document. Each party provides a reciprocal litigation indemnity in relation to existing and joint litigation matters, and other claims brought to the extent they relate to their former or post-Demerger business.

4.8.3.9 Employees

Subject to certain limited exceptions, each party agrees to be responsible for any liabilities incurred in relation to their employees where such liabilities are incurred by the other party (except for bonuses payable to their employees who have worked for the group during FY16). Each party provides a reciprocal indemnity in relation to such liabilities.

Each party has also agreed not to make offers of employment to senior employees of the other party in the 12 months following completion of the Demerger.

The Demerger Deed also provides for agreement between the parties in relation to employee incentives, superannuation and pension arrangements, including that:

- the parties will continue to maintain the existing arrangements in relation to NAB Shares and Performance Rights granted to CYBG Group employees prior to completion of the Demerger under the NAB Employee Equity Plans until such time as such NAB Shares and Performance Rights have vested or are no longer able to vest in accordance with their terms;
- on and from completion of the Demerger:
  - other than any contributions or other amounts required to be paid to Clydesdale Bank pension schemes, NAB is responsible for making all superannuation or pension contributions in respect of any NAB employee (in that capacity); and
  - CYBG PLC is responsible for making or procuring that another member of CYBG Group makes all superannuation or pension contributions in respect of any CYBG Group employee (in that capacity);
- similarly, if any CYBG Group employee is a member of a superannuation plan offered by NAB, NAB and CYBG Group will co-operate to enable CYBG Group and the relevant CYBG Group employees to cease to participate in that plan with effect on and from completion of the Demerger; and
- each party agrees to be responsible for (and indemnifies the other party for) all claims made against the other party by any employees of the first party (or any trustee or administrator of the plan on their behalf), and any liability incurred by the other party arising out of, any superannuation plan offered by the other party as it applies in relation to any employee of the first party in respect of the period on and from completion of the Demerger.

4.8.3.10 Insurance

NAB agrees to maintain insurance in respect of the CYBG Group business, up to completion of the Demerger. CYBG Group agrees to maintain insurance on and from completion of the Demerger in accordance with ordinary practice for a business like the CYBG Group business.

NAB also agrees to maintain until completion of the Demerger directors and officers insurance for each NAB entity and CYBG Group entity and their respective directors and officers in office at any time during the 7 years before completion of the Demerger. NAB must also ensure that run-off cover, which provides similar coverage to the terms and limits as the current directors and officers insurance, is maintained for not less than 7 years after completion of the Demerger for the benefit of each covered director and officer in respect of acts or omissions occurring on or before completion of the Demerger.

NAB also agrees to procure public offering of securities insurance and run-off Crime and Professional Indemnity insurance and maintain it for no less than 7 years.

4.8.3.11 Ongoing treasury arrangements

NAB and CYBG Group are party to certain capital and derivative arrangements (including the CYBG Group's existing AT1 Notes and Tier 2 Notes). In the Demerger Deed, the parties have provided for proposed arrangements as to how those treasury arrangements will be dealt with post-completion of the Demerger. Refer to Section 4.10 for further information regarding to the parties' intentions in relation to these arrangements.

In connection with the issuance by CYBG PLC of new AT1 Notes and Tier 2 Notes, it is intended that a listing document for each new instrument will be approved by the relevant authority. CYBG PLC will take responsibility for the information contained therein in accordance with the applicable liability regime.

4.8.3.12 Access to records and assistance

The Demerger Deed requires each party (subject to certain limitations) to deliver to or grant the other party access to all records which exclusively relate to the business of the other party, and specified records connected with or relevant to that party's business, in accordance with a regime outlined in the Demerger Deed.

The parties will use reasonable endeavours to assist each other in relation to the preparation of their respective financial statements and regulatory reporting for the financial period (or regulatory reporting period) during which the Demerger Date occurs and any uncompleted financial statements for any earlier financial periods.

Each party provides an indemnity and release with respect to claims and liabilities arising as a result of the transfer of records and the information in those records to the other party, unless the claim or liability arises in relation to certain excluded records, the Transitional Services Agreements or a breach of a Transaction Document.

4.8.3.13 Tax

Generally, all taxes arising in relation to the CYBG Group business or the NAB business (after the Demerger) will be borne by the person that is principally liable for the tax under the relevant law. Where appropriate, each party provides a reciprocal release and indemnity to the other party against taxes levied or imposed on them (other than taxes provided for in the agreed Demerger budget or the terms of any Transaction Document). NAB will bear the cost of the taxes arising directly from the Demerger or Institutional Offer. See also Section 4.9.9 in relation to the Tax Indemnity Provisions.

4.8.3.14 Indemnity for breach of any Transaction Document

NAB and CYBG PLC each agree, subject to other provisions in the Transaction Documents or the Demerger Deed, to indemnify each group entity of the other party against any liability to the extent incurred in connection with a breach by a CYBG Group entity or a NAB entity (respectively) of the Demerger Deed or a Transaction Document.

4.8.3.15 Relevant Conduct Matters

The Demerger Deed provides that the Conduct Indemnity Deed applies in respect of Relevant Conduct Matters. Refer to Section 4.9 for a summary of the provisions of the Conduct Indemnity Deed.

4.8.3.16 Other

The Demerger Deed also contains confidentiality, dispute resolution and other general provisions.

4.8.4 CYBG Deed Poll

CYBG PLC has entered into the CYBG Deed Poll in favour of Scheme Participants and CYBG CDI Holders under which CYBG PLC has undertaken to take the steps to be performed by it under the Scheme, including:

(i) allotting and issuing CYBG Shares to NAB and, subject to NAB complying with its obligations to transfer the relevant CYBG Shares to the Authorised Nominee in accordance with the Scheme, procuring the issue of CYBG CDIs in accordance with the terms of the Scheme; and

(ii) registering the transfer of CYBG Shares to Scheme Participants, the Authorised Nominee or NATL or to the Sale Agent in respect of Selling Shareholders (as applicable) and the issue of CYBG CDIs (assuming UK Admission becomes effective by 7:00pm on the second business day after the Demerger Date) as contemplated by the Scheme.

The CYBG Deed Poll also provides that CYBG PLC issues the CYBG CDIs on and subject to the terms of that deed poll. A person becoming a CYBG CDI Holder agrees by so doing to take each CYBG CDI subject to, and be bound by, the terms of the CYBG Deed Poll.

Subject to the conditions of the CYBG Deed Poll, as a fundamental and inseparable condition of holding each CYBG CDI and the benefit of the CYBG Deed Poll, each CYBG CDI Holder acknowledges and agrees under the CYBG Deed Poll that any rights it has in respect of each CYBG Share the subject of each CYBG CDI held by it are subject to the exercise by any Relevant Resolution Authority of a Resolution Power and that it agrees with and is bound by the Resolution Powers provisions contained in the Articles.

The CYBG Deed Poll is set out in full in Annexure B.

4.8.5 Transitional Services Agreements

NAB and Clydesdale Bank will enter into two Transitional Services Agreements to formalise the terms on which:

- NAB will provide, or procure the provision of, certain services to Clydesdale Bank and other members of the CYBG Group for a transitional period following the Demerger; and
- Clydesdale Bank will provide, or procure the provision of, certain technology services to NAB's London branch for a transitional period following the Demerger.

4.8.5.1 Services to be provided by NAB to CYBG Group

Services

Each of the transitional arrangements agreed between Clydesdale Bank and NAB under the relevant Transitional Services Agreement will be accompanied by a plan to migrate from the transitional arrangement to a CYBG Group standalone solution within an agreed timeframe. It is intended that CYBG Group will have full standalone arrangements in place by 31 December 2018. The TSA services that are proposed to be provided by NAB to CYBG Group include:

- Risk – processing of CYBG Group data on NAB's credit risk engine to support regulatory reporting on credit risk weighted assets; maintenance and support services for customer rating and credit stress testing models, as well as data consolidation services for stress testing; calculation of credit economic capital, regulatory and economic operational risk capital; and lastly, technology support for an operational risk portal.
- Treasury – access to infrastructure and application support for NAB's deal capture and processing systems for treasury transactions; operational support for confirmation, management of collateral, payment and settlement of transactions entered into by CYBG Group; maintenance of static data; and temporary housing of CYBG Group's London-based treasury team. In addition, services to be

provided include reporting from treasury platforms to support monitoring of market risk, non-traded market risk, liquidity and balance sheet risk, as well as access to and technology support for a credit risk exposure management and reporting system.

- Human Resources – technology support services for CYBG Group's human resources management system.
- Finance – technology and business support services for use of a financial management system, as well as calculation of sector concentration risk, and funding and credit valuation adjustments for CYBG Group's derivative portfolio.

Overview of terms

NAB will be bound to provide or procure the provision of the services to specified service standards or service levels, and must ensure that in performing the services it complies with applicable laws and that the services are provided by reasonably skilled and experienced individuals. In certain circumstances, Clydesdale Bank will also be able to request that NAB provide services that are incidental to those provided under the agreement or additional services to those specified under the Transitional Services Agreement. To the extent that the services are to be provided by or otherwise rely on third parties, CYBG Group will be required to ensure it complies with any relevant terms of third party agreements relating to the provision of that service which have been disclosed or notified to it by NAB.

CYBG Group will be obliged to pay fees for each service calculated in accordance with the terms of the agreement. The fees include service charges from NAB along with any third party costs associated with the provision of the services.

The parties will agree a migration plan in relation to each TSA service, which will be designed to ensure that the service can be transitioned to CYBG Group or to a third party by the end of the relevant service term. The parties will be required to use best endeavours to complete migration of each service in accordance with the agreed migration plan prior to expiry of the service term for that service.

Where Clydesdale Bank reasonably concludes that it will not, or there is a material risk that it will not, complete migration of a service before the end of the service term, Clydesdale Bank will have the right to notify NAB that it wishes to extend the term in respect of that service. In that notice Clydesdale Bank will be required to specify, at the end of the extended service term, the earliest date by which CYBG Group reasonably and in good faith considers that it will be able to complete migration of the relevant service. On receipt of valid notice, NAB and Clydesdale Bank will cooperate in good faith to agree any amendments required to the migration plan during the proposed extension to the service term. Unless migration has not occurred due to an act or omission of NAB, the fees for an extended service will increase by a prescribed percentage during the extended service term, and may do so on more than one occasion.

Both parties may request changes to the agreement (after it has been entered into), and must negotiate such changes reasonably. However, subject to the below neither party will be required to agree to any such requested change.

NAB will have the right to require (at its own cost) that a change be made to the TSA, including the scope of the services, provided that: (i) such change is a consequence of a wider change being made within NAB or a necessary system or process change to enable NAB to operate its systems during the term of the agreement in a manner consistent with its business requirements or good practice and in a manner that ensures that NAB complies with applicable law; (ii) any refusal to implement the change would adversely impact NAB or any member of its group; and (iii) such change will not have a material impact on the service levels under the TSA, narrow the scope of any service, or cause CYBG Group or any service recipient to be in breach of law or incur additional costs or expenses.

If a party becomes aware of a regulatory change which necessitates or will necessitate a modification to the services, it will be required to notify the other party. Both parties must comply with regulatory changes applicable to the other party and permit necessary changes to the provision of services in order to achieve this. In the case of a regulatory change applying only to a member of CYBG Group, CYBG Group shall bear any reasonable costs and expenses relating to that regulatory change. In the case of a regulatory change applying only to a member of NAB, NAB shall bear all reasonable costs and expenses relating to that regulatory change.

Each party will agree to allow representatives of the other party to access its IT systems and business data, to the extent necessary to enable provision and receipt of the services under the TSA. Access will be subject to any reasonable procedures or measures intended to protect the IT systems as determined by the owner to prevent any compromise of the security of IT systems, data or confidential information. Each party will also have the right to terminate access or remove any representative of the other party who does not follow its reasonable directions, policies and procedures.

Subject to certain conventional exceptions (e.g. in cases of fraud or wilful misconduct) where both parties' liability will be uncapped, the maximum liability of the parties to each other in relation to the TSA will be capped at the greater of 200% of the fees paid in the first year of the contract or (i) in the case of the NAB, £30 million; and (ii) in the case of CYBG Group, £20 million. To the extent possible, CYBG Group will be required to give NAB a reasonable opportunity to remedy any breach due to a failure by NAB to provide services in accordance with the TSA before taking any action against NAB. Liability will be excluded for NAB to the extent the liability is caused by a failure by CYBG Group to perform its obligations or a failure of a third party service provider. If a third party service provider's breach adversely affects the provision of services, Clydesdale Bank will be able to request

NAB to enforce the relevant third party agreement, however NAB shall not be required to take such action unless:

(a) CYBG Group has suffered loss, or reasonably estimates that it will suffer loss, in excess of £25,000 as a result of the third party breach; and

(b) NAB considers, acting reasonably and in good faith and having taken the advice of external legal counsel, that there are reasonable prospects of such action resulting in the successful recovery of losses; and

(c) NAB considers, acting reasonably and in good faith and having had regard to the interests of CYBG Group, that taking such action would not be materially contrary to the interests of NAB in connection with the relationship between NAB and the relevant third party service provider.

There will be flexibility for Clydesdale Bank to terminate a TSA service at any time by providing NAB with due notice. Subject to the below, both parties will have the right to terminate the TSA or a service if the other is insolvent, or alternatively, if the other is in material breach of the TSA, and if the breach is capable of remedy, it is not remedied within a specified time. However, NAB will only be able to exercise such termination rights where Clydesdale Bank is not in compliance with its payment obligations under the TSA and it has been given permission to terminate by an appropriate government agency.

The agreement provides for NAB to be bound by the exercise of powers by a Relevant Resolution Authority in relation to CYBG Group, and for the services to continue to be provided during the period of any resolution action (whether to the relevant service recipient or to an entity which becomes the owner of that service recipient as the result of such resolution action).

4.8.5.2 Services to be provided by CYBG Group to NAB

Each of the transitional arrangements agreed between NAB and Clydesdale Bank under the Reverse Transitional Services Agreement will be accompanied by a plan to migrate from the transitional arrangement to a NAB standalone solution within an agreed timeframe. It is intended that CYBG Group will no longer be providing transitional services to NAB by 31 December 2018. The transitional services that are proposed to be provided by CYBG Group to support NAB's London branch (with the exception of the CRE business) are limited to technology infrastructure services including hosting, data centre and network connectivity services in the UK.

Overview of terms

The services under the Reverse Transitional Services Agreement will be provided on terms largely equivalent to those included in the TSA governing the provision of services to CYBG Group by NAB. In particular, CYBG Group will be bound to provide the services to specified service standards or service levels, and to ensure that when performing the services it complies with applicable laws and that the services are provided by reasonably skilled and experienced individuals. NAB will be obliged to pay fees for each service calculated in accordance with the terms of the agreement. The fees include service charges from CYBG Group along with any third party costs associated with the provision of the services.

4.8.6 Legacy CRE portfolio agreements

In 2012, CYBG Group transferred substantially all of its CRE loan portfolio to NAB. The agreements entered into in connection with that transfer remain in place, including in respect of the ongoing provision of services in connection with the transfer.

4.8.6.1 Business sale agreement

This agreement provided for the transfer of the CRE loan portfolio, and included certain warranties and indemnities from CYBG Group in favour of NAB, which remain in force. Any liability under these warranties and indemnities in respect of conduct related issues arising in the CRE portfolio prior to its sale by CYBG Group in 2012 fall within the scope of the Conduct Indemnity Deed to the same extent that liability for a non-CRE related conduct issue would do so. Discussions are ongoing between NAB and CYBG Group about whether CYBG Group may repurchase specific CRE loans (up to approximately £250 million) within the legacy CRE portfolio previously disposed of to NAB where it may be appropriate for the customer relationship or to enable any disputes to be retained and managed directly by CYBG Group. Should any such repurchases proceed then NAB and CYBG Group currently intend that the relevant transfer agreements will be entered into and completed over the 12 months following the Demerger.

The original transfer under the business sale agreement took place by way of a transfer of the beneficial ownership of the relevant loans and related assets. CYBG Group remains the lender of record for the residual portfolio owned by NAB, and the original transfer agreement contains an indemnity from NAB to CYBG Group in respect of liabilities incurred following completion of the transfer.

4.8.6.2 Services agreement

CYBG Group has provided certain services to NAB, and NAB has provided certain services to CYBG Group, since the transfer of the CRE loan portfolio to NAB in October 2012 pursuant to a CRE services agreement. Those services will continue to be provided for the life of the CRE loan portfolio under this services agreement.

The services provided by CYBG Group to NAB include risk reporting, regulatory reporting on credit risk weighted assets, the calculation of loan loss provisioning, inputs into the calculation of operational risk capital and economic capital, access to a number of NAB's operational risk systems, payroll management and processing, access to various systems and third party solutions including customer information, know your client and anti-money laundering reporting, financial management information, operational services and support for portfolio sales to third party purchasers. In addition, NAB provides certain services to CYBG Group, primarily management of its residual exposures to borrowers included in the CRE portfolio transfer.

The terms of the services agreement are broadly similar to the terms of the TSAs. The service provider is required to meet specified service standards or service levels, and must ensure that in performing the services it complies with applicable laws. There is an annual fee payable, which is subject to an annual review process which also addresses overall performance and management of the services.

The liability of each party for service failure (but not certain categories of claims relating to breach of law or specific indemnities) is subject to agreed caps, which are currently £11m for NAB and £112.5m for CYBG Group. In addition, each party has the right to appoint substitute providers for some or all of the services in certain specific circumstances where failure would be critical to the recipient's business.

The recipient of any particular service is entitled to terminate that service by notice to the service provider, and there is a customary change process procedure whereby changes to the services or service levels are required to be discussed in good faith and agreed.

4.9 Conduct Indemnity Deed

4.9.1 Introduction and Scope of Coverage

As part of the Demerger, NAB and CYBG PLC have entered into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide CYBG PLC with the Capped Indemnity in respect of certain historic liabilities relating to conduct in the period prior to the Demerger Date. The conduct issues covered by the Capped Indemnity are referred to as "**Relevant Conduct Matters**". The Capped Indemnity provides CYBG Group with economic protection against certain costs and liabilities (including financial penalties imposed by a regulator) resulting from conduct issues relating to:

(i) PPI, IRHP (comprising Standalone IRHP and Voluntary Scope TBLs) and FRTBLs; and

(ii) other conduct matters, measured by reference to the following thresholds (a) claims relating to an industry wide compensation customer redress programme entered into as part of a settlement with a regulator exceeding £2.5 million, in aggregate, and (b) all other claims that exceed £5 million, in aggregate, and affect more than 50 customers,

which, in each case, relate to conduct in the period prior to the Demerger Date whether or not known at the Demerger Date. For these purposes, "conduct in period prior to the Demerger Date" includes acts, omissions and agreements by or on behalf of CYBG Group with respect to CYBG Group or CRE customers in relation to the period prior to the Demerger Date which either constitute a breach of or failure to comply with, or are determined by CYBG PLC in good faith to be reasonably likely on a balance of probabilities to constitute a breach of or failure to comply with, applicable law or regulations.

Claims may be made by CYBG PLC under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter. Any existing provisions for Relevant Conduct Matters are, where possible, to be utilised by CYBG Group prior to a member of CYBG Group raising new provisions or increasing existing provisions that fall within the scope of the Capped Indemnity (and thereby giving rise to a claim under the Capped Indemnity).

Amounts payable under the Capped Indemnity include, subject to certain limitations, provisions raised or increased in respect of payments to customers to satisfy, settle or discharge a Relevant Conduct Matter and of the direct costs and expenses of satisfying, settling, discharging or administering such Relevant Conduct Matter. The Capped Indemnity does not extend to indirect costs nor penalties or other financial losses which may be incurred by CYBG Group in respect of the mishandling, by CYBG Group in the period following the Demerger, of a Relevant Conduct Matter. In addition, whilst the Capped Indemnity extends to claims resulting from changes in the generally accepted application or interpretation of laws or regulations, it does not capture claims arising from the retrospective application of new laws and regulations.

4.9.2 Capped Indemnity Amount, Unutilised Provisions and Unutilised Indemnity Amount

At the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion. This figure is determined as follows:

- To achieve the Demerger, the PRA required there to be a capital support package amounting to £1.7 billion for potential losses of CYBG Group related to legacy conduct costs not covered by existing provisions raised by CYBG Group as at 31 March 2015.
- Of this £1.7 billion, CYBG PLC will take responsibility for £120 million of the aggregate liability for Relevant Conduct Matters under the Loss Sharing Arrangement (described below), with NAB being responsible for the remainder (being £1.58 billion).
- Of this £1.58 billion for which NAB is responsible, £465 million was provided to CYBG Group by NAB on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters in its accounts for the year ended 30 September 2015. This amount of £465 million, plus the amount of any further provisions in respect of Relevant Conduct Matters raised or increased by the CYBG Group in respect of which capital support is provided by NAB prior to the Demerger, is the "**Pre-Covered Provision Amount**".

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is expected to be £1.115 billion, assuming that no further provisions in respect of Relevant Conduct Matters are raised or increased by CYBG Group and funded by way of capital support from NAB prior to the Demerger Date and that as a result the Pre-Covered Provision Amount is £465 million.

The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities as at the Demerger Date (the amount of such provisions, including the Pre-Covered Provision Amount, "**Pre-Demerger Provision Amounts**"), being as at 30 September 2015, £986 million in aggregate, comprising: (i) a provision of £774 million for PPI; and (ii) provisions of £192 million for Standalone IRHP, Voluntary Scope TBLs and FRTBLs and (iii) provisions of £20 million for other conduct related matters. The support provided by the Capped Indemnity, in addition to the £986 million in unutilised provisions remaining as at 30 September, provides total cover for conduct liabilities of £2.1 billion (without taking into account of the Loss Sharing Arrangements).

The amount of support available pursuant to the Capped Indemnity at any given time following the Demerger Date will be the "**Unutilised Indemnity Amount**", being the Capped Indemnity Amount less the following agreed deductions:

- The Unutilised Indemnity Amount will be reduced to the extent of any payments made pursuant to the Capped Indemnity (net of any repayments to NAB made by CYBG following a release or reduction of a provision of a member of CYBG Group for Relevant Conduct Matters).
- The Unutilised Indemnity Amount will also be reduced to the extent of any interest or tax deduction applied or required to be applied by CYBG Group against provisions of a member of CYBG Group for Relevant Conduct Matters pursuant to the Conduct Indemnity Deed.
- CYBG PLC and NAB will use reasonable endeavours to ensure that the PRA undertakes a periodic reassessment of the potential remaining exposure of CYBG Group to conduct costs in conjunction with the submission of Clydesdale Bank's ICAAP to the PRA. The Unutilised Indemnity Amount will be permanently reduced following any reassessment by the PRA that the potential remaining exposure of CYBG Group to Relevant Conduct Matters is less than the sum of the outstanding Unutilised Indemnity Amount plus any unutilised Pre-Demerger Provision Amounts and CYBG PLC's outstanding liability under the Loss Sharing Arrangement (being any unused portion of CYBG PLC's £120 million share under such arrangement).

In addition, under the terms of the Conduct Indemnity Deed, NAB will reimburse CYBG PLC for any reasonable out-of-pocket costs of CYBG Group in implementing investments in its operational effectiveness programmes (less CYBG PLC's Loss Share of such costs), up to an aggregate amount of £2 million in any financial year of CYBG Group. The Unutilised Indemnity Amount will be reduced by the amount of any reimbursements made by NAB for such costs.

4.9.3 Loss Sharing Arrangement

In order to align the interests of NAB and CYBG PLC with respect to each claim under the Capped Indemnity, it has been agreed that NAB will pay to CYBG PLC an amount equal to any new provisions (or the amount of any increases in existing provisions) raised by a member of CYBG Group for Relevant Conduct Matters on a fixed proportional basis ("**Loss Sharing Arrangement**"). Under the Loss Sharing Arrangement, CYBG PLC will be responsible for that portion of the relevant conduct liabilities forming part of the relevant provision which equates to the proportion that £120 million bears to the sum of the Capped Indemnity Amount plus £120 million at the Demerger Date (the "**Aggregate Exposure Amount**"), expressed as a percentage (the "**Loss Share**"). At the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion and therefore the Loss Share is expected to be fixed at 9.7%. If there is no further specific support provided by NAB for Relevant Conduct Matters prior to implementation of the Demerger, the Loss Share will remain fixed at 9.7%.

4.9.4 Collateral Account

NAB will collateralise certain of its obligations under the Capped Indemnity from the Demerger Date by placing a cash deposit with The Bank of England in an amount equal to the Unutilised Indemnity Amount (the "**Collateral Account**") and over which a security interest at least equivalent to a floating charge will be granted in favour of CYBG PLC. If NAB wishes to implement an alternative collateral arrangement to replace the Collateral Account, CYBG PLC and NAB will discuss and seek to agree in good faith such alternative arrangements. CYBG PLC may not unreasonably withhold its consent to such arrangements if such alternative arrangements would not reasonably be expected to prejudice the ability of CYBG PLC to obtain payment of amounts otherwise payable from the Collateral Account. If any such arrangements are agreed between CYBG PLC and NAB, they must obtain the approval of the PRA before implementing those arrangements. The Collateral Account is only for the purposes of providing security for NAB's obligations under the Capped Indemnity. Claims under the Capped Indemnity will therefore be met by NAB directly with an equivalent amount being released from the Collateral Account back to NAB upon satisfaction of NAB's payment obligations. Any interest payable on the Collateral Account is payable to NAB.

4.9.5 Designated Account

Any amount paid to CYBG PLC pursuant to the Capped Indemnity will be deposited in a designated account at Clydesdale Bank in the name of CYBG PLC. CYBG PLC may, at its option, downstream the funds received to members of CYBG Group by way of one or a series of equity subscriptions, provided that the funds are credited to a designated account in the name of a member of CYBG Group (a "**Designated Account**") at all times. CYBG PLC will also transfer to a Designated Account prior to the Demerger Date, any portion of the Pre-Covered Provision Amount which is unutilised at the date of such transfer. Funds in a Designated Account will only be released when CYBG Group incurs and pays a conduct cost that falls within the scope of the Capped Indemnity. If CYBG Group incurs and pays such a cost, it may withdraw from a Designated Account(s) an amount equal to such costs on a quarterly basis. The amounts standing to the credit of the Designated Account(s) may not be withdrawn or allocated by CYBG Group for any other purpose (but without prejudice to the use by Clydesdale Bank in the ordinary course of its business of the deposit placed with it). Any interest earned on amounts standing to the credit of a Designated Account is to be applied in respect of the next relevant provision raised or increased by a member of the CYBG Group or in discharging conduct costs falling within the scope of the Capped Indemnity.

4.9.6 Release or Reduction of Provisions

If any provision forming part of a Pre-Demerger Provision Amount or any portion of CYBG Group's unutilised provisions for Relevant Conduct Matters which have been covered by the Capped Indemnity (the "**Unutilised Covered Amount**"), is no longer required such that it is released or reduced, the aggregate amounts of provisions released or reduced (or, in the case of the Unutilised Covered Amount, the proportion thereof reflecting NAB's share under the Loss Sharing Arrangement) must be applied against the next relevant provision raised or increased by a member of CYBG Group or in discharging conduct costs falling within the scope of the Capped Indemnity. Where the aggregate amounts of provisions released or reduced are greater, by £15 million or more, than the provisions or increases within the scope of the Capped Indemnity which CYBG PLC believes will be raised by CYBG Group in the following 12 months, such excess amount shall be repaid to NAB (with a corresponding adjustment to the Unutilised Indemnity Amount in the amount of any excess which is repaid to NAB).

4.9.7 Information Rights and Dispute Resolution

Although CYBG PLC has sole conduct of Relevant Conduct Matters, NAB has the benefit of certain information, consultation and audit rights in relation to Relevant Conduct Matters and claims made under the Capped Indemnity.

In addition, a joint Conduct Review Committee comprising representatives of CYBG PLC and NAB has been established which is responsible for the oversight and governance of the Capped Indemnity arrangements. The Conduct Review Committee's role is to discuss matters relevant to the raising by CYBG of additional provisions and the handling of Relevant Conduct Matters covered by the Capped Indemnity. The Conduct Review Committee will be a joint committee comprising two CYBG representatives and two NAB representatives. The Conduct Review Committee will meet quarterly and at a member's request following certain specified events.

The Capped Indemnity is also subject to a dispute resolution procedure which may result in any unresolved issues being determined by a third party expert or by court proceedings. If the dispute relates to a matter which is determined to be a continuing material breach by CYBG PLC of its obligations under the Conduct Indemnity Deed to, among others, cooperate in relation to the assessment by the PRA of the potential remaining exposure to claims within the scope of the Capped Indemnity and provide information to NAB to enable it to review the validity of claims made under the Capped Indemnity and withdrawals from the Designated Account(s), NAB will be entitled to suspend any part of a Capped Indemnity payment and CYBG PLC will be prohibited from withdrawing an amount from the Designated Account(s) for so long as such breach is continuing, in each case which relates to the Relevant Conduct Matter in relation to which CYBG PLC is in material non-compliance. All other amounts under the Capped Indemnity will remain payable by NAB.

4.9.8 Duration and Termination

The indemnity protection provided by NAB to CYBG PLC in respect of Relevant Conduct Matters under the Capped Indemnity is perpetual in nature, except in the following circumstances:

(a) it is fully utilised by CYBG Group;

(b) in the event that, at any time post-Demerger:

   (i) the PRA determines that NAB's remaining exposure under the Capped Indemnity; or

   (ii) the Unutilised Indemnity Amount,

   is £100 million or less, NAB will have the right (with the approval of the PRA (at its sole discretion)) to terminate the Capped Indemnity by subscribing for CYBG Shares (at a price equivalent to the prevailing five-day average market price for the CYBG Shares) in an amount equal to the Unutilised Indemnity Amount, provided that the maximum value of the CYBG Shares to be subscribed for does not exceed a value equal to 9.9% of the issued share capital of CYBG PLC (on an undiluted basis) at such time (a "**£100m Termination**"); and

(c) NAB and CYBG PLC may also agree arrangements to terminate or replace the Capped Indemnity with the consent of the PRA. In particular, NAB and CYBG PLC have agreed that they will, on the fifth anniversary of the Demerger (and, if relevant, each subsequent anniversary of the Demerger), seek to agree arrangements to terminate the Capped Indemnity. If any such arrangements are agreed between NAB and CYBG PLC, they will be required to obtain the approval of the PRA (at its sole discretion) before commencing the implementation of such arrangements. In relation to proposals made by NAB to CYBG PLC in connection with such termination of the Capped Indemnity, CYBG PLC cannot unreasonably withhold its agreement to the Capped Indemnity being replaced by a payment equal to the Unutilised Indemnity Amount to be applied (in whole or in part) in subscribing for Shares (at a price equivalent to the prevailing five-day average market price for the CYBG Shares), provided that the maximum value of the CYBG Shares to be subscribed for pursuant to such proposal would not exceed £200 million or if lower, a value equal to 9.9% of the issued share capital of CYBG PLC (on an undiluted basis) at such time (a "**Post-5 Year Equity Subscription Termination**").

If £100m Termination or Post-5 Year Equity Subscription Termination occurs, CYBG PLC will not be entitled to make any further claims under the Capped Indemnity, but will be entitled to retain in the Designated Account(s) for a period of three years following such termination, any Unutilised Covered Amount and any amount to be withdrawn from the Designated Account in respect of conduct costs that fall within the scope of the Capped Indemnity which have been incurred and paid by CYBG Group prior to such termination. CYBG PLC will be required to return to NAB any other amounts in the Designated Account(s) and to release to NAB all amounts remaining in the Collateral Account. Following the expiry of such three-year period, CYBG PLC will be required to repay all remaining amounts in the Designated Account(s) net of any amount to be withdrawn from the Designated Account in respect of conduct costs that fall within the scope of the Capped Indemnity which have been incurred and paid by CYBG Group prior to such anniversary.

It would not be necessary for CYBG PLC to seek shareholder approval pursuant to Chapter 10 or 11 of the UK Listing Rules nor to obtain shareholder authority under the *Companies Act (UK)* to allot CYBG Shares to NAB, in order to implement a £100m Termination. If CYBG PLC and NAB agree, with the PRA's consent, to terminate the Capped Indemnity pursuant to a Post-5 Year Equity Subscription Termination, it would not be necessary for CYBG PLC to seek shareholder approval pursuant to Chapter 10 or 11 of the UK Listing Rules (unless, in the case of Chapter 11, such arrangements are subject to material amendment) nor to obtain shareholder authority under the *Companies Act (UK)* to allot CYBG Shares to NAB, in order to implement a Post-5 Year Equity Subscription Termination.

CYBG PLC has been granted an authority to issue and allot CYBG Shares up to an aggregate nominal value of £200 million post-implementation of the Demerger in connection with any termination of the Capped Indemnity and to disapply pre-emption rights in respect of such issuances and allotments.

The Capped Indemnity will not automatically cease to apply nor will it automatically terminate upon any change of control of CYBG PLC, CYBI or Clydesdale Bank or in the event of a sale of the relevant business and assets of a member of CYBG Group. However, prior to any change of control, the parties must cooperate in good faith to facilitate an assessment by the PRA to determine whether the Capped Indemnity should continue in the then amount or whether it should be terminated in whole or part. Any such assessment will be at the sole discretion of the PRA.

4.9.9 Taxation

It is not expected that payments to CYBG PLC under the Capped Indemnity (or subsequent subscriptions for equity in other members of CYBG Group using the proceeds of such payments) will be taxable in the hands of CYBG Group but if tax were to be payable, then the Conduct Indemnity Deed contains provisions pursuant to which NAB has, as a term of the Sale and Purchase Agreement, agreed to compensate CYBG PLC for any actual tax incurred that would not have been incurred but for the receipt of amounts by CYBG PLC under the Capped Indemnity or by members of CYBG Group pursuant to subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments. In certain circumstances, CYBG Group may be liable to a tax charge in respect of payments to customers for Relevant Conduct Matters and NAB has also agreed, subject to certain limitations, to compensate CYBG PLC for those tax costs net of deductible expenses if they arise in respect of NAB's share of liability under the Loss Sharing Arrangement for Relevant Conduct Matters (together with the matters referred to in the preceding sentence, the "**Tax Indemnity Provisions**"). It is not expected that the Tax Indemnity Provisions will give rise to any net payment to CYBG PLC. Compensation will be paid when tax is incurred on the receipts or, where DTAs are used to shelter tax on the receipts, when other income is subject to tax which would not have arisen but for the use of the DTAs to shelter tax on the receipt of amounts under the Capped Indemnity, taking into account whether payments under the Capped Indemnity are taxable and whether the underlying customer compensation payments and related costs and expenses give rise to tax relief. To the extent actual tax becomes due, NAB will pay CYBG PLC an amount equal to such tax. The Unutilised Indemnity Amount will not be reduced for any payments made under the Tax Indemnity Provisions.

Should any amounts paid to CYBG PLC under the Capped Indemnity (or subsequent subscriptions for equity in members of CYBG Group in consequence of receipt of such payments) be subject to tax, it is not possible to determine the amount that may be payable under the Tax Indemnity Provisions as this will depend on tax legislation at the time the relevant payments (or subscriptions) become subject to tax. No changes to tax legislation are currently anticipated that would make such payments (or subscriptions) subject to tax however changes to UK tax legislation may be enacted at any time including before payments are due under the Tax Indemnity Provisions.

4.9.10 Release

Save for the Capped Indemnity and the Tax Indemnity Provisions, CYBG PLC has agreed to release NAB from liability for any other conduct related claims by any member of CYBG Group against any member of NAB.

4.10 Other arrangements between CYBG Group and NAB

Prior to the proposed Demerger, CYBG Group is wholly owned by NAB and consequently there have been a large number of transactions between NAB and CYBG Group. Outstanding transactions between CYBG Group and NAB at 30 September 2015 include:

- Investment by NAB in debt instruments of CYBG Group including residential mortgage backed securities of the Lannraig Programme and Tier 2 Notes, and other amounts due by CYBG Group to NAB as part of operating activities – refer to Section 4.10.1.1.
- CYBG Group's bank accounts held with NAB relating to CYBG Group's securitisation funding structures and collateral provided to NAB associated with derivative transactions – refer to Section 4.10.1.2.
- Derivative transactions. In the past, most non-customer facing derivative transactions of CYBG Group had been executed with NAB – refer to Section 4.10.1.3.
- Investment by NAB in AT1 Notes of CYBG Group – refer to Section 4.10.2.3.

An update as to certain significant changes in these outstanding arrangements since 30 September 2015 together with a description of the arrangements between NAB and CYBG Group after separation and the intentions of NAB and CYBG Group to further separate funding, capital and derivative relationships, is set out in Section 4.10.2.

4.10.1 Balances between NAB and CYBG Group as at 30 September 2015

4.10.1.1 Amounts due to NAB from CYBG Group as at 30 September 2015

Table 22: Receivable amounts due to NAB from CYBG Group as at 30 September 2015

	£	AUD
Senior debt funding(1)	100m	216m
Investment in notes including accrued interest(2)	382m	826m
Investment in Tier 2 Notes including accrued interest(3)	478m	1,034m
Other receivables	38m	83m
Total	998m	2,159m

(1) Represents senior debt funding provided by NAB to CYBG Group which was settled on 26 October 2015. Refer to Section 4.10.2.1 below.

(2) Investment in notes represents residential mortgage backed securities of the Lannraig Programme held by NAB. These notes are intended to be called on the call date in November 2017.

(3) Investment in Tier 2 Notes comprises two tranches issued by CYBG Group to NAB. The notes are subordinated to the claims of other creditors and are unsecured. The terms on these notes are:

- £300 million note issued by Clydesdale with a final maturity of 20 December 2023 at a rate equal to LIBOR plus a margin of 3.41% per annum. The note is first callable by Clydesdale on 20 December 2018; and
- £175 million note issued by Clydesdale with a final maturity of 25 January 2021 at a rate equal to LIBOR plus a margin of 4.42% per annum. The note is first callable by Clydesdale on 25 January 2016.

4.10.1.2 Amounts due by NAB to CYBG Group as at 30 September 2015

Table 23: Deposits and other payables due by NAB to CYBG Group as at 30 September 2015

	£	AUD
Deposits(1)	673m	1,456m
Other payables(2)	113m	244m
Total	786m	1,700m

(1) Deposits include £281 million placed by CYBG Group on deposit with NAB as collateral for derivative transactions and CYBG Group's operating cash balances relating to Clydesdale securitisation funding structures held with NAB.

(2) Other payables mainly relate to £101 million in relation to amounts outstanding in relation to historic (pre 31 March 2015) IRHP/FRTBL conduct charges recognised by CYBG Group. Refer to Sections 4.9 and 4.10.2.2 for further information, settlement having occurred on 26 October 2015.

4.10.1.3 Derivative financial instruments

In the past, most non-customer facing derivative transactions of CYBG Group had been executed with NAB. Derivatives include foreign exchange rate related contracts, interest rate related contracts and commodity related contracts executed in the form of swaps, spot contracts, forward contracts options and swap options. These derivatives include risk management derivatives for CYBG Group and derivatives to facilitate transactions of CYBG Group with its customers. These transactions have been entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business. In order to establish CYBG Group as a standalone group, CYBG Group now has a full suite of external market derivative counterparties. Derivative financial instruments between NAB and CYBG Group as at 30 September 2015 from NAB's perspective are detailed in Table 24:

Table 24: Counterparty derivative financial position as at 30 September 2015

	Fair value assets $m	Fair value liabilities $m
Trading derivative financial instruments	569	130
Hedging derivative financial instruments	374	186
Total on CYBG Group balance sheet	**943**	**316**
CYBG Group off-balance sheet derivatives(1)	51	–
Total derivative financial instruments	**994**	**316**

(1) Represents specific derivative transactions between NAB and CYBG Group's bankruptcy remote securitisation funding transactions. These derivatives transactions are accounted by CYBG Group on an accrual basis in conjunction with the underlying securitised assets to which the derivatives relate, and therefore were not included as part of the carrying value of CYBG Group's derivatives portfolio.

The carrying value of the derivative financial instruments reflects the fair value of the derivative transactions with CYBG Group. Included in NAB exposures to CYBG Group are derivative transactions to bankruptcy remote securitisation and covered bond trusts, with an aggregate net fair value of $168 million, including the CYBG Group off-balance sheet derivatives referred to above.

The notional principal of the derivative transactions between NAB and CYBG Group in aggregate was $71.7 billion as at 30 September 2015, including derivatives transactions associated with CYBG Group's securitisation funding transactions discussed above. The notional principal represents the amount from which the cash flows from the derivative contracts (both derivative assets and liabilities) are derived and are not an indication of the amounts at risk relating to those contracts. The maximum exposure to credit risk of CYBG Group at any point in time is limited to the net current fair value of derivative instruments due to NAB from CYBG Group, less collateral obtained.

The credit risk exposure of NAB to CYBG Group is managed as part of the overall lending limits together with potential exposures from market movements, consistent with the risk management approach to NAB's other external customers. The derivative contracts are subject to International Swaps and Derivatives Association ("**ISDA**") Master Agreements, as well as relevant Credit Support Annexes ("**CSA**") governing collateral arrangements attached to the relevant ISDA agreements. Under the ISDA Master Agreements, if a counterparty defaults, all contracts with the counterparty are terminated and then settled on a net basis at market levels current at the time of the default. In addition, the credit risk associated with derivative contracts is managed in most cases through the posting of cash collateral by CYBG Group in line with the CSA. The net fair value of derivative transactions in favour of NAB, net of collateral held was $96 million.

On 5 November 2015 NAB and Clydesdale Bank entered into a swap clearing arrangement in preparation for compliance with the clearing obligations under the new European Market Infrastructure Regulation ("**EMIR**") which are due to come into force progressively commencing in 2016. The transition to a client clearing relationship helps create further separation between NAB and CYBG Group as part of the Demerger. The service utilises market standard third party technology to support the clearing of new CYBG Group trades with NAB and third party market counterparties and the back-loading and clearing of eligible existing bilateral trades through LCH.Clearnet Limited ("**LCH**"). The client clearing relationship has been formally documented on the basis of market standard documentation and provided to CYBG Group on an arm's length basis.

A portfolio of existing bilateral derivative contracts between NAB and CYBG Group has been back-loaded into LCH for clearing purposes. As at 12 November 2015, the portfolio had a total notional amount of £13.4 billion and a net fair value in favour of NAB of £93.9 million before collateral.

The contractual maturities of the derivative financial instruments as at 30 September 2015 by time period are detailed in Table 25 below:

Table 25: Counterparty derivative financial position by maturity as at 30 September 2015

Time period	Notional amount $m	Net fair value $m
0 to 1 year	16,380	21
1 to 2 years	13,579	95
2 to 5 years	12,621	185
5 to 10 years	16,349	143
Greater than 10 years	12,747	234
	71,676	678

4.10.2 Significant changes in arrangements between NAB and CYBG Group which have occurred after 30 September 2015, and other arrangements to further separate funding, capital and derivative relationships between CYBG Group and NAB

4.10.2.1 Loans, bonds, notes and derivative transactions

On 26 October 2015, CYBG Group repaid £100 million of senior debt funding due to NAB.

CYBG Group intends to repay other outstanding notes to NAB on the call date in November 2017. In addition, NAB and CYBG Group expect that derivative transactions will mature in accordance with the contracts unless otherwise varied through mutual consent.

4.10.2.2 Repayment of historic conduct charges

On 26 October 2015, £101 million of amounts outstanding in relation to historic (pre 31 March 2015) IRHP/FRTBL conduct charges recognised by CYBG Group were paid by NAB to CYBG Group.

4.10.2.3 Investment in AT1 Notes and Tier 2 Notes

As at 30 September 2015, NAB held £450 million of AT1 Notes of CYBG Group (in two separate tranches of £300 million and £150 million), and £475 million of Tier 2 Notes of CYBG Group (in two separate tranches of £300 million and £175 million).

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's interest in CYBG Group's existing AT1 Notes and Tier 2 Notes, with new AT1 Notes and Tier 2 Notes to be issued by CYBG PLC on the Demerger Date and initially held by NAB.

The repurchase of the existing AT1 Notes and issue of the new AT1 Notes are subject to options (to be exercised concurrently) in CYBG Group's favour, whereby CYBG Group has the right, but not the obligation, to repurchase the existing AT1 Notes from NAB and to issue new AT1 Notes to NAB on the Demerger Date. Should CYBG Group fail to exercise these options, then the existing AT1 Notes will continue to be owned by NAB. The repurchase of the existing Tier 2 Notes from NAB will occur on the Demerger Date, immediately after, and subject to, issuing the new Tier 2 Notes to NAB. The arrangements for the new instruments will be effected (at CYBG Group's option in respect of the AT1 Notes only) on market terms, with the pricing agreed and terms and conditions substantially agreed by NAB and CYBG Group on 4 November 2015. The effect of these arrangements is intended to allow CYBG Group to optimise its regulatory position in respect of its issuances of AT1 Notes and Tier 2 Notes and to provide a single issuing entity for CYBG Group's capital securities following the Demerger.

It is intended that the new AT1 Notes and Tier 2 Notes will be listed on issue (or shortly thereafter). In relation to the listing of CYBG PLC's new AT1 Notes, listing particulars are expected to be approved by the Irish Stock Exchange for admission of the new AT1 Notes to listing on the Official List of the Irish Stock Exchange and to trading on the Global Exchange Market, and CYBG PLC will take responsibility for the information contained therein in accordance with the applicable liability regime. In relation to the listing of CYBG PLC's new Tier 2 Notes, a prospectus is expected to be approved by the UKLA as a prospectus issued in compliance with the Prospectus Directive, for admission of the new Tier 2 Notes to listing on the Official List of the UKLA and to trading on the regulated market of the London Stock Exchange. CYBG PLC will take responsibility for the information contained therein in accordance with the requirements of the Prospectus Rules.

It is NAB's intention following the Demerger to re-market and sell the new AT1 Notes and Tier 2 Notes to third party investors during 2016. NAB also retains the right to re-market the existing AT1 Notes in the event CYBG Group does not exercise its options to repurchase the existing AT1 Notes and issue the new AT1 Notes. NAB and CYBG Group have agreed, pursuant to the Demerger Deed, that CYBG Group will assist NAB in the re-marketing and sale of any AT1 Notes or Tier 2 Notes to third party investors. CYBG Group has agreed to provide sufficient skilled resources to perform a variety of tasks to assist NAB in this process, including engagement with regulators, preparation of required documentation, participation in marketing roadshows and providing such other assistance as may be considered necessary. CYBG PLC will be required to prepare an offering document in connection with any re-marketing and sale of the new AT1 Notes and Tier 2 Notes and CYBG PLC will take responsibility for the information contained therein.

In order to facilitate the remarketing of the new AT1 Notes and Tier 2 Notes, it is intended that CYBG PLC will enter into purchase agreements for each of the AT1 Notes and the Tier 2 Notes with NAB and the appointed managers, prior to UK Admission, pursuant to which it will also provide certain market standard representations and warranties and indemnities to NAB and the appointed managers. NAB will also provide such representations, warranties and indemnities to the appointed managers as are considered appropriate in a transaction of this nature.

Approval from the PRA has been obtained for the repurchase of the existing AT1 Notes and Tier 2 Notes. Any remarketing of the new AT1 Notes and Tier 2 Notes is intended to be carried out pursuant to the Demerger Deed and the purchase agreements, all of which are intended to be entered into before or at Demerger and prior to UK Admission.

The new AT1 Notes and Tier 2 Notes proposed to be issued by CYBG PLC are expected to qualify as regulatory capital for CYBG Group, and therefore will be like for like deductions from NAB's capital until such time as they are sold by NAB, called or redeemed pursuant to their terms.

The terms of the new AT1 Notes and Tier 2 Notes to be issued by CYBG PLC have been set so that the face value of the new securities will be equal to the face value of the existing securities. A summary of the key terms is set out below:

Summary terms of the proposed new AT1 Notes

Issuer:	**CYBG PLC**
Type:	Perpetual Notes
Market:	Regulation S
Issue Size:	GBP 450,000,000
Denominations:	GBP 200,000 and integral multiples of GBP 1,000 in excess thereof
Maturity:	Perpetual; First Optional Redemption Date of 8 December 2022 @ par
Initial Coupon:	8.00%

Summary terms of the proposed new Tier 2 Notes

Issuer:	**CYBG PLC**
Type:	Dated Subordinated Notes
Market:	Regulation S
Issue Size:	GBP 475,000,000
Denominations:	GBP 100,000 and integral multiples of GBP 1,000 in excess thereof
Maturity:	9 February 2026; First Optional Redemption Date of 8 February 2021 @ par
Initial Coupon:	5.00%

The repurchase of the existing AT1 Notes and Tier 2 Notes will result in a gain/loss to CYBG Group (gain/loss relating to the AT1 Notes will be recognised directly in equity), and a corresponding gain/loss for NAB equal to the difference between the agreed price for repurchase and the carrying value of the relevant AT1 Notes and Tier 2 Notes.

4.10.2.4 NAB Employee Equity Plans

NAB Employee Equity Plans provide NAB Shares and Performance Rights to employees. Under the terms of most offers, the instruments granted are subject to vesting conditions. At the time of the Demerger, current and former employees of CYBG Group will hold awards granted in previous periods for which vesting will be subject to continued employment, and in some instances specified performance targets being met.

Following the Demerger the existing unvested awards will remain on foot. NAB will settle the awards granted to CYBG Group employees in previous periods in accordance with the original terms of the grant, that is, subject to the existing vesting conditions. CYBG Group will compensate NAB for the cost of the awards provided to CYBG Group employees based on the grant date fair value of the awards, which is the amount that CYBG Group would have compensated NAB for had CYBG Group continued to be wholly owned by NAB.

The maximum number of NAB Shares that NAB may be required to deliver to CYBG Group employees to settle outstanding equity-based compensation after 30 September 2015 is approximately 403,989 NAB Shares.

Section Five
Institutional Offer

Section Five: Institutional Offer

5.1 Overview

NAB intends to sell approximately 219,828,814 CYBG Shares (inclusive of any Over Allotment Option), representing 25% of CYBG Shares, in the Institutional Offer concurrently with the Demerger.

In the event that the Institutional Offer does not proceed or NAB sells less than the full amount of the CYBG Shares proposed to be sold in the Institutional Offer, NAB will retain the balance of CYBG Shares which are not sold.

If it proceeds, the Institutional Offer will be made by means of an offer of CYBG Shares to Qualified Investors in certain EEA member states, institutional investors in the UK and to certain other institutional investors outside the United States (including in Australia) in reliance on Regulation S and to QIBs in the United States in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the *US Securities Act*. The Offer Price will be determined following a period of investor marketing and a bookbuild process and the net proceeds of the sale of the CYBG Shares pursuant to the Institutional Offer will be paid to NAB.

5.2 Conditionality

The Demerger is not conditional on the Institutional Offer proceeding.

If the Institutional Offer does not proceed (or does not involve the sale of all the CYBG Shares proposed to be sold in the Institutional Offer), NAB will:

- demerge 75% of CYBG Shares to NAB Shareholders;
- retain all of CYBG Shares not sold to institutional investors; and
- seek to sell those CYBG Shares:
  - if the Institutional Offer does not proceed at all, as soon as reasonably practicable having regard to market conditions and the price it can obtain; or
  - if the Institutional Offer did not involve the sale of all the CYBG Shares proposed to be sold in the Institutional Offer, as soon as reasonably practicable following the end of a lock up period commencing on the first day of conditional trading of CYBG Shares on the LSE until the date falling 90 days after UK Admission.

NAB may choose, in its absolute discretion, not to proceed with the Institutional Offer (or not to proceed with selling all the CYBG Shares proposed to be sold in the Institutional Offer), including in circumstances where:

- equity market conditions are not conducive for initial public offerings;
- there is negative sentiment towards the UK banking sector; or
- there has been a material change in respect of CYBG Group that impacts investor sentiment towards CYBG Group.

If NAB does not proceed with the Institutional Offer or sells less than all of the CYBG Shares proposed to be sold in the Institutional Offer:

- it is intended that CYBG PLC will still be listed on both the LSE and ASX (assuming approval is granted for Australian Admission and UK Admission becomes effective), although it is expected there may be limited liquidity on the LSE.
- The Relationship Agreement (outlined below in Section 5.3) will become unconditional.
- There will be no changes to the ongoing arrangements between NAB and CYBG Group after separation as outlined in Section 4.8.3.
- NAB's CET1 Ratio would be lower as NAB (after the Demerger) would have received less or no proceeds from the Institutional Offer and would have a remaining equity investment in an overseas Authorised Deposit-taking Institution that under APRA's capital standards, would require a corresponding deduction to CET1 equal to the value of the investment.
- The retention by NAB of the shareholding in CYBG PLC in these circumstances is not expected to have a material impact on NAB's earnings, return on equity or dividend per share.

5.3 Relationship Agreement

CYBG PLC and NAB have entered into the Relationship Agreement which will, conditional on the Demerger becoming effective, regulate the ongoing relationship between CYBG PLC and NAB in circumstances where NAB's holding of Retained Stake Shares is at least 10% of CYBG Shares on issue.

The principal purpose of the Relationship Agreement is to ensure that certain prescribed relationship matters between CYBG PLC and NAB are addressed in circumstances where NAB's Retained Stake Shares exceeds 10% of the CYBG Shares on issue, so that CYBG Group is capable of carrying on its business independently of NAB and that transactions and relationships with NAB (including any transactions and relationships with any member of CYBG Group) are conducted at arm's length and on normal commercial terms.

The provisions of the Relationship Agreement will remain in full force and effect for so long as NAB, together with its associates (excluding any associates that hold Retained Stake Shares as a result of wealth management, custody or other ordinary course business activities), holds Retained Stake Shares representing at least 10% of the CYBG Shares on issue from time to time, save that NAB may terminate the Relationship Agreement if:

- CYBG PLC passes a resolution for its winding up or a court of competent jurisdiction makes an order for CYBG PLC's winding up or dissolution;
- an administration order is made in relation to CYBG PLC or a receiver is appointed over, or an encumbrancer takes possession of or sells, an asset of CYBG PLC; or

- CYBG PLC makes an arrangement or composition with its creditors generally or makes an application to a court of competent jurisdiction for protection from its creditors generally.

Under the Relationship Agreement, NAB has agreed that:

- Neither NAB nor any of its associates shall take any action that would have the effect of preventing CYBG PLC from complying with its obligations under the UK Listing Rules.
- Neither NAB nor any of its associates shall propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the UK Listing Rules.
- Neither NAB nor any of its associates shall exercise any of its voting rights in relation to the Retained Stake Shares in a way that would be inconsistent with, or breach any of the provisions of the Relationship Agreement.
- NAB and each of its associates will allow CYBG Group to operate on an independent basis and will not influence the day-to-day running of CYBG Group at an operational level.
- Neither NAB nor any of its associates shall exercise its powers to prevent CYBG Group from being managed in accordance with the principles of good governance set out in the UK Corporate Governance Code, and in compliance with the applicable provisions of the UK Listing Rules, the FSMA, the Code and the DTRs (save as may be disclosed in the Prospectus or as previously agreed in writing by a majority of the independent CYBG Directors).
- Any transactions and arrangements between CYBG PLC or any of its associates and NAB or any of its associates shall be at arm's length on normal commercial terms and in accordance with the related party rules set out in Chapter 11 of the UK Listing Rules.
- NAB, and its associates, shall abstain from voting on any resolution required by paragraph 11.1.7R(3) of the UK Listing Rules to approve a "related party transaction" (as defined in paragraph 11.1.5R of the UK Listing Rules) involving NAB or any of its associates.

Under the Relationship Agreement, if NAB directly or indirectly holds Retained Stake Shares equating to at least 20% of the CYBG Shares on issue at UK Admission, it is entitled to nominate and, with the prior approval (such approval not to be unreasonably withheld or delayed) of the nomination committee or the CYBG Board as to the identity of the director, to appoint one non-executive CYBG Director to the CYBG Board ("**Non-Executive CYBG Shareholder Director**") provided that it shall be deemed unreasonable for the nomination committee to withhold or delay approval if (i) the Non-Executive CYBG Shareholder Director has been approved by the PRA for appointment to the Board and (ii) on and from the date that the UK Senior Managers Regime comes into effect, the Non-Executive CYBG Shareholder Director satisfies the CYBG Group's fit and proper assessment implemented for the purposes of the UK Senior Managers Regime (to the extent applicable to the Non-Executive CYBG Shareholder Director). If subsequently NAB directly or indirectly holds Retained Stake Shares equating to less than 10% of the CYBG Shares on issue, it shall no longer be entitled to appoint a Non-Executive CYBG Shareholder Director to the CYBG Board and shall procure that the Non-Executive CYBG Shareholder Director (if appointed) shall:

- resign without seeking compensation for loss of office; and
- waive all claims that the Non-Executive CYBG Shareholder Director may have against CYBG PLC in connection thereto.

The Non-Executive CYBG Shareholder Director shall be entitled (but not obliged) to attend, in the capacity of an observer (to the extent any other director would be so entitled to so observe), the CYBG Board's Audit Committee and CYBG PLC has undertaken to provide certain financial information to NAB to support "equity method" accounting if required.

If the Institutional Offer does not proceed or it proceeds but NAB retains an interest in CYBG Shares by way of Retained Stake Shares which exceeds 20% of the CYBG Shares on issue, Richard Sawers will be re-apppointed to the CYBG Board as a Non-Executive CYBG Shareholder Director. CYBG PLC has undertaken that, for so long as NAB, together with any of its associates, holds Retained Stake Shares equating to at least 10% of the CYBG Shares on issue, if NAB notifies CYBG PLC in writing of its intention to dispose of any CYBG Shares, it shall co-operate with and provide such assistance to NAB in connection with such disposal as NAB may reasonably request (including participation in the preparation of an offering memorandum, including the provision of warranties and in certain circumstances, indemnities by CYBG PLC relating to CYBG PLC and its business (including taking responsibility for any information provided by or on behalf of CYBG PLC for inclusion in any investor presentation or other documentation used in connection with the offering) to any managers, brokers or underwriters, as the case may be, in a form consistent with those given in the underwriting and/or sponsors' agreement entered into at the time of Admission and participating in discussions with potential investors and roadshow presentations save that CYBG PLC's obligations to co-operate with or provide assistance to NAB are subject to:

- CYBG PLC's properly incurred out-of-pocket costs and expenses, together with any fees and properly incurred out-of-pocket expenses of any third parties engaged by CYBG PLC, in each case incurred in providing such assistance, being reimbursed by NAB upon written request (with CYBG PLC required to procure estimates of such costs and expenses to be borne by NAB for approval by NAB (such approval not to be unreasonably withheld or delayed) prior to the incurrence of such costs); and
- in certain circumstances, CYBG PLC and its representatives being consulted by NAB as to the timing, size and manner of the disposal and NAB complying with all reasonable requirements of CYBG PLC in relation thereto.

The CYBG Directors believe that the terms of the Relationship Agreement as described above will enable CYBG Group to carry on its business independently of NAB, and/or its associates, and ensure that all transactions and relationships between CYBG PLC and/or the members of CYBG Group, on the one hand, and NAB and/or its associates, on the other hand, are, and will be, conducted at arm's length and on normal commercial terms.

5.4 Underwriting arrangements

Immediately prior to the announcement of the Offer Price, CYBG PLC, the CYBG Directors, NAB and the Managers are expected (but not obliged) to enter into the Underwriting Agreement, pursuant to which it is proposed that each Manager will severally agree, subject to certain conditions, to procure purchasers for the CYBG Shares pursuant to the Institutional Offer, and each of the Managers will severally agree, subject to certain conditions, to the extent that the Managers fail to procure purchasers for all of those CYBG Shares, to purchase its agreed proportion of such unplaced CYBG Shares. All such purchases will be at the Offer Price. The Underwriting Agreement is proposed to contain provisions entitling the Managers to terminate the Institutional Offer (and the arrangements associated with it) at any time prior to UK Admission in certain circumstances, including on the occurrence of certain material changes in the condition (financial or otherwise) or prospects of CYBG PLC and on certain changes in financial, political or economic conditions. If this right is exercised, the Institutional Offer and these arrangements would lapse and any monies received in respect of the Institutional Offer will be returned to applicants without interest. The Underwriting Agreement will provide for the Managers to be paid commissions in respect of CYBG Shares sold pursuant to the Institutional Offer (including any Over Allotment Shares). The Underwriting Agreement will also provide for incentive commissions to be paid to some or all of the Managers in the absolute discretion of NAB. Any commissions received by the Managers may be retained, and any CYBG Shares acquired by the Managers may be retained or dealt in by the Managers, for their own benefit. The Institutional Offer is conditional upon UK Admission becoming effective and the Underwriting Agreement becoming unconditional in accordance with its terms. The Underwriting Agreement will only be entered into if NAB decides to proceed with the Institutional Offer. If the Institutional Offer does not proceed, CYBG PLC may enter into an alternative agreement with Morgan Stanley (acting as sponsor to its listing) in connection with obtaining UK Admission.

5.5 Lock-up arrangements

CYBG PLC has agreed not to issue any new CYBG Shares, without the prior written consent of the Managers (such consent not to be unreasonably withheld or delayed), for a period of 180 days following UK Admission, subject to certain customary exceptions.

The CYBG Directors have agreed that, subject to certain customary exceptions, during the period of 365 days from the date on which UK Admission becomes effective, they will not, without the prior written consent of the Managers, sell or contract to sell, grant or sell any option over, charge, pledge or otherwise dispose of any CYBG Shares (or any interest therein or in respect thereof).

If the Institutional Offer does not involve the sale of the entire IPO Percentage, NAB has agreed that, subject to certain customary exceptions, during the period of 90 calendar days from the date of UK Admission, they will not, without the prior written consent of the Managers, sell or contract to sell, grant or sell any option over, charge, pledge or otherwise dispose of any CYBG Shares (or any interest therein or in respect thereof) that were intended to be sold in the Institutional Offer but were retained by NAB. Any CYBG Shares retained by NAB for the purposes of stabilisation will not be subject to lock up arrangements.

If the Institutional Offer does not proceed at all, no lock-up arrangements apply to NAB (or CYBG PLC) unless subsequently agreed as part of new marketing or listing arrangements.

It is the current intention of each of the NAB Directors, including NAB's CEO, to hold the CYBG Securities that they personally receive under the Demerger for at least the first 12 months following the Effective Date.

5.6 Over allotment and Stabilisation

In connection with the Institutional Offer, NAB will grant the Stabilising Manager on behalf of the Managers, an Over Allotment Option which is exercisable in whole or in part, upon notice by the Stabilising Manager, in the Stabilisation Period.

In connection with the Institutional Offer, the Stabilising Manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot CYBG Shares and effect other transactions which may have the effect of supporting the market price of the CYBG Securities at a level higher than that which might otherwise prevail in the open market. Such transactions may be effected on any securities market or stock exchange, in over-the-counter markets or otherwise and undertaken at any time during the Stabilisation Period, being the 30-day period following the commencement of conditional dealings in CYBG Shares on the LSE. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and no assurance that stabilising transactions will be undertaken. Such stabilising transactions, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the CYBG Securities above the Offer Price.

In connection with the Institutional Offer, the Stabilising Manager may, for stabilisation purposes, over-allot CYBG Shares up to a maximum of 15% of the total number of CYBG Shares comprised in the Institutional Offer (excluding the Over Allotment Option). For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments, NAB will grant to it the Over Allotment Option, pursuant to which the Stabilising Manager may require NAB to sell additional CYBG Shares, up to a maximum of 15% of the total number of CYBG Shares comprised in the Institutional Offer (excluding the Over Allotment Option). The Over Allotment Option is exercisable, in whole or in part, upon notice by the Stabilising Manager at any time on or before the 30th calendar day after the commencement of conditional dealings of CYBG Shares on the LSE. Any exercise of the Over Allotment Option may be settled by NAB in cash.

Any CYBG Shares sold by NAB on exercise of the Over Allotment Option will rank equally in all respects with the other CYBG Shares, including for all dividends and other distributions declared, made or paid on the CYBG Shares, will be sold on the same terms and conditions as CYBG Shares being sold in the Institutional Offer and will form a single class for all purposes with the other CYBG Shares.

If CYBG Shares are over-allotted, the Stabilising Manager may initially satisfy these over-allocations by borrowing an equivalent number of CYBG Shares from NAB at settlement of the Institutional Offer. The Stabilising Manager may on any day during the Stabilisation Period engage in market stabilisation activities by bidding for and purchasing CYBG Securities up to the maximum number of CYBG Shares overallotted, in accordance with conditions imposed by ASIC and ASX and otherwise by law.

These conditions include:

- For the purposes of ASX stabilisation activity, any stabilising bids by the Stabilising Manager for CYBG CDIs must not, on any trading day, be higher than the lower of the highest current independent bid on the ASX or the Offer Price converted into Australian Dollars at the applicable exchange rate immediately before trading of CYBG CDIs opens on the day the stabilisation bid is to be made.
- Stabilising purchases of CYBG Securities made by the Stabilising Manager on a given trading day will be disclosed to the ASX prior to commencement of trading on the following trading day (with such disclosure to be made on a daily basis).
- Stabilising bids on the ASX or by the Stabilising Manager will be tagged or identified on ASX's trading platform during the Stabilisation Period using a common reference number that will be shared with ASIC if requested.

To the extent the Stabilising Manager makes stabilisation purchases, the Stabilising Manager will transfer to NAB the CYBG Securities purchased in market stabilisation activities by way of return of CYBG Shares borrowed from NAB. As described in Section 5.5 above, any CYBG Shares retained by NAB for the purposes of stabilisation will not be subject to lock up arrangements.

NAB and the Stabilising Manager have obtained a 'no action letter' from ASIC in relation to stabilisation transactions conducted during the Stabilisation Period.

Section Six

Tax Implications for NAB Shareholders

Section Six: Tax Implications for NAB Shareholders

6.1 Summary

6.1.1 Taxation implications for NAB Shareholders

This Section contains general summaries of the tax implications for Australian and New Zealand tax residents.

As this Section is necessarily general in nature, this Section does not take account of the individual circumstances of particular NAB Shareholders and does not constitute tax advice. NAB Shareholders should consult with their professional tax advisers regarding their particular circumstances.

6.1.2 NAB Shareholders – Australian residents

NAB is seeking a tax ruling from the ATO confirming the taxation treatment for NAB Shareholders who are Australian residents and who hold their NAB Shares on capital account. On the basis of discussions with the ATO and after consultation with its advisers, NAB expects the Australian taxation treatment for NAB Shareholders who are Australian residents and who hold their NAB Shares on capital account should be as follows:

- The Capital Reduction Portions should not be treated as assessable dividends.
- For NAB Shareholders who acquired their NAB Shares after 19 September 1985, the receipt of CYBG Securities in satisfaction of the Capital Reduction Portion should result in a CGT event.
- Australian resident NAB Shareholders should make a capital gain if the Capital Reduction Portions exceed the cost base for their NAB Shares. If the Capital Reduction Portions do not exceed the cost base of their NAB Shares, there should be a reduction in the cost base (and reduced cost base) equal to the amount of the Capital Reduction Portions.
- The cost base of CYBG Securities received should be the amount of the Capital Reduction Portions referable to the CYBG Securities.
- The acquisition date of the CYBG Securities for all NAB Shareholders will be the Demerger Date, which is expected to be 8 February 2016, even if the NAB Shareholders acquired their NAB Shares before 20 September 1985.
- **NAB Shareholders, including Selling Shareholders, who sell their CYBG Securities within the first 12 months after the Demerger Date will not receive the CGT discount.**
- Dividends received on CYBG Securities should not carry imputation credits.
- The tax ruling is expected to be finalised after the Demerger. NAB will make an announcement to ASX when the tax ruling is issued by the ATO.

6.1.3 NAB Shareholders – foreign residents

NAB is also seeking a tax ruling from the ATO confirming the Australian taxation treatment for NAB Shareholders who are not Australian residents and who hold their NAB Shares on capital account. The expected Australian taxation treatment of the Demerger is set out further in this Section 6.

The taxation implications of the Demerger can be complex and may depend on the laws of the country in which a NAB Shareholder is a tax resident.

6.2 Australian taxation implications for NAB Shareholders

6.2.1 Scope

The following tax summary is a general summary of the Australian income tax, stamp duty and GST implications arising for NAB Shareholders as a result of the Demerger.

This tax summary addresses the position of both NAB Shareholders who are residents of Australia for income tax purposes (“**Resident NAB Shareholders**”) and NAB Shareholders who are not residents of Australia for income tax purposes (“**Non-resident NAB Shareholders**”).

This tax summary does not address the Australian income tax consequences for NAB Shareholders who hold their NAB Shares on revenue account, as trading stock, or for NAB Shareholders where the Taxation of Financial Arrangement provisions (Division 230 of the *Tax Act*) apply in respect of their NAB Shares, or for Non-resident NAB Shareholders who hold their NAB Shares in connection with an Australian permanent establishment.

This tax summary also does not address the consequences that arise for NAB Shares held under a NAB employee share scheme.

This tax summary is based on the Australian tax law as at the date of this Scheme Booklet. The summary does not take into account or anticipate changes in Australian tax laws or future judicial interpretations of the laws after this time, nor does it take into account tax legislation of any countries other than Australia.

6.2.2 Australian tax treatment for Resident NAB Shareholders

CGT rollover relief will not be available for NAB Shareholders under the Demerger. MLC Limited, a 100% Subsidiary of NAB, holds shares in NAB, and therefore, NAB does not satisfy the conditions necessary to enable CGT rollover relief to be elected by its shareholders.

6.2.2.1 Income tax treatment of Capital Reduction Portion

The Capital Reduction Portion is, broadly, the amount of capital of NAB that is to be reduced in accordance with the NAB Capital Reduction Resolution which is attributable to each NAB Shareholder (refer to Section 10 for specific details).

Neither the Capital Reduction Portion, nor the receipt of CYBG Securities by NAB Shareholders, should be regarded as a dividend for Australian income tax purposes. However, where certain requirements defined in the *Tax Act* are satisfied, the Commissioner of Taxation ("**Commissioner**") may determine that all, or a part of the Capital Reduction Portion and subsequent receipt of CYBG Securities, be treated as an assessable unfranked dividend for Australian income tax purposes.

If the Commissioner makes such a determination, NAB Shareholders will be required to include in their assessable income, the part of the Capital Reduction Portion determined by the Commissioner to be an unfranked dividend.

NAB has applied to the Commissioner for a Class Ruling confirming that no determination will be made that would treat any part of the Capital Reduction Portion, or the receipt of CYBG Securities by NAB Shareholders, as an assessable unfranked dividend. The Class Ruling is expected to be received from the Commissioner shortly after the Demerger. NAB will make an announcement to ASX when the Class Ruling is finalised.

6.2.2.2 CGT treatment

The receipt of CYBG Securities to NAB Shareholders in satisfaction of the Capital Reduction Portion under the Demerger should result in a CGT event happening for NAB Shareholders who have NAB Shares that are CGT interests (acquired on or after 20 September 1985).

Where the Capital Reduction Portion (less any amount determined by the Commissioner to be an unfranked dividend – refer above) does not exceed a NAB Shareholder's existing CGT cost base in their NAB Shares, the NAB Shareholder's cost base (and reduced cost base) of their NAB Shares will be reduced by the amount of the Capital Reduction Portion.

If a Capital Reduction Portion (less any amount determined by the Commissioner to be an unfranked dividend – refer above) exceeds a NAB Shareholder's existing CGT cost base in their NAB Shares, the NAB Shareholder will make a capital gain. However, certain NAB Shareholders (such as individuals who have held their NAB Shares for at least 12 months prior to the time that they receive their CYBG Securities in satisfaction of their Capital Reduction Portion) may be entitled to reduce their capital gain (after taking into account any available capital losses) by the CGT discount.

6.2.3 Australian tax treatment for Resident CYBG Shareholders in respect of CYBG Securities

6.2.3.1 CGT treatment of CYBG Securities received

For CGT purposes, NAB Shareholders will be taken to have acquired their CYBG Securities on the Demerger Date. As a result, the CYBG Securities will become subject to the CGT provisions from the Demerger Date. This also applies to NAB Shareholders who hold NAB Shares that are not subject to CGT (because the NAB Shares were originally acquired before 20 September 1985).

The CGT cost base of a CYBG Security for CYBG Securityholders should be equal to the amount of the Capital Reduction Portion referable to the CYBG Security.

6.2.3.2 Use of Sale Facility for Selling Shareholders

If you are a Selling Shareholder, being an Ineligible Shareholder or a Small Shareholder who elects to participate in the Sale Facility, you will not receive CYBG Securities under the Demerger. Instead, the CYBG Securities to which you are entitled will be received by the Sale Agent on your behalf and sold under the Sale Facility.

The sale of CYBG Securities under the Sale Facility will be a disposal of a CGT asset for CGT purposes. The Selling Shareholders may make a capital gain or loss on sale of the CYBG Securities, depending upon the disposal proceeds received compared to the cost base. No CGT discount would be available as the CYBG Securities will be taken to have been acquired on the Demerger Date and therefore would not have been acquired at least 12 months before the sale. Small Shareholders who have elected to participate in the Sale Facility and to donate all of their Sale Facility Proceeds to ShareGift may still be liable for any capital gains tax arising from the sale of their CYBG Securities the proceeds of which were donated. However, Selling Shareholders may generally be entitled to a tax deduction for the proceeds donated.

6.2.3.3 Future disposal of CYBG Securities after the Demerger

On the subsequent disposal by a CYBG Securityholder of their CYBG Securities, the CYBG Securityholder will make a capital gain if the proceeds received on disposal exceed their cost base (the first element of the cost base is the amount of the Capital Reduction Portion referable to the CYBG Securities sold).

Conversely, if the proceeds from the disposal of the CYBG Securities are less than the reduced cost base (the first element of which is determined above), a capital loss will arise for the CYBG Securityholder. A capital loss can be offset against other capital gains but cannot otherwise be deducted from assessable income.

Certain CYBG Securityholders may be entitled to reduce their capital gain (after taking into account any available capital losses) by the CGT discount provided that the CYBG Securities are held for at least 12 months before being sold. No CGT discount would be available if the CYBG Securities are sold within 12 months of the Demerger Date.

Section Six: Tax Implications for NAB Shareholders

This summary is limited to certain Australian tax consequences of holding or disposing of CYBG Securities and does not address the tax consequences in other jurisdictions. However, for completeness, there should be no difference in the UK taxation treatment of capital gains for Australian tax resident CYBG Securityholders who have elected to receive CYBG Shares that are traded on the LSE, instead of CYBG CDIs which are traded on the ASX. Generally, there should be no UK tax consequences in respect of capital gains for CYBG Securityholders who are tax resident in and only in Australia and are not otherwise liable to UK tax, regardless of whether their holding is of CYBG CDIs traded on ASX or CYBG Shares traded on the LSE.

6.2.3.4 Dividends received from CYBG Securities

CYBG Securityholders will need to include in their assessable income any dividends they receive from CYBG PLC. Any dividends received by CYBG Securityholders from CYBG will not carry imputation credits.

6.2.4 Australian stamp duty

NAB Shareholders should not be required to pay Australian stamp duty on the issue of CYBG Securities to them under the Demerger.

6.2.5 Goods and Services Tax ("GST")

NAB Shareholders should not be required to pay GST on the receipt of CYBG Securities or any other distributions received in connection with the Capital Reduction or the Scheme.

6.2.6 Australian tax treatment for Non-resident NAB Shareholders

6.2.6.1 Income tax treatment of Capital Reduction Portion

As discussed above in relation to Resident NAB Shareholders, neither the Capital Reduction Portion, nor the receipt of CYBG Securities by NAB Shareholders, should be regarded as a dividend for Australian income tax purposes. However, where certain requirements defined in the *Tax Act* are satisfied, the Commissioner may determine that all, or a part of the Capital Reduction Portion and subsequent receipt of CYBG Securities, be treated as an assessable unfranked dividend for Australian income tax purposes.

If the Commissioner makes such a determination, the part of the Capital Reduction Portion determined to be an unfranked dividend will be subject to Australian withholding tax when the CYBG Securities are received by Non-resident NAB Shareholders who have a foreign address.

Any part of Capital Reduction Portion determined to be a dividend by the Commissioner and subject to withholding tax will be non-assessable to a Non-resident NAB Shareholder.

The rate of withholding tax applied in respect of the part of the Capital Reduction Portion determined to be an unfranked dividend will depend on the jurisdiction of the foreign address of the Non-resident NAB Shareholder.

The withholding tax rate on dividends may vary between jurisdictions in line with Double Taxation Agreements entered into between Australia and other countries.

If the Commissioner does not determine any amount of the Capital Reduction Portion, or the receipt of CYBG Securities by NAB Shareholders, to be an unfranked dividend, no withholding tax will apply.

NAB has applied to the Commissioner for a Class Ruling confirming that no determination will be made that would treat any part of the Capital Reduction Portion, or the receipt of CYBG Securities, as an unfranked dividend. The Class Ruling is expected to be received from the Commissioner shortly after the Demerger. NAB will make an announcement to ASX when the Class Ruling is finalised.

6.2.6.2 CGT treatment

The receipt of the CYBG Securities in satisfaction of the Capital Reduction Portion should not result in a taxable capital gain for Non-resident NAB Shareholders as their NAB Shares should not be taxable Australian property.

6.3 New Zealand tax implications for New Zealand resident NAB Shareholders

6.3.1 Scope

The following is a general outline of the New Zealand tax consequences to a New Zealand resident NAB Shareholder. The following statements are intended only as a general guide to certain New Zealand tax issues and are not a complete analysis of all potential New Zealand tax consequences of the Demerger and the subsequent holding of CYBG Securities. You should seek advice from a professional adviser.

6.3.2 New Zealand tax treatment of the Demerger

Unless the NAB Shareholder is a transitional resident (refer below), the Capital Reduction Portion is likely to give rise to a taxable dividend for NAB Shareholders who are New Zealand tax residents.

The value of the taxable dividend should be equal to the market value of the CYBG Securities received. No New Zealand imputation credit will be attached to the Capital Reduction Portion.

Where a CYBG CDI is elected to be received by a New Zealand resident NAB Shareholder this should be treated as an interest in the underlying CYBG Share for New Zealand tax purposes.

Small Shareholders that elect to receive the Sale Facility Proceeds should be treated as receiving a dividend equal to the value of the CYBG Securities and then selling their interest in the CYBG Securities (for the sale proceeds).

6.3.3 New Zealand Tax treatment of CYBG Securities and Dividends

The CYBG Securities are likely to be treated as an investment in a foreign investment fund ("**FIF**") being a share in a foreign company.

De minimis exemption

A New Zealand resident individual (or certain trusts) could be within the *de minimis* exemption where they hold total FIF interests with a cost of NZD$50,000 or less and have not elected out of the *de minimis* rule in one of their preceding four income tax returns. The taxpayer's cost in CYBG Securities should be treated as being its market value on receipt.

Under the *de minimis* exemption, there should be no taxation under the FIF regime. Dividends received from CYBG should be taxable income. Any gain on the disposal of the CYBG Securities may be taxable where the CYBG Securities are held on revenue account. Shares are generally on revenue account where the taxpayer acquires them for the purpose of disposal, as part of a business of dealing in shares, or sells the shares as part of an undertaking or scheme to derive a profit. A *de minimis* taxpayer can elect for the FIF regime to apply instead (but has to apply this consistently to all FIFs it holds, and it also has to apply this election to the FIF in subsequent income years).

Transitional residents

A transitional resident is not liable to tax in New Zealand on foreign sourced income. This will include the receipt of CYBG Securities, any FIF income, and any sale of the CYBG Securities while they are treated as a transitional resident. An individual may be a transitional resident for four years from the date they first become New Zealand resident or have been away from New Zealand for at least ten years and become resident again.

Other taxpayers – applying the FIF regime

Under the FIF regime there are different methods that can apply to calculate a taxpayer's taxable income from an attributing FIF. The appropriate method will depend on the taxpayer type and the choice that they are able to make:

- The default method is to apply the fair dividend rate method ("**FDR**"). Under the usual FDR method a taxpayer has taxable income equal to 5% of the opening value of CYBG Securities at the start of the income year plus any quick sale amount. A quick sale arises where the taxpayer sells/disposes of any of the CYBG Securities in the same year they are acquired. The quick sale amount is calculated as the lower of the economic gain/profit that the taxpayer makes (the quick sale gain, which also includes any dividends) and 5% of the cost of the CYBG Securities sold. There are complicated rules to determine the cost of the CYBG Securities. Under the FDR method, no other amounts should be included in taxable income (neither dividends, nor the proceeds from their disposal).

  In the year that the taxpayer receives the CYBG Securities they should have no opening value (as the CYBG Security was not held at the beginning of the income year) and so no amount of FDR income under the usual method should arise if they continue to hold the shares for the remainder of the income year.
- The comparative value method ("**CV**") is only available to taxpayers that are natural persons or are a trustee of certain trusts. Under the CV method, the market value movements of CYBG Securities are taxed each year, along with any dividends or proceeds from the disposal of the CYBG Securities. The opening value of the CYBG Securities should be based on their value at the date they are received by the taxpayer. Where a taxpayer is able to choose to apply the CV method, it may also be required to use the CV method for other FIFs that it holds. Dividends and other revenue account gains are included in the above CV income and are therefore not taxed separately.

6.4 UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

The following statements are intended as a general guide to the current UK stamp duty and SDRT position and apply to holders of CYBG Shares irrespective of their residence. Certain categories of persons, including intermediaries, brokers, dealers and persons connected with depositary receipt systems and clearance services, may not be liable to stamp duty or SDRT or may be liable at a higher rate or may, although not primarily liable for taxation, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

6.4.1 CYBG Shares registered on the Australian Branch Register

It is anticipated that the holder of legal title to the CYBG Shares in respect of which the CYBG CDIs are issued, the Authorised Nominee, will be registered on an Australian Branch Register of CYBG PLC established in accordance with the *Companies Act (UK)*.

CYBG PLC and NAB understand that an election has been made by CHESS under section 97A of the *Finance Act 1986* and accepted by HMRC with the result that neither UK stamp duty nor SDRT at the higher rate of 1.5% should be imposed on the transfer of CYBG Shares to the Authorised Nominee. Accordingly it is expected that neither UK stamp duty nor SDRT should be imposed on subsequent transfers of the CYBG CDIs whilst the underlying CYBG Shares are registered on the Australian Branch Register. Further, it is expected that neither UK stamp duty nor SDRT should be imposed on the issue of the CYBG CDIs by the Authorised Nominee.

6.4.2 CYBG Shares registered on the principal share register of CYBG

A transfer on a sale of CYBG Shares which are registered on the principal share register of CYBG PLC will be liable to ad valorem UK stamp duty, generally at the rate of 0.5% (rounded up to the nearest £5) of the consideration paid. An exemption from stamp duty is available on an instrument transferring CYBG Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000.

An agreement to transfer CYBG Shares will normally give rise to a charge to SDRT at the rate of 0.5% of the agreed amount or value of the consideration for CYBG Shares. The liability to SDRT will arise on the date the contract is made (or, in the case of a conditional agreement, on the date the condition is satisfied) although the liability will be cancelled, and any SDRT already paid will be repaid, generally with interest, if an instrument of transfer is executed in pursuance of the agreement and duly stamped within six years of the date on which the liability arises.

Under the CREST system for paperless share transfers, no UK stamp duty or SDRT will arise on a transfer of CYBG Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5%) will arise on the value of the consideration. Paperless transfers of CYBG Shares within CREST will be liable to SDRT (at 0.5%) rather than stamp duty.

UK stamp duty and/or SDRT at the rate of 1.5% (rounded up to the nearest £5 in the case of stamp duty) can arise on an issue or transfer of CYBG Shares to persons providing clearance services or issuing depositary receipts. However, see above for arrangements involving the Authorised Nominee.

6.4.3 Transferring CYBG Shares between the principal share register and the Australian branch share register

No stamp duty or SDRT will arise when transferring CYBG Shares between the principal share register and the Australian Branch Register provided that there is no change in beneficial ownership of the CYBG Shares.

Section Seven
Independent Limited Assurance Report

Building a better working world

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7 December 2015

The Board of Directors
National Australia Bank Limited
500 Bourke Street
Melbourne VIC 3000

Dear Directors

PART 1 – INDEPENDENT LIMITED ASSURANCE REPORT ON NAB (AFTER THE DEMERGER) PRO FORMA HISTORICAL FINANCIAL INFORMATION AND CYBG PRO FORMA HISTORICAL BALANCE SHEET

1. Introduction

We have been engaged by National Australia Bank Limited ("NAB" or the "Company") to report on the NAB (after the Demerger) Pro Forma Historical Financial Information and CYBG Pro Forma Historical Balance Sheet (defined below) for inclusion in the Scheme Booklet ("Scheme Booklet") to be dated on or about 7 December 2015, and to be issued by NAB, in connection with the proposed demerger of 75% of CYBG Plc ("CYBG") shares to NAB Shareholders (the "Demerger"), with the remaining 25% of CYBG Shares expected to be divested by NAB to institutional investors.

Expressions and terms defined in the Scheme Booklet have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the *Corporations Act 2001*. Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Jo Barker is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 2 of this report.

2. Scope

NAB has requested that Ernst & Young Transaction Advisory Services review the following pro forma historical financial information:

a. NAB (after the Demerger) Pro Forma Historical Financial Information comprising:

- NAB (after the Demerger) Pro Forma Historical Income Statements – Statutory Basis for the years ended 30 September 2015 and 30 September 2014 as set out in table 3 of section 2.8.3 of the Scheme Booklet; and
- NAB (after the Demerger) Pro Forma Historical Balance Sheet as at 30 September 2015 as set out in table 5 of section 2.8.4 of the Scheme Booklet.

The NAB (after the Demerger) Pro Forma Historical Financial Information has been derived from the historical financial information included in the NAB financial reports for the years ended 30 September 2014 and 30 September 2015 and adjusted for the effects of pro forma adjustments described in section 2.8.2 of the Scheme Booklet. The 30 September 2014 and 30 September 2015 financial reports were audited by Ernst & Young in accordance with Australian Auditing Standards and on which unqualified audit opinions were issued.

The NAB (after the Demerger) Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards ("AAS"), which are consistent to International Financial Reporting Standards, other than it includes adjustments which have been prepared in a manner consistent with AAS that reflect (i) the recognition of certain items in periods different from the applicable period under AAS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred on 1 October 2013.

b. CYBG Pro Forma Historical Balance Sheet as at 30 September 2015 as set out in table 20 of section 3.13.7 of the Scheme Booklet.

The CYBG Pro Forma Historical Balance Sheet has been derived from the financial report of CYB Investments Limited ("CYBI") for the year ended 30 September 2015, and adjusted for the effect of pro forma adjustments described in section 3.13.6.1 of the Scheme Booklet. The 30 September 2015 financial report of CYBI was audited by Ernst & Young LLP (UK) in accordance with International Standards on Auditing (UK and Ireland) and on which an unqualified audit opinion was issued.

The CYBG Pro Forma Historical Balance Sheet has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles prescribed in the International Financial Reporting Standards as issued by the IASB, and as adopted by the EU and IFRIC Interpretations (together "IFRS"), other than that it includes adjustments which have been prepared in a manner consistent with IFRS, that reflect the impact of certain transactions as if they occurred on 30 September 2015.

Due to its nature, the NAB (after the Demerger) Pro Forma Historical Financial Information does not represent NAB's (after the Demerger) actual or prospective financial position or financial performance and CYBG Pro Forma Historical Balance Sheet does not represent CYBG's actual or prospective financial position.

The NAB (after the Demerger) Pro Forma Historical Financial Information and CYBG Pro Forma Historical Balance Sheet is presented in the Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

3. Directors' Responsibility

The directors of NAB are responsible for the preparation and presentation of the NAB (after the Demerger) Pro Forma Historical Financial Information and CYBG Pro Forma Historical Balance Sheet, including the basis of preparation, selection and determination of pro forma adjustments made to NAB and CYBI's historical financial information and included in the NAB (after the Demerger) Pro Forma Historical Financial Information and CYBG Pro Forma Historical Balance Sheet. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of NAB (after the Demerger) Pro Forma Historical Financial Information and CYBG Pro Forma Historical Balance Sheet that are free from material misstatement, whether due to fraud or error.

4. Our Responsibility

Our responsibility is to express a limited assurance conclusion on the NAB (after the Demerger) Pro Forma Historical Financial Information and CYBG Pro Forma Historical Balance Sheet based on the procedures performed and the evidence we have obtained.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the NAB (after the Demerger) Pro Forma Historical Financial Information and CYBG Pro Forma Historical Balance Sheet.

5. Conclusions

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

a. the NAB (after the Demerger) Pro Forma Historical Financial Information comprising:

- NAB (after the Demerger) Pro Forma Historical Income Statements – Statutory Basis for the years ended 30 September 2015 and 30 September 2014 as set out in table 3 of section 2.8.3 of the Scheme Booklet; and
- NAB (after the Demerger) Pro Forma Historical Balance Sheet as at 30 September 2015 as set out in table 5 of section 2.8.4 of the Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 2.8.2 of the Scheme Booklet, and

b. the CYBG Pro Forma Historical Balance Sheet as at 30 September 2015 as set out in table 20 of section 3.13.7 of the Scheme Booklet is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 3.13.6.1 of the Scheme Booklet.

6. Restriction on Use

Without modifying our conclusions, we draw attention to the Important Notices section of the Scheme Booklet, which describes the purpose of the NAB (after the Demerger) Pro Forma Historical Financial Information and CYBG Pro Forma Historical Balance Sheet. As a result, the NAB (after the Demerger) Pro Forma Historical Financial Information and CYBG Pro Forma Historical Balance Sheet may not be suitable for use for another purpose.

7. Consent

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Scheme Booklet in the form and context in which it is included.

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8. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of the Demerger other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Jo Barker
Director and Representative

7 December 2015

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT LIMITED ASSURANCE REPORT

PART 2 – FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Limited Assurance Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

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5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is $125,000 (inclusive of GST) for Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits disclosed in this Scheme Booklet in section 9.16, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:
AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

Section Eight
Concise Independent Expert's Report

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GRANT SAMUEL & ASSOCIATES

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7 December 2015

The Directors
National Australia Bank Limited
Level 1, 800 Bourke Street
Docklands VIC 3000

Dear Directors

Concise Independent Expert's Report in relation to the Proposed Demerger and Partial Initial Public Offering of CYBG

1 Introduction

National Australia Bank Limited ("NAB") intends to undertake a demerger of 75% of CYBG PLC ("CYBG") to NAB shareholders, in conjunction with the opportunity to undertake an offer of the remaining 25% to institutional investors (together, the "Proposal"). As part of the demerger, CYB Investments Limited and its subsidiaries ("CYBI")[1] will be transferred to CYBG. CYBI is the holding company of NAB's United Kingdom banking business ("UK Banking"). CYBI and its subsidiaries (and CYBG once the demerger is implemented) are collectively referred to as "CYBG Group".

NAB has also completed a fully underwritten pro rata accelerated renounceable rights issue (the "Capital Raising") on 11 June 2015 that raised $5.44 billion (net of transaction costs). The purpose of the Capital Raising was to:

- facilitate the Proposal, in particular, the requirement by the United Kingdom Prudential Regulation Authority ("PRA") that, as part of the sale of CYBI to CYBG, NAB provide indemnity protection to CYBG against potential losses relating to legacy conduct costs not covered by existing unutilised provisions up to a cap of £1.7 billion (the "capped indemnity"); and
- provide a Common Equity Tier 1 ("CET1") ratio buffer above NAB's target range of 8.75-9.25% ahead of anticipated regulatory changes.

Of the total £1.7 billion capped indemnity:

- CYBG Group will be responsible for £0.12 billion under a loss sharing arrangement, with NAB responsible for the remaining £1.58 billion on a pro rata basis; and
- the £1.58 billion that NAB is responsible for has two components:
  - £465 million that was provided to CYBG Group on 24 September 2015 by way of a capital injection to cover provisions raised by CYBG Group for conduct matters in its accounts for the year ended 30 September 2015; and
  - a residual amount of £1.115 billion[2] that will be provided by NAB by way of indemnity.

To facilitate the separation of CYBG Group from NAB, an internal restructure has been undertaken to separate and align the relevant businesses, assets and liabilities with the appropriate group. A number of steps have been taken to establish CYBG Group as a stand alone entity. In particular:

1 Formerly National Australia Group Europe Limited ("NAGE").

2 Less the amount of any specific support provided (including by way of capital injection) by NAB to CYBG Group for conduct matters between 30 September 2015 and the date of the demerger. The net amount of £1.115 billion less any specific support provided is referred to as the "capped indemnity amount".

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- during FY15[3], NAB has made equity injections of £205 million to facilitate CYBG Group having a CET1 ratio of around 13% as at 30 September 2015. These capital injections are intended to provide CYBG Group with sufficient excess capital over its regulatory requirement (which includes its share of the capped indemnity of £120 million) to provide operational flexibility;
- on 30 September 2015, NAB and CYBG Group completed a sale and purchase agreement under which NAB has sold to CYBG Group 100% of the share capital of National Wealth Management Europe Holdings Limited and its subsidiary ("Insurance Intermediary Business") for cash consideration of approximately £4 million. The Insurance Intermediary Business acts as an intermediary for a number of third party providers of insurance and investment products and CYBG Group distributes these products through its retail mortgage and retail banking advisers to its customers;
- amounts due to NAB from CYBG Group have been reduced with CYBG Group having repaid £741 million of senior loans over FY15 and a further £100 million since 30 September 2015. In addition, £101 million of amounts outstanding in relation to historical (pre 31 March 2015) conduct charges have been paid by NAB to CYBG Group; and
- the third party member clearing services provided by NAB to CYBG Group for central clearing of derivatives transactions has transitioned to a client clearing relationship which has been formally documented under market standard documentation and provided to CYBG Group on an arm's length basis.

The demerger is to be effected by a scheme of arrangement between NAB and its shareholders and a reduction of NAB's share capital. If the scheme of arrangement takes effect, the demerger will be implemented by:

- NAB transferring 100% of the share capital of CYBI to CYBG in accordance with the sale and purchase agreement with CYBG in consideration for the issue of CYBG securities; and
- NAB undertaking the capital reduction, which will be satisfied by the transfer or issue of CYBG securities to NAB and NAB shareholders.

Each NAB shareholder[4] will be entitled to receive one CYBG security for every four NAB shares that they hold as at the Scheme record date.

NAB shareholders (other than selling shareholders[5]) will have the option to receive CYBG shares or CYBG CHESS Depositary Interests ("CDIs")[6]. CYBG will apply for admission to:

- the premium listing segment of the UK Listing Authority ("UKLA") Official List and to trading of CYBG shares on the London Stock Exchange's ("LSE") main market for listed securities ("UK Admission"); and
- the Australian Securities Exchange ("ASX") as an ASX foreign exempt listing and for official quotation of CYBG CDIs on the ASX.

If UK Admission is not received, CYBG will apply to the ASX for a standard listing rather than a foreign exempt listing and all NAB shareholders (other than selling shareholders) will receive CYBG CDIs. The demerger is not conditional on admission to the LSE or the ASX.

3 FYXX is the financial year end 30 September 20XX.

4 Other than ineligible shareholders.

5 Selling shareholders are ineligible shareholders and eligible small shareholders that elect to sell all of the CYBG securities to which they would otherwise be entitled through the sale facility. Refer to page 2 for further details.

6 The default position for NAB shareholders with registered addresses in Australia or New Zealand will be to receive CYBG CDIs. The default position for eligible overseas NAB shareholders will be to receive CYBG shares (provided that UK Admission is received). NAB shareholders with registered addresses in Australia or New Zealand that wish to receive CYBG shares and eligible overseas NAB shareholders that wish to receive CYBG CDIs will need to elect to do so (provided that UK Admission is received).

NAB shareholders with registered addresses in certain jurisdictions[7] ("ineligible shareholders") will not receive CYBG shares or CDIs. A sale facility has been established so that the CYBG securities to which they would otherwise have been entitled under the scheme will be sold in the LSE or the ASX market by the sale agent. The sale facility will also be available to eligible small shareholders holding 2,000 or fewer NAB shares, who are able to elect to have all (but not some) of the CYBG securities to which they are entitled under the scheme sold by the sale agent. These shareholders are referred to as "selling shareholders" and, in each case, it is anticipated that the sale proceeds (calculated on a volume weighted average basis so that all selling shareholders receive the same price for each CYBG security sold on their behalf) will be remitted to them no later than 4 April 2016, free of any brokerage costs or stamp duty (but excluding interest and after deducting any applicable withholding tax).

The resolutions to approve the scheme of arrangement and capital reduction are interdependent. Completion of the demerger requires NAB shareholders to approve both of the resolutions by the requisite majorities. Failure by NAB shareholders to approve either of the resolutions put to them will result in the demerger not proceeding.

Immediately following implementation of the demerger, it is proposed that the share capital of CYBG be reduced to create distributable reserves in CYBG. The distributable reserves created will provide CYBG with flexibility to pay dividends in the future if appropriate or absorb any impairment in the value of its assets should this occur. NAB (as the current sole shareholder of CYBG) has passed a special resolution approving the CYBG capital reduction. As NAB shareholders will become CYBG securityholders if the demerger is implemented, confirmatory approval of the CYBG capital reduction (in the form of a simple majority of votes cast) will be sought from NAB shareholders. The CYBG capital reduction is conditional on implementation of the demerger but the demerger is not conditional on the CYBG capital reduction being approved.

It is intended that the remaining 25% of CYBG will be sold to certain institutional and professional investors in the United Kingdom and certain other jurisdictions through an initial public offer (the "Institutional Offer"). The net sale proceeds from the Institutional Offer will be retained by NAB and will strengthen its capital position.

In certain circumstances, NAB may elect:

- not to proceed with the sale of the full 25% of CYBG shares through the Institutional Offer, in which case NAB will retain some CYBG shares. NAB intends to sell any retained CYBG shares as soon as practicable after a 90 day lock up period; or
- not to proceed with the Institutional Offer at all, in which case NAB will retain a 25% interest in CYBG, which it will seek to divest as soon as practicable (NAB will not be subject to any lock up period in these circumstances).

The demerger is not conditional on the Institutional Offer proceeding and there is no certainty that the Institutional Offer will proceed at all (or in full or in part). If the Institutional Offer does not proceed (in full or in part), it is expected that CYBG will still be listed on both the LSE and the ASX.

The directors of NAB have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Proposal is in the best interests of NAB shareholders. Grant Samuel has also been requested to give its opinion as to whether the capital reduction associated with the Proposal materially prejudices NAB's ability to pay its creditors.

This concise report contains a summary of Grant Samuel's opinion and main conclusions and will accompany the Notices of Meeting and Scheme Booklet ("Scheme Booklet") to be sent to shareholders by NAB. The full report from which this concise report has been extracted is available on the demerger website (www.clydesdaledemerger.com.au) and will be mailed to shareholders on request. Both reports have been submitted to the Australian Securities and Investments Commission ("ASIC") and the ASX.

[7] Ineligible shareholders are those with registered addressed in countries other than Australia, New Zealand, the United Kingdom, the United States (excluding California), Singapore, Hong Kong, Japan, Ireland or Canada.

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2 Opinion

In Grant Samuel's opinion, the Proposal is in the best interests of NAB shareholders.

3 Summary of Conclusions

In October 2014, NAB publicly flagged its intention to exit UK Banking as part of its strategy to focus on its core Australian and New Zealand banking business. There is little rationale for NAB to retain the business from a strategic or financial perspective.

The improvement in economic and equity market conditions in the United Kingdom, coupled with the commencement of a turnaround in the performance of UK Banking's business, has made divestment on reasonable terms a realistic possibility and there are now choices as to the means of divestment.

The primary advantage of the Proposal is its attraction relative to alternative divestment methods such as trade sale or initial public offering ("IPO"). A trade sale would be challenging to execute. There are few obvious, qualified buyers (even in the now improved climate) and it would be difficult to get value for the potential uplift in earnings over the next few years or for any synergies. A trade sale process could be protracted and would have no certainty of success. Importantly, the process and outcome would not be within NAB's control. A 100% IPO of CYBG is highly unlikely to be achievable. A partial IPO with progressive sell down over time (similar to NAB's exit from Great Western Bancorp, Inc. ("GWB")) is more realistic but:

- **would be wholly dependent on market conditions; and**
- **would take a longer period of time to achieve a complete exit. In the interim, there would be an unfavourable impact on NAB's capital position.**

In contrast, the Proposal:

- **can be executed relatively quickly and with a higher degree of certainty (except for the Institutional Offer component);**
- **allows NAB shareholders to retain exposure to the upside from improved performance of CYBG Group and/or corporate activity involving CYBG Group; and**
- **through the Institutional Offer, assists in developing a stronger, more liquid market in CYBG's natural home market and underpins the inclusion of CYBG (CDIs and shares) in LSE indices such as the FTSE 250 Index.**

Other benefits from the separation of NAB and CYBG Group include:

- **improved board and management focus for NAB as there would be no need to devote resources to managing and supervising CYBG Group and the elimination of any potential for further distractions (such as the conduct issues that have arisen over the past few years). Management will have a reduced span of control and a simpler business to run;**
- **an improvement in the key financial metrics for NAB. In particular, the demerger would improve NAB's return on equity which has been diluted by CYBG Group's relatively low returns (historically less than 8%[8]);**
- **improved decision making at CYBG Group through stripping away various layers of oversight and control (e.g. NAB management and board overlay). This should result in greater speed and better final decisions by people closer to the market. CYBG Group will also be free to determine its own priorities and investment strategies and will no longer be subject to constraints imposed by NAB;**
- **the potential for CYBG Group to attract higher quality management and the ability to incentivise staff based directly on CYBG Group performance; and**

[8] Calculated on a management basis (refer to Section 7.2 and footnote 22 for details).

- flexibility for shareholders to manage their investment exposure to what are two very different businesses.

These benefits are real but are not directly measurable and may only be manifested in performance measures or improved market ratings over the medium to longer term.

There are a number of risks, costs and disadvantages arising from the Proposal. These include:

- the pricing of the Institutional Offer, which will not be known at the time of the shareholder meetings to approve the Proposal. Indeed, there is a possibility that the Institutional Offer will proceed only in part or not proceed at all (e.g. if pricing is unsatisfactory or if there are adverse market events) in which case NAB will retain some or all of the 25% shareholding and realise it at a later date (in whole or in part) when conditions are more favourable. Such an outcome would have adverse consequences for the liquidity of CYBG securities and NAB's capital position;
- the potential for CYBG to experience share price weakness following implementation if a sufficiently high proportion of NAB shareholders decide to sell the CYBG securities that they receive;
- the loss of direct control by NAB over the carriage of conduct matters which will be managed by CYBG Group going forward. However, NAB has put in place a number of procedures designed to protect its position;
- the potential for NAB to have to compensate CYBG under the tax indemnity provisions of the Conduct Indemnity Deed (although it is not expected that such payments will be taxable in the hands of CYBG Group);
- the lack of track record for CYBG's board and new senior management in terms of working together;
- implementation risks;
- the potential for cost increases, delays and shortcomings with the transition arrangements, particularly in relation to the replication of CYBG Group's credit risk engine and treasury platform;
- incremental operating costs for CYBG Group (although there are not expected to be any material incremental funding costs);
- transaction costs;
- the deduction of the full quantum of the capped indemnity amount (expected to be £1.115 billion) from NAB's capital base for regulatory purposes;
- the loss of pre capital gains tax ("CGT") status for CYBG securities and the resetting of the acquisition date for CYBG securities (for the purposes of the 12 month CGT discount concession); and
- direct exposure to fluctuations in the value of the pound.

NAB will be less diversified if the Proposal is implemented but the reality is that CYBG Group does not contribute any meaningful level of diversification. In any event, shareholders who value the diversification currently provided by UK Banking can maintain that diversification by holding CYBG securities.

CYBG Group will be governed under the laws and regulations of the United Kingdom. Some of the relevant rules (e.g. in relation to takeovers) are different to those of Australia but there is no reason to believe that the overall level of shareholder protections will be inferior to that prevailing in Australia.

It is not possible to reliably predict whether the combined market value of NAB and CYBG following implementation of the Proposal will exceed the market value of NAB immediately before the demerger is implemented. In the short term, the combined value of NAB shares and CYBG securities could be impacted by:

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- **the reduction in pro forma attributable earnings per share ("EPS") and the lower price earnings and price/net tangible assets ("NTA") multiples at which CYBG is likely to trade; and**
- **the downward pressure that may come from realignment of the CYBG share register.**

On the other hand:

- **the demerger is not being driven by a perception of "hidden value" to be unlocked but rather by a desire to find the most effective divestment structure for UK Banking;**
- **demerger studies show at least part of the benefit from a demerger is captured through a positive market price response at the time of the original announcement (and therefore is already reflected in NAB's share price);**
- **to the extent that NAB maintains its dividend at the current level, this will provide support for the NAB share price;**
- **NAB has historically rated at, or towards, the bottom of the four major Australian banks in terms of price earnings multiples and price/NTA multiples. The Proposal has the potential to act as a catalyst for re-rating, particularly having regard to:**
  - **the lift in NAB's return on equity as a result of the Proposal (from 13.8% to 14.6%[9] in FY15 on a pro forma basis); and**
  - **the poor financial performance of UK Banking including significant restructuring charges and conduct costs. Exiting this business should lead to a positive change in the market perception of NAB; and**
- **there are factors arising from the Proposal that are expected to lead to longer term performance benefits for both NAB and CYBG Group.**

Even if the initial value impact is mixed, the benefits of the Proposal, while not individually compelling, are collectively meaningful and can be expected to positively support shareholder value in both NAB and CYBG Group over time. In Grant Samuel's view, the potential benefits of the Proposal outweigh the risks, costs and disadvantages. NAB shareholders are, on balance, likely to be better off if the Proposal proceeds. Accordingly, Grant Samuel has concluded that the Proposal is in the best interests of NAB shareholders.

4 NAB

4.1 Business Operations and Strategy

Business Operations

NAB is a financial services group that provides a comprehensive and integrated range of banking and financial services including wealth management throughout Australia and New Zealand as well as operating businesses in Asia and the United Kingdom.

NAB's business operations as at 30 September 2015 are summarised below:

- **Australian Banking**, comprising NAB's Australian banking operations – personal banking, business banking and wholesale banking including Bank of New Zealand Limited's ("BNZ") wholesale banking operations – as well as NAB Private Wealth (previously included as part of NAB Wealth) and NAB's offshore branches/representative offices;
- **NZ Banking**, which provides retail, business, agribusiness, corporate and insurance products and services in New Zealand under the "BNZ" brand. BNZ is one of New Zealand's largest banks;

9 Taking into account the full year impact of the Capital Raising and excluding the capital required to support the capped indemnity which will be reported in discontinued operations.

- **NAB Wealth**, which provides superannuation, investment and insurance solutions to retail, corporate and institutional clients through the NAB, MLC and JBWere brands. NAB Wealth operates one of the largest networks of retail financial advisers in Australia;
- **UK Banking**, which offers a range of retail and business banking products and services in the United Kingdom. These services are delivered through a network of retail branches, business banking centres, direct banking and broker channels. UK Banking operates under the "Clydesdale Bank" and "Yorkshire Bank" brands; and
- **Other** business operations, comprising NAB's corporate functions and businesses that are in run-off or are otherwise effectively "discontinued operations":
  - Specialised Group Assets ("SGA"), established in 2010 to manage the credit risk and cash earnings of a portfolio of $17.4 billion of high risk collateralised debt obligations;
  - NAB UK Commercial Real Estate ("NAB UK CRE"), a portfolio of £5.6 billion of commercial real estate loans which was transferred from Clydesdale Bank plc ("Clydesdale Bank") to NAB in October 2012. NAB is undertaking an orderly wind-down of the portfolio; and
  - GWB, which provides a range of retail, commercial and agribusiness banking and wealth management services across the western/midwestern United States through a community bank model and is listed on the New York Stock Exchange. NAB completed the full divestment of GWB in July 2015.

As at 26 November 2015, NAB had 2,625,798,206 fully paid ordinary shares on issue. Although 99% of registered shareholders are Australian, NAB has estimated that approximately 25% of beneficial holdings are offshore. NAB also has an active dividend reinvestment plan ("DRP").

Strategy

NAB has the following priorities, with the overall goal of improving returns for shareholders by closing the return on equity gap between NAB and its peers:

- **concentrate on the core Australian and New Zealand franchise** through:
  - being customer focused and improving the customer experience;
  - focusing resources on core businesses where NAB has a competitive advantage and can generate acceptable returns (micro and small to medium enterprises ("SME") and the attractive specialised business banking segments of agriculture, government, education and health);
  - reshaping the operating model through technological simplification, process excellence and creating a footprint for a digital world;
  - improving NAB Wealth returns; and
  - building a performance culture through accountability, clarity, transparency and a passion for customers.
- **accelerate the exit from low returning and non-core/legacy assets**. Consistent with this strategy NAB has:
  - closed SGA following liquidations in the first half of FY15 with the remaining portfolio (of better quality long term assets) absorbed into Australian Banking;
  - largely completed the run off of the NAB UK CRE portfolio. NAB is considering options for the remaining balance (as at 30 September 2015) of £0.5 billion of largely performing loans; and
  - completed its exit from GWB through a partial IPO of a 31.8% interest in October 2014, a secondary public offering of a further 39.7% interest in May 2015 and the sale of the remaining 28.5% in July 2015.

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Divesting UK Banking has also been part of NAB's strategy to exit low returning and non-core assets although the initial focus was on restructuring the business and improving its performance.

NAB's strategy is supported by a commitment to its business fundamentals of maintaining a strong balance sheet, managing risk and investing in technology.

4.2 Key Financial Information

NAB's key financial information is summarised below:

NAB – Key Financial Information ($ millions)				
	Year ended/as at 30 September			
	2012 actual[10]	2013 actual[10]	2014 actual[11]	2015 actual
Financial Performance				
Net operating income	**18,224**	**18,563**	**18,521**	**19,298**
Cash basis net profit[12] (excluding specified items[13])	**5,433**	**5,953**	**6,559**	**6,718**
Cash basic earnings (excluding specified items) per ordinary share (cents)	*240.9*	*253.7*	*274.2*	*268.9*
Dividends per ordinary share (cents)	*180.0*	*190.0*	*198.0*	*198.0*
Cash dividend payout ratio (excluding specified items)	*74.7%*	*74.9%*	*72.2%*	*73.6%*
Net interest margin	*2.10%*	*2.02%*	*1.91%*	*1.87%*
Banking cost to income ratio	*41.3%*	*41.9%*	*43.1%*	*44.6%*
Cash return on equity (excluding specified items)[14]	*14.2%*	*14.5%*	*15.0%*	*13.8%*
Financial Position				
Total assets				**955,052**
Net assets				**55,513**
Equity attributable to NAB ordinary shareholders				**52,177**
Net assets per share				*19.87*
NTA per share				*17.07*
Asset Quality				
90+ days past due plus gross impaired assets to gross loans and acceptances	*1.78%*	*1.69%*	*1.19%*	*0.71%*
Specific provision to gross impaired assets	*30.3%*	*32.0%*	*35.5%*	*32.7%*
Capital Ratios				
CET1 capital ratio	*7.9%*	*8.4%*	*8.6%*	*10.2%*
Tier 1 capital ratio	*9.8%*	*10.4%*	*10.8%*	*12.4%*
Total capital ratio	*11.6%*	*11.8%*	*12.2%*	*14.1%*

Source: NAB and Grant Samuel analysis

10 Results for FY13 have been restated for the impact of adopting new accounting standards in the preparation of the financial statements for FY14. The results for FY12 have not been restated and therefore are not directly comparable. In particular, cash earnings for FY12 have not been restated to include payment protection insurance provisions charges or the write off of capitalised software costs (which are included in cash earnings in subsequent years).

11 Results for FY14 have been restated to show GWB as a discontinued operation, consistent with its presentation in FY15. Prior years (FY12 and FY13) have not been restated.

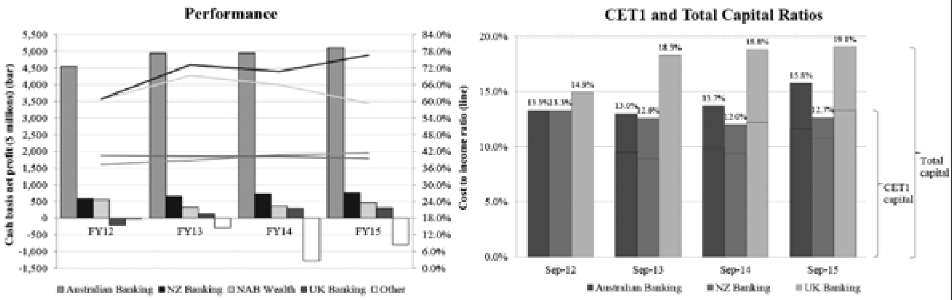
12 Cash earnings is defined as net profit attributable to owners of the company adjusted for the items NAB considers appropriate to better reflect the underlying performance of NAB. It is a non-International Financial Reporting Standards ("IFRS") key financial performance measure used by NAB, the investment community and NAB's Australian peers.

13 Specified items (after tax) were $200 million in FY13, $1.5 billion in FY14 and $0.9 billion in FY15 and, in FY14 and FY15, primarily relate to United Kingdom conduct provisions.

14 Cash return on equity is calculated as cash basis net profit divided by average shareholders' equity excluding non-controlling interests and other equity instruments but including treasury shares.

NAB's performance and capital ratios by business division are summarised in the charts below:

NAB – Business Division Performance and Capital Ratios (September 2012 to September 2015)



Source: NAB and Grant Samuel analysis
Note: NAB Wealth in FY12 includes NAB Private Wealth, which was transferred to Australian Banking in FY13

UK Banking was severely impacted during the global financial crisis and has been a drag on NAB's performance:

- while UK Banking generates higher net interest margins than Australian Banking (at 2.2-2.3% compared to 1.6-1.7% for Australian Banking), it also has a significantly higher cost to income ratio (~70-75%) than Australian Banking and NZ Banking (~40%);
- the pro forma cash return on equity for the continuing operations in FY15 (assuming a full year impact of the Capital Raising, pro forma for the demerger and IPO of CYBG and excluding specified items and the capital to support the capped indemnity) was 14.6%. UK Banking's return on tangible equity in FY15 was 5.1% (before conduct provisions for payment protection insurance and interest rate hedging products); and
- UK Banking has significantly higher capital ratios than Australian Banking and NZ Banking[15]. However:
  - it is accredited to apply the standardised approach to operational and credit risk management in accordance with regulatory requirements (rather than the advanced internal ratings based approach for credit risk and the advanced measurement approach for operational risk applied by Australian Banking and NZ Banking); and
  - APRA imposes more restrictive requirements than the PRA in the calculation of capital ratios.

5 Proposal Process

If the demerger is implemented:

- the Conduct Indemnity Deed will become effective. NAB and CYBG have entered into the Conduct Indemnity Deed (as a term of the sale and purchase agreement) under which NAB has agreed to provide CYBG with the capped indemnity (up to the capped indemnity amount of £1.115 billion[2]) to provide CYBG Group with an indemnity in respect of certain conduct costs resulting from conduct issues relating to:
  - sales of payment protection insurance, certain interest rate hedging products and certain fixed rate tailored business loans; and
  - other conduct matters measured by reference to minimum thresholds,

  that relate to conduct in the period prior to the demerger.

[15] Capital ratios for offshore banking subsidiaries reflect local regulatory standards.

Claims may be made by CYBG under the capped indemnity when any member of CYBG Group raises a new provision or increases an existing provision in respect of any relevant conduct matter. The capped indemnity is in addition to CYBG Group's unutilised provisions for conduct liabilities of £986 million as at 30 September 2015, which are to be utilised by CYBG Group, where possible, prior to raising new provisions or increasing existing provisions.

NAB will collateralise its obligation under the capped indemnity by making a cash deposit with The Bank of England equal to the capped indemnity amount. Any amount paid to CYBG under the capped indemnity will be deposited in a designated account at Clydesdale Bank in the name of CYBG or another member of CYBG Group. CYBG may, at its option, downstream the funds received to members of CYBG Group by way of one or a series of equity subscriptions, provided that the funds are credited to a designated account in the name of a member of CYBG Group. Funds paid into a designated account may be withdrawn on a quarterly basis when CYBG Group incurs and pays a conduct cost that falls within the scope of the capped indemnity.

Key terms of the Conduct Indemnity Deed include:

- CYBG and NAB will use reasonable endeavours to ensure that the PRA undertakes an annual reassessment of the remaining exposure of CYBG Group to conduct costs. The remaining capped indemnity amount at any point in time cannot be increased but can be permanently reduced if the PRA assesses that the potential remaining exposure of CYBG Group to relevant conduct matters is less than the remaining capped indemnity amount plus any unutilised pre-demerger provision plus CYBG's outstanding liability under the loss sharing arrangement;
- the capped indemnity is perpetual in nature (until fully utilised) and will only terminate in certain limited circumstances:
  - on the fifth anniversary of the demerger (and, if relevant, on each subsequent anniversary), NAB and CYBG will seek to agree arrangements to terminate the capped indemnity with the consent of the PRA and the capped indemnity may be replaced by the subscription for ordinary shares by NAB[16]; and
  - NAB will also have the right, with the consent of the PRA, to terminate the capped indemnity by subscribing for shares in CYBG[17] if the PRA determines that the remaining exposure under the capped indemnity or the unutilised indemnity amount is £100 million or less.

  If the Conduct Indemnity Deed is terminated, CYBG will not be entitled to make any further claims under the capped indemnity and will be required to release to NAB all amounts remaining on deposit with The Bank of England. However, CYBG will be entitled to retain any unutilised provision in the designated accounts for a period of three years following termination to cover conduct matters that fall within the scope of the capped indemnity that exist at the time of the termination;
- a joint committee of CYBG and NAB will be established which is responsible for the oversight and governance of the capped indemnity arrangements. The joint committee will discuss matters relevant to the raising by CYBG of additional provisions and the handling of conduct matters but will not have any decision making powers;
- NAB will have the right to undertake an annual audit to verify correct recognition and calculation of provisions and withdrawals from designated accounts. NAB will also have information and consultation rights;
- a dispute resolution procedure (including determination by a third party expert or court proceedings in the event the issue cannot be agreed); and
- the capped indemnity will not cease to apply or terminate on any change of control of CYBG Group or the sale of the business or assets of CYBG Group. However, prior to any change of

16 Provided that the maximum value of the CYBG shares to be subscribed for pursuant to such a proposal would not exceed £200 million or if lower, a value equal to 9.9% of the issued capital of CYBG at the time.

17 Provided that the maximum value of the CYBG shares to be subscribed for does not exceed a value equal to 9.9% of the issued share capital of CYBG at the time.

control, the parties will cooperate in good faith to facilitate an assessment by the PRA to determine whether the capped indemnity should continue or be terminated in whole or in part. Any assessment will be at the sole discretion of the PRA.

It is not expected that payments to CYBG under the capped indemnity (or subsequent subscriptions for equity in other members of CYBG Group using the proceeds of these payments) will be taxable in the hands of CYBG Group. However, if tax was to be payable, the Conduct Indemnity Deed contains provisions under which NAB has agreed to compensate CYBG for any tax incurred that would not have been incurred but for receipt of amounts by CYBG under the capped indemnity. Any payments made under the tax indemnity provisions of the Conduct Indemnity Deed are outside the capped indemnity and will not be deducted from the unutilised amount of the capped indemnity at any point in time.

Subject to the capped indemnity and the tax indemnity provisions of the Conduct Indemnity Deed, CYBG has agreed to release NAB from liability for any other conduct related claims by CYBG against NAB;

- for a limited period of time, NAB and Clydesdale Bank will provide agreed services to each other under the Transitional Services Agreements:
  - NAB will provide certain services supporting the risk, treasury, human resources and finance function areas while Clydesdale Bank and other members of the CYBG Group develop their own replacement systems and supporting processes. It is intended that CYBG Group will have full stand alone arrangements in place by 31 December 2018; and
  - Clydesdale Bank will provide transitional services to NAB to support NAB's London branch in relation to certain technology infrastructure services (including hosting, data centre and network connectivity services in the United Kingdom). It is intended that Clydesdale Bank will no longer be providing transitional services to NAB by 31 December 2018.

  In each case, the services are to be provided to specified service standards and fees will be paid for the services provided;
- certain agreements entered into by NAB and CYBG Group to effectively replace NAB's interest in CYBG Group's existing Additional Tier 1 notes ("AT1 notes") and Tier 2 notes with new AT1 notes and Tier 2 notes to be issued by CYBG will come into effect. These arrangements are intended to allow CYBG Group to optimise its regulatory position in relation to its issuances of AT1 notes and Tier 2 notes and to provide a single issuing entity for CYBG Group's capital securities. NAB intends to re-market and sell the new AT1 notes and Tier 2 notes to third party investors during 2016[18]. CYBG Group has agreed to assist NAB in the issuance, re-marketing and sale of any AT1 notes and Tier 2 notes to third party investors. CYBG Group intends to repay other outstanding loans, bonds and notes to NAB in accordance with their contractual maturities (over the next two years);
- existing derivatives transactions between NAB and CYBG Group will continue for contractual periods after the demerger. CYBG Group has established a full suite of external market derivative counterparties and is no longer dependent on dealing with NAB as a derivative counterparty. NAB and CYBG Group have previously entered into various derivative transactions on terms that are equivalent to those that prevail on an arm's length basis in the ordinary course of business; and
- NAB will incur a significant one-off impairment expense equal to the difference between the fair value of CYBG securities and the carrying value of CYBG Group's net assets. The demerger will also result in the unwinding of the Foreign Currency Translation Reserve ("FCTR") related to CYBG Group. Both of these items will be shown in NAB's income statement.

The effect of the Proposal on NAB's structure and ownership, assuming the Institutional Offer is completed in full, is shown below:

18 To the extent that these securities are held by NAB after the demerger, they will be like for like deductions from NAB's capital until they are sold or redeemed. As NAB's investment in these securities reduces, there will be a corresponding increase in NAB's total capital position on a like for like basis.

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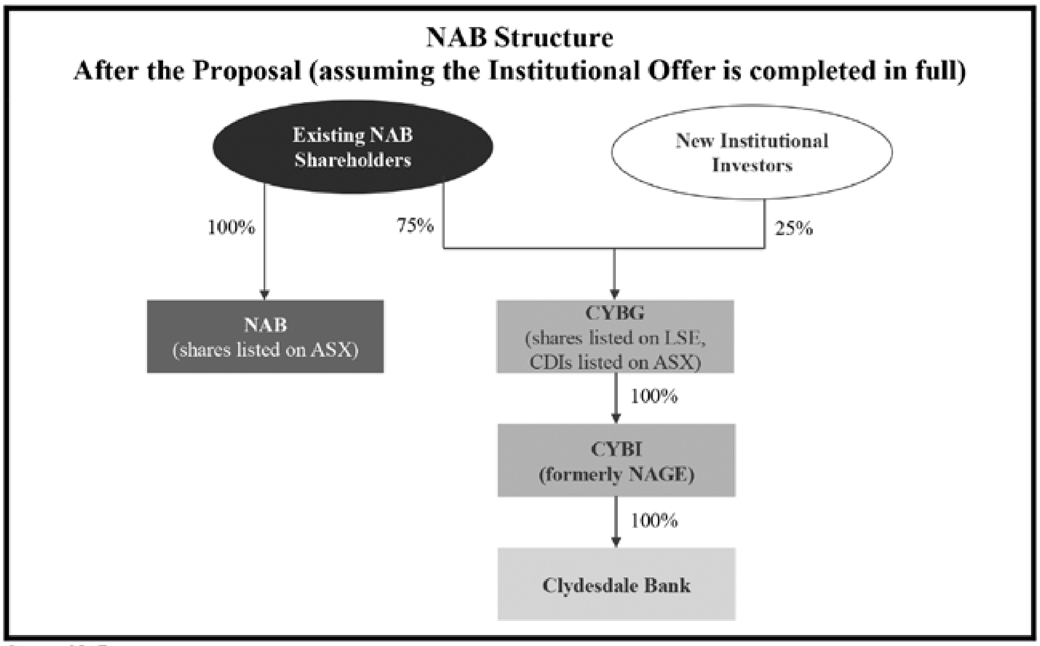

Source: NAB

On implementation of the Proposal, NAB's ordinary share capital will be unchanged (i.e. it will have 2,637.9 million[19] ordinary shares on issue, excluding partly paid shares) and CYBG will have 879.3 million shares on issue. The ownership interest held by each NAB shareholder in NAB will be unchanged.

The ownership interest of each NAB shareholder in CYBG will depend on whether the Institutional Offer proceeds and whether it is partially or fully completed. In each case, the relative ownership interest of each NAB shareholder (other than selling shareholders) in CYBG will be diluted by the transfer of up to 219.8 million CYBG shares to certain institutional and professional investors and/or the retention of CYBG shares by NAB, although NAB shareholders will hold an indirect economic interest in the net sale proceeds from the Institutional Offer and any CYBG shares that are retained by NAB through their shareholding in NAB.

The separated entities will be arm's length parties and deal with each other on full commercial terms. If the Institutional Offer is completed in full (and in any other case, once NAB has sold any CYBG shares that are retained or held as a result of stabilisation activities), there will be no cross shareholdings between NAB and CYBG[20] and there will be no common directors or management.

NAB has entered into a Relationship Agreement with CYBG that, if NAB's retained interest in CYBG exceeds 10%, will govern the relationship between CYBG Group and NAB to ensure that CYBG Group is capable of carrying on its business independently of NAB and that transactions and relationships with NAB are conducted at arm's length and on normal commercial terms. The Relationship Agreement also gives NAB the right to appoint one non-executive director to the CYBG board if it holds at least 20% of CYBG shares on issue at the time of UK Listing. The agreement will remain in place as long as NAB holds at least a 10% interest in CYBG, subject to limited termination rights.

[19] Including 12.1 million NAB shares to be issued prior to implementation of the Proposal in relation to the exercise of performance rights and pursuant to NAB's dividend reinvestment plan.

[20] Other than a small number of CYBG securities that will be held by NAB as trustee for NAB employees under the NAB Employee Equity Plans and held by MLC (part of NAB Wealth) as a result of MLC owning NAB shares through controlled trusts in its statutory funds as well as any CYBG securities held by NAB as a result of stabilisation activities. The maximum number of CYBG securities that NAB could hold as a result of stabilisation activities is 28,673,323 CYBG securities (approximately 3.3% of CYBG securities).

6 NAB Post Proposal

6.1 Business Operations and Strategy

Following implementation of the Proposal, NAB will be a major financial services organisation with its operations primarily based in its core markets of Australia and New Zealand. Its business divisions will comprise Australian Banking, NZ Banking and NAB Wealth. NAB will also have a presence in Asia, the United Kingdom and the United States, predominantly for wholesale banking, institutional markets business and treasury activity. The London branch of NAB will remain open for this purpose. These businesses will be part of Australian Banking.

NAB will also have an ongoing relationship with Nippon Life Insurance Company through the 20 year distribution agreement entered into as part of the sale of 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company, under which NAB will provide life insurance products through its owned and aligned distribution networks.

NAB's strategy following the Proposal will be unchanged.

6.2 Key Financial Information

NAB's key pro forma historical financial information for the year ended/as at 30 September 2015 following implementation of the Proposal are summarised below:

NAB – Key Financial Information Following Implementation of the Proposal ($ millions)

	Year ended /as at 30 September 2015		
	Pro forma	Change	
		$ millions	%
Financial Performance			
Net operating income	**17,505**	***(1,793)***	***-9.3***
Cash basis net profit (excluding specific items)	**6,457**	***(261)***	***-3.9***
Cash basic earnings per ordinary share (cents)	*258.4*	*(10.4)*	*-3.9*
Dividends per ordinary share (cents)	*198.0*	-	-
Cash dividend payout ratio	*76.6%*	*+3.0%*	*+4.0*
Net interest margin	*1.82%*	*-0.05%*	*-2.7*
Banking cost to income ratio	*41.1%*	*-3.5%*	*-7.9*
Cash return on equity	*15.0%*	*+1.2%*	*+8.8*
Financial Position			
Total assets	**880,331**	***(74,721)***	***-7.8***
Net assets	**49,951**	***(5,562)***	***-10.0***
Equity attributable to NAB ordinary shareholders	**46,615**	***(5,562)***	***-10.7***
Net assets per share	*$17.75*	*(2.12)*	*-10.7*
NTA per share	*$15.17*	*(1.90)*	*-11.1*
Asset Quality			
90+ days past due plus gross impaired assets to gross loans and acceptances	*0.63%*	*-0.08%*	*-11.3*
Capital Ratios			
CET1 capital ratio	*9.8%*	*-0.4%*	*-3.9*

Source: Scheme Booklet and Grant Samuel analysis

The basis on which the pro forma historical financial information for NAB has been prepared is set out in Section 2.8 of the Scheme Booklet[21].

[21] NAB's pro forma historical financial information has been prepared by NAB and reviewed by Ernst & Young Transaction Advisory Services Limited ("Ernst & Young"). Ernst & Young's Independent Limited Assurance Report is set out in Section 7 of the Scheme Booklet.

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Across all key profit and loss and balance sheet items (other than pro forma net profit attributable to NAB ordinary shareholders, which increases by 8%), the impact of the Proposal is a decline of around 4-10%.

The pro forma impact of the Proposal on NAB's key financial parameters in FY15 is:

- a reduction in the net interest margin by 5 basis points reflecting the removal of CYBG's higher net interest margin business;
- a 350 basis point reduction in the banking cost to income ratio reflecting the removal of CYBG's higher cost business;
- a 120 basis point increase in the cash return on equity (from 13.8% to 15.0%), calculated based on cash net profit excluding specified items. Taking into account the full year impact of the Capital Raising and excluding the capital required to support the capped indemnity which will be reported in discontinued operations, NAB's pro forma cash return on equity would have been 14.6% (an increase of 80 basis points);
- to maintain dividends at 198 cents per ordinary share, an increase in the dividend payout ratio (calculated based on cash net profit excluding specified items) from around 74% to 77%. NAB has a target dividend payout ratio of 70-75%. The level of future dividend payments is a matter for the board of NAB and will depend on the future performance of NAB post Proposal, capital requirements and NAB board policy;
- improved asset quality with a reduction in 90+ days past due plus gross impaired assets to gross loans and acceptances by 8 basis points; and
- a reduction in NAB's CET1 ratio as at 30 September 2015 by 40 basis points from 10.2% to 9.8%, above NAB's target CET1 ratio range of 8.75-9.25%, due to NAB's share of the capped indemnity being deducted from NAB's CET1 capital, partially offset by the impact of deconsolidating CYBG Group and the proceeds from the Institutional Offer. Taking into account regulatory changes (mortgage risk weight increase from 1 July 2016), maturity of NAB Wealth debt and the sale of 80% of NAB Wealth's life insurance business, NAB's pro forma CET1 ratio is expected to fall to around 9.4% (still above NAB's target CET1 ratio range).

The Proposal is not expected to have any material impact on NAB's:

- liquidity or its approach to liquidity;
- access to funding markets or change to its funding strategy; and
- credit ratings. Following the announcement of the Proposal, Standard & Poor's ("S&P"), Moody's Investor Services ("Moody's") and Fitch Ratings ("Fitch") affirmed NAB's long term debt rating at AA-/Aa2.

6.3 Directors and Management

NAB's board and senior management following implementation of the Proposal will be unchanged other than previously announced changes that are unrelated to the Proposal.

7 CYBG Group

7.1 Business Operations and Strategy

Business Operations

CYBG Group is a retail and SME banking group offering a range of banking products and services through a variety of distribution channels including retail branches, business and private banking centres, third party mortgage intermediaries, a digital platform, post office branches, telephone banking and an ATM network. CYBG Group aims to be a customer-centric bank, building long-standing customer relationships and delivering customer-driven products and services.

The CYBG board believes that CYBG Group's key strengths are:

- an established retail and SME franchise with leading market shares in its core regional markets of Scotland, North East England, North West England, Yorkshire and the Humber as well as in selected national markets;
- strong and well regarded brands ("Clydesdale Bank" and "Yorkshire Bank") in its core regional markets;
- a stand alone, scaleable and full service operating platform (with only limited ongoing support required from NAB for certain non-customer facing functions);
- a strongly capitalised balance sheet with a diversified and high quality asset portfolio and a stable and low cost funding platform; and
- an experienced leadership team.

Strategy

CYBG's directors have four strategic aims for CYBG Group:

- **leverage its capabilities in existing core regional markets** by building on existing customer relationships and acquiring new retail (personal customer accounts, deposits and mortgage book) and SME customers. As part of this strategic aim, the retail tracker mortgage book and a low yielding SME commercial loan portfolio have been identified to be run down and the capital reallocated to support growth in higher yielding assets;
- **continue its successful national growth strategy focusing on selected products and sectors where it has a strong history of established capabilities**. In particular, CYBG Group has a track record of delivering growth in its mortgage book outside its core regional markets through the intermediary channel and believes that this represents a significant source of continuing growth;
- **deliver a consistently superior experience to customers underpinned by its local community brands and a customer driven omni-channel strategy** by continuing to invest in its digital platform to support a consistent and seamless omni-channel experience, branch network optimisation and developing enhanced customer data management and analytics; and
- **deliver enhanced shareholder returns** by reducing costs through broad based simplification and productivity changes and a targeted investment spend.

The directors of CYBG have identified areas that require improvement and change to reflect CYBG Group's stand alone structure, simplify internal governance and processes, streamline operations and significantly enhance productivity. Near term priorities include identifying and engaging internal talent, rigorous management of the operating costs of CYBG Group and its investment expenditure, delivery of its digital enablement initiatives and continued focus on enabling customer franchise growth.

A more detailed description of CYBG Group's operations and strategy is set out in Sections 3.1-3.3 of the Scheme Booklet.

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7.2 Key Financial Information

CYBG Group's key historical financial performance (on a management basis[22]) and its pro forma historical financial position following implementation of the Proposal are summarised below:

CYBG Group – Key Financial Information (£ millions)				
	Year ended 30 September			
	2012	2013	2014	2015
Financial Performance				
Total operating income	**926**	**958**	**982**	**964**
Underlying profit on ordinary activities after tax	**28**	**94**	**171**	**139**
Profit/(loss) attributable to CYBG securityholders	**(656)**	**(44)**	**(198)**	**(225)**
Underlying earnings per security (pence)[23]	*3.2*	*10.7*	*19.4*	*15.8*
Net interest margin	*2.20%*	*2.18%*	*2.30%*	*2.20%*
Cost to income ratio	*77.2%*	*71.3%*	*69.9%*	*75.4%*
Underlying return on tangible equity[24]	*0.5%*	*4.4%*	*7.7%*	*5.1%*
Pro Forma Financial Position				
Total assets				**38,598**
Net assets				**3,443**
Equity attributable to CYBG securityholders				**2,993**
Net assets per share				*£3.40*
NTA per share				*£3.10*
Asset Quality				
90+ days past due plus gross impaired assets to customer loans	*2.48%*	*2.45%*	*2.01%*	*1.41%*
Specific provision to gross impaired assets	*30.3%*	*36.9%*	*37.3%*	*39.2%*
Capital Ratios				
CET1 capital ratio	*7.7%*	*9.6%*	*9.4%*	*13.2%*
Tier 1 capital ratio	*8.9%*	*11.1%*	*11.0%*	*15.7%*
Total capital ratio	*14.4%*	*17.5%*	*17.7%*	*18.9%*
Leverage ratio	*4.6%*	*5.1%*	*5.2%*	*7.1%*

Source: Scheme Booklet and Grant Samuel analysis

The basis on which the historical financial performance for CYBG Group has been prepared is set out in Section 3.13.1 of the Scheme Booklet. The historical financial performance for CYBG Group has not been prepared on a pro forma basis. In particular, it does not make any adjustment for the contribution from the Insurance Intermediary Business, additional costs that will be incurred by CYBG Group as a result of being a separate listed entity (although the financial performance does include corporate costs currently being recharged from NAB), the effect of the arrangements to replace the existing AT1 notes and Tier 2 notes with new AT1 notes and new Tier 2 notes or transaction costs associated with the Proposal after 30 September 2015 allocated to CYBG Group.

22 The management basis information includes adjustments to present items that the directors of CYBG believe are non-recurring or not otherwise indicative of the underlying performance of the business separately from CYBG's underlying results of operations. The directors of CYBG believe that this presentation assists in evaluating the underlying performance of CYBG and facilitates more meaningful period-to-period comparisons. The management basis tax credit/(charge) is calculated by applying the statutory tax rate for the relevant period to the taxable items adjusted on the management basis. Refer to Section 3.12.4.2 of the Scheme Booklet for further information.

23 Underlying earnings per security has been calculated assuming that 879.3 million CYBG securities were on issue for the entire period and that no distributions were paid on AT1 notes over these periods.

24 Underlying return on tangible equity is calculated as underlying profit on ordinary activities after tax less preference share dividends, non-controlling interest distributions and AT1 distributions as a percentage of average tangible equity (total equity less intangible assets excluding non controlling interests, preference shares and AT1 notes).

In FY14 and FY15, the contribution (before tax) from the Insurance Intermediary Business (of £15 million and £16 million respectively) partly offsets the additional costs as a result of being a separate listed entity (estimated at £15-25 million per year), with the net impact being a reduction in underlying profit after tax of £7-8 million or 3-4%.

The replacement of the existing AT1 notes and Tier 2 notes with new AT1 notes and Tier 2 notes is not expected to have any material impact on CYBG Group as both sets of capital instruments have similar terms and have been priced on an arm's length basis. The terms of the new AT1 notes and Tier 2 notes are set out in Section 4.10.2 of the Scheme Booklet.

The basis on which the pro forma historical financial position for CYBG has been prepared is set out in Section 3.13.6 of the Scheme Booklet[25]. In particular, the pro forma historical financial position does not make any adjustment for the effect of the arrangements to replace the existing AT1 notes and Tier 2 notes with new AT1 notes and new Tier 2 notes or for transaction costs after 30 September 2015 that will be allocated to CYBG Group.

Management of CYBG Group has refocused the business over recent years and driven a turnaround in profitability. Although CYBG Group has reported losses in each of the last four years, this was primarily a result of conduct charges and fines (other than in FY12, which also included the impact of the loss on disposal of the commercial real estate loan portfolio to NAB, intangible asset impairment and losses and restructuring costs). Its underlying profit after tax (before conduct charges and other non recurring items) has increased from £28 million in FY12 to £171 million in FY14 and was £139 million in FY15. The decline in underlying profitability in FY15 primarily reflected higher operating costs in the second half of FY15 (operating costs were approximately 10% higher in the second half of FY15 compared to the first half of FY15), due to an increased level of investment and the payment of the Financial Services Compensation Scheme levy of £14 million in April 2015.

However, CYBG Group's net interest margin is generally lower and its cost to income ratio is generally higher than comparable listed United Kingdom banks (even before taking into account conduct charges), resulting in lower profitability and a lower return on equity. In part, this outcome reflects CYBG Group's demographics (exposure to highly competitive and low income regional markets in Scotland and Northern England), product mix (performance of the business banking division and the tracker mortgage portfolio) and relatively small scale (with a high, largely fixed, cost base). In this regard, the directors of CYBG expect:

- the net interest margin to be broadly stable in the near term with the potential for some modest widening in line with current market expectations for movements in interest rates; and
- the run rate of total operating costs into FY16 to be broadly in line with that of the second half of FY15 on an annualised basis as CYBG Group incurs additional costs to establish itself as a stand alone entity and maintains a higher level of investment. However, the directors of CYBG also expect that revenue will grow at a faster rate than operating costs (other than in the year immediately following implementation of the Proposal) and it is expected that this will result in a cost to income ratio of below 60% within the period up to FY20.

In addition:

- the CYBG directors are targeting a double digit return on tangible equity within the period up to FY20 after a period of expected increased investment in FY16 (compared to an underlying return on tangible equity for FY15 of 5.1%); and
- CYBG's current intention is to commence paying dividends in respect of FY17 (although any dividend in respect of FY17 is expected to reflect only a modest percentage of earnings) and that it will, in time, be able to support a dividend distribution of up to approximately 50% of

[25] CYBG's pro forma historical financial information has been prepared by NAB and reviewed by Ernst & Young. Ernst & Young's Independent Limited Assurance Report is set out in Section 7 of the Scheme Booklet.

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earnings (after paying AT1 notes distributions), subject to regulatory requirements. In its initial years, CYBG Group's earnings will be directed towards investing in its franchise to drive future growth and preserving capital to support the business. The CYBG directors intend to review the expected timing and quantum of any dividend payments in the context of progress on delivery of CYBG Group's strategy and the broader operating environment.

In relation to CYBG's pro forma balance sheet as at 30 September 2015:

- CYBG Group has a defined benefit pension scheme which has been closed to new members since 2004. This plan has historically been in deficit, but moved to surplus during FY14 through additional cash contributions and de-risking the investment strategy. While the plan was in surplus by £52 million as at 30 September 2015, the most recent valuation of the scheme (in September 2013) indicated an actuarial deficit and a schedule of payments has been agreed with the trustee which involves no additional contributions in FY16 but a £50 million additional contribution per year from FY17 to FY21 and a £55 million additional contribution in FY22. These contributions have been reflected in CYBG Group's capital plan;
- CYBG Group has a strong base of retail customer deposits (more than 80% of the funding base as at 30 September 2015) as well as access to secured wholesale funding. CYBG Group has actively diversified its funding mix and reduced utilisation of NAB funding through residential mortgage-backed securities ("RMBS") and covered bond securitisation programmes; and
- as at 30 September 2015, CYBG Group had provided a total of £1.806 billion for conduct issues (some of which had been provided by NAB), £820 million of which had been utilised. The remaining £986 million provision is included as a liability in CYBG Group's pro forma financial position.

CYBG Group has reported an improvement in asset quality over the last four years, reflecting the diversified nature of the portfolio (by product type, industry exposure, year of origination and geography) and active management of the portfolio as well as more favourable economic conditions in the United Kingdom. As a result of an improved economic environment and a maturing portfolio, the CYBG directors believe the impairment charge to average customer loans ratio as at 30 September 2015 will be close to or at a cyclical low.

CYBG Group has reported an increase in CET1 capital and total capital over the last four years. CYBG Group's capital position under Capital Requirements Directive IV ("CRD IV")[26] as at 30 September 2015 was in excess of its minimum regulatory requirements. In calculating its risk weighted assets, CYBG Group measures credit risks using the standardised approach which results in higher risk weighted assets than if the internal ratings based approach was adopted. As a result, the directors of CYBG believe that the capital ratios of CYBG Group are conservative and that the capital position of CYBG Group is sufficient to meet regulatory expectations over the medium term. The PRA's capital requirement for CYBG Group includes buffers for general banking risks and other risks including pension scheme obligation risk.

7.3 Directors and Management

CYBG's board will comprise the current directors of CYBG, with James Pettigrew as Chairman. In addition to three executive directors (David Duffy, Chief Executive Officer, Ian Smith, Chief Financial Officer and Debbie Crosbie, Chief Operating Officer), there are nine non-executive directors, including two appointed in late 2014 (Adrian Grace and Teresa Robson-Capps) and one appointed in October 2015 (David Bennett). The remaining non-executive directors[27] have been on the CYBG board since mid 2012 (other than Richard Gregory OBE, the senior independent

[26] CRD IV is a European Union legislative package covering prudential rules for banks, building societies and investment firms. The majority of the rules are applicable from 1 January 2014.

[27] David Allvey, David Browne, Barbara Ridpath and Alex Shapland.

non-executive director who was appointed in June 2004). Background information on the CYBG board is set out in Section 3.10 of the Scheme Booklet.

Richard Sawers is currently a director of CYBG. It is proposed that Mr Sawers will resign from the CYBG board prior to the Institutional Offer being implemented. If the Institutional Offer does not proceed or proceeds but is not completed in full and NAB retains at least 20% of CYBG securities, NAB intends to re-appoint Mr Sawers to the CYBG board as a non-executive shareholder director in accordance with NAB's rights under the terms of the Relationship Agreement.

CYBG Group's existing senior management team is to remain in place. The senior management team includes three relatively new appointed executives, David Duffy, Chief Executive Officer, Ian Smith, Chief Financial Officer and David Gillespie, Distribution Director (a role newly created in October 2014). Mr Duffy and Mr Smith have only been with CYBG Group since June 2015 and October 2014 respectively, although both are experienced and respected finance industry professionals. The majority of the remaining 11 members of the senior management team have been with CYBG Group for at least ten years (and some in excess of twenty years).

7.4 Risk Factors

CYBG Group will be subject to a different set of risks than NAB and NAB post Proposal because it operates in the United Kingdom only and on a smaller scale. These risks include exposure to macro-economic conditions in the United Kingdom and compliance with United Kingdom laws and regulations as well as risks relating to the operation of CYBG Group's business.

NAB shareholders should read the risks to which CYBG Group is exposed that are set out in Section 1 Topic 4.11, Section 3.15 of, and Annexure G to, the Scheme Booklet.

8 Evaluation of the Proposal

8.1 Rationale for the Demerger

NAB acquired Clydesdale Bank (together with Northern Bank) in 1987 as the platform for the development of a United Kingdom banking business. The platform was expanded in 1990 through the acquisition of Yorkshire Bank (which was subsequently merged into Clydesdale Bank) and it was intended to grow the business nationwide across the United Kingdom through further acquisitions.

NAB's overseas expansion continued through the 1990s with the acquisition of BNZ (1992), Michigan National Bank (1995) and HomeSide Lending (1997).

The strategy was designed to enhance growth and add diversification to NAB's business operations. However, it has not achieved the original objectives. The two United States businesses were sold in the early 2000s (with substantial losses incurred in respect of HomeSide Lending) and NAB's Irish banks were sold in 2004.

UK Banking produced reasonable returns through the 1990s and early 2000s but did not succeed in building out its platform. More recently, following the global financial crisis, it has been plagued by a number of significant problems, including:

- substantial loan impairment losses (over £300 million in FY12 and FY13);
- losses of over £500 million on the exit from the commercial real estate portfolio;
- restructuring expenses (£150 million in FY12);
- impairment charges on goodwill and other intangible assets (approximately £180 million in FY12); and
- costs and provisions relating to conduct issues totalling over £1.8 billion.

Even excluding all of the one-off costs and losses, UK Banking has continued to generate a return on equity (approximately 5% per annum for FY15) that is:

- far inferior to that of NAB's core Australian and New Zealand business (at around 14-15%); and
- well below NAB's cost of capital (generally considered by analysts to be in the order of 10-11%).

There is little rationale for NAB to retain UK Banking:

- despite having a significant proportion of its assets (circa 45% of the mortgage portfolio) in London and the South East of England, most of which were generated through third party intermediaries, the core banking business franchise remains limited to two regions within the United Kingdom (Scotland and Northern England);
- following the full divestment of GWB, UK Banking is now NAB's only significant business outside its core Australia and New Zealand markets;
- the business is physically remote from Australia and there is little or no interaction with NAB's Australian and New Zealand business at any operating level. Synergies between UK Banking's business and NAB's core business are minimal;
- it does not contribute any meaningful diversification to NAB's business exposure (representing around 10% of gross loan assets and less than 5% of cash basis net profit (excluding "Other")). At the same time, it:
  - consumes a disproportionate share of board and management resources, with the conduct issues in particular representing a significant distraction from the core business; and
  - adds significantly to the complexity of managing and overseeing NAB;
- the performance of, and issues associated with, UK Banking have had a deleterious effect on the perception of NAB in the equity market. While the business is turning around, continued ownership would ensure that the negative perceptions remain "front of mind" for investors;
- regulatory issues (e.g. local regulatory capital requirements, differences in rule applications and approaches between jurisdictions) and additional complexity (e.g. governance and compliance) mean that it is increasingly difficult to run multinational banking operations and there are fewer and fewer benefits (e.g. from scale, technology or market power). NAB management does not believe that it is able to drive any meaningful competitive advantage for UK Banking. It is likely that, in the long run, the most effective participants in most jurisdictions (or regions) will be well capitalised, locally owned and managed banks with strong market shares or nimble, niche operators; and
- it dilutes NAB's key financial performance metrics such as return on equity.

Divestment of the business has been under consideration for some time. In fact, NAB management has held discussions with various potential acquirers going back as far as 2009. None of these discussions has progressed very far for a variety of reasons including:

- economic and equity market conditions in the United Kingdom;
- performance of UK Banking; and/or
- issues affecting the potential acquirer's businesses, many of which were afflicted by problems similar to those facing UK Banking.

The first two factors have also constrained NAB's ability to consider other exit options. More recently, however:

- economic conditions in the United Kingdom have improved;

- despite recent volatility, equity market conditions have strengthened to the point where a number of IPOs of banking businesses have been successfully completed during 2014 and 2015. Moreover, some of them (e.g. TSB Banking Group plc ("TSB")) had their own performance challenges at the time of the raising; and
- the performance of UK Banking has stabilised and begun to turn around with significant improvements in key metrics such as asset quality. Problematic assets such as commercial real estate have been removed.

Accordingly, NAB is now in a position where divestment on reasonable terms is a realistic possibility and there are choices available as to the means of divestment. To this end, in October 2014 NAB publicly flagged its intention to exit UK Banking as part of a strategy to focus on its core Australian and New Zealand banking business.

The two key issues that follow from this decision revolve around timing and the method of divestment. In this context, NAB management has recently resolved to accelerate the exit from the United Kingdom. There is an argument that it would be better from a price perspective to hold the business for longer to benefit from the expected strengthening in earnings over the next few years. However, there are strong counter arguments that it is preferable from a strategic and operating perspective to "clean up" NAB's portfolio as soon as possible. The turnaround could take several years to realise and the management and capital resources consumed in the meantime might result in the loss of opportunities to enhance the core business.

In relation to the method of disposal, NAB has determined that a demerger (coupled with the Institutional Offer) is the most effective method of meeting its objectives while also providing shareholders with the opportunity to retain an exposure to the potential upside of UK Banking (whether through improved performance over time or industry consolidation).

8.2 Approach to Evaluation

ASIC has established guidelines for the preparation of independent expert's reports in its Regulatory Guide 111. ASIC Regulatory Guide 111 states that an expert, in assessing a demerger, should provide an opinion as to whether the advantages of the demerger outweigh the disadvantages. If the advantages outweigh the disadvantages, the demerger will be in the best interests of shareholders.

Regulatory Guide 111 also states that where a demerger involves a change in the underlying economic interests of shareholders, an expert might need to consider whether the more typical control transaction basis of analysis (value issues under fairness and other issues under reasonableness) is more appropriate.

In this case, the Proposal is not a "pure" demerger in so far as:

- following the demerger, NAB shareholders will not have the same economic interests in NAB and in CYBG Group as they held in NAB before the demerger;
- third parties will acquire a 25% interest in CYBG (either through the Institutional Offer or, if that does not proceed or is only completed in part, through a subsequent sell down by NAB).

However, in Grant Samuel's opinion it remains appropriate to adopt the "advantages vs disadvantages" framework because:

- the interest in CYBG that is to be sold to third parties is a maximum of 25%;
- the 25% interest will be sold through a public offer process, the results of which will be publicly reported;
- the 25% holding will be widely spread rather than sold to a single acquirer;

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- in the context of a NAB shareholder's aggregate investment, the change in economic interest is minimal. The value of CYBG shares to be sold to third parties represents less than 1.5% of NAB's market capitalisation (as at 26 November 2015); and
- other than the sale of the 25% interest, the Proposal is a relatively clean split:
  - there will be no business relationships between the separated entities beyond transitional issues (operational separation, conduct matters (including the associated tax covenant) and funding instruments);
  - if the Institutional Offer is completed in full, NAB will not retain a shareholding in CYBG[28] or have any common directors with CYBG;
  - there are no value leakages to third parties (e.g. in the form of management fees); and
  - there are no material adverse tax consequences for the separate entities and for most shareholders.

Accordingly, Grant Samuel has evaluated the Proposal by assessing whether the benefits such as certainty of execution, management focus and flexibility outweigh the costs, risks and other disadvantages of the Proposal (including transaction costs and tax consequences). To the extent possible, Grant Samuel has compared quantifiable benefits with quantifiable disadvantages. However, many of the potential benefits are by their very nature difficult, or even impossible, to quantify or verify. In this context, the overall conclusion as to whether the advantages of the Proposal outweigh the disadvantages is to a large extent subjective.

8.3 Stand Alone Viability

8.3.1 Overview

A threshold issue for the Proposal is the stand alone viability of CYBG Group. There are three aspects to this issue:

- financial viability from a capital adequacy, funding and asset quality perspective;
- operational viability in terms of management and systems; and
- market viability in terms of the ability to attract sufficient investor interest to develop a reasonably liquid market for CYBG shares.

8.3.2 Financial Viability

The financial viability of CYBG Group can be considered from a number of different perspectives:

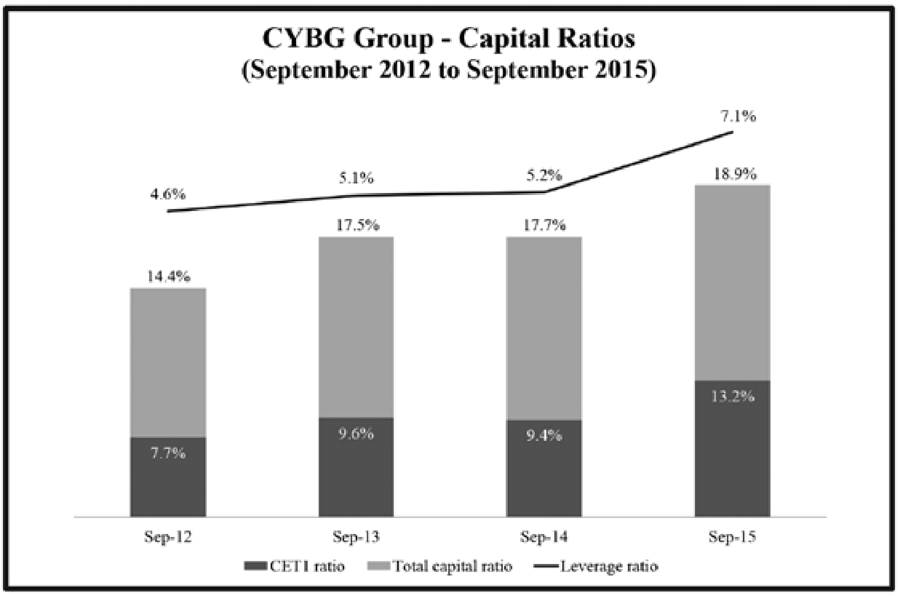
Capital Adequacy

CYBG Group's capital ratios are summarised below:

[28] Other than a small number of CYBG securities that will be held by:

- NAB as trustee for NAB employees under the NAB Employee Equity Plans; and
- MLC (part of NAB Wealth) as a result of MLC owning NAB shares through controlled trusts in its statutory funds, and

any CYBG securities that may be held by NAB as a result of stabilisation activities.



Source: Scheme Booklet and Grant Samuel analysis

NAB subscribed £670 million for ordinary shares in CYBG Group in the second half of FY15, of which £465 million forms part of the capped indemnity amount. These capital injections have resulted in CYBG Group having a CET1 ratio of 13.2% as at 30 September 2015 (and a total capital ratio of almost 19%). CYBG Group has a leverage ratio of around 7%. This is a reasonably strong capital position, providing a significant buffer over the minimum regulatory requirements of a 7% CET1 ratio and a 3% leverage ratio. It exceeds that of the major United Kingdom banks other than Lloyds Banking Group plc ("Lloyds") and The Royal Bank of Scotland plc ("RBS") (i.e. Barclays PLC ("Barclays"), Santander UK plc ("Santander") and HSBC Holdings plc ("HSBC"))[29].

Funding

CYBG Group sources its own funding from a mixture of deposits, wholesale funding and other instruments such as RMBS and covered bond securitisation programs. NAB provides support to CYBG Group's funding through:

- provision of senior funding[30] and investment in certain senior debt instruments (including RMBS), Tier 1 capital (AT1 notes) and Tier 2 capital (subordinated notes), although the extent of senior funding from NAB has significantly reduced since 2012:

[29] As at 30 September 2015, Lloyds and RBS had CET1 ratios of 13.7% and 16.2% respectively and Barclays, Santander and HSBC had CET1 ratios that ranged from 11.1% to 11.8%. As at 30 September 2015, their leverage ratios ranged from 4.1% to 5.6%.

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CYBG Group – Funding Support from NAB as at 30 September 2015		
Instrument	**Amount (£ millions)**	**Maturity**
Senior debt	100[30]	on or before 30 September 2016
RMBS	382	by November 2017
Subordinated notes (Tier 2)	478[31]	£300 million first callable by CYBG Group on 20 December 2018 (final maturity 20 December 2023) £175 million first callable by CYBG Group on 25 January 2016 (final maturity 25 January 2021)
AT1 notes	450	£300 million first callable by CYBG Group on 20 December 2018 (no fixed term) £150 million first callable by CYBG Group on 29 December 2016 (no fixed term)
Total	**1,410**	

Source: Scheme Booklet

- acting as a counterparty for CYBG Group derivative transactions; and
- implicit credit support as a result of its 100% ownership of CYBG Group.

As a result of the Proposal:

- NAB's interest in CYBG Group's existing AT1 notes and Tier 2 notes will be replaced with new AT1 notes and Tier 2 notes to be issued by CYBG. This transaction is not expected to have any material impact on CYBG Group as both sets of capital instruments have similar terms and have been priced on an arm's length basis. The terms of the new AT1 notes and Tier 2 notes are set out in Section 4.10.2 of the Scheme Booklet. NAB intends to re-market and sell these new AT1 notes and Tier 2 notes to third party investors during 2016. RMBS will be repaid by CYBG Group by their maturity dates over the next two years;
- clearing of derivatives transactions has transitioned to a third party client relationship and existing derivative transactions will mature in accordance with their contracts; and
- the implicit credit support will disappear.

In considering the future funding viability of CYBG Group, relevant factors include:

- CYBG Group has a relatively low level of dependence on wholesale funding. As at 30 September 2015, customer deposits accounted for almost 85% of CYBG Group's funding base and CYBG Group's loan to deposit ratio was only slightly above 100%. Moreover:
  - customer deposits have been stable and CYBG Group has been increasing the balance of its lower cost current and savings accounts (by 30% since FY12) while reducing the balances of more expensive fixed rate term deposits and other wholesale deposits; and
  - 80% of customers with personal current accounts have a tenure of 10 years or more;
- while CYBG Group has not undertaken any senior unsecured or capital issues to the market, it has undertaken a number of transactions in the wholesale markets (primarily covered bonds and RMBS) and, accordingly, is both experienced with, and familiar to investors in, these types of securities; and

30 CYBG Group has subsequently repaid all of this senior debt.

31 Including interest.

- in preparation for the demerger, NAB has approached three ratings agencies with formal submissions in relation to the credit rating of CYBG Group on a stand alone basis. Each of the agencies has provided indicative advice that, with the capital injections and conduct indemnity arrangements proposed to be put in place (and subject to certain other assumptions), CYBG Group would have a rating on a stand alone basis that is categorised as "investment grade".

  These "investment grade" credit ratings should be sufficient to:

  - underpin depositor confidence; and
  - enable CYBG to secure funding in the wholesale markets (assuming no deterioration in market conditions).

CYBG Group will have some funding risk, in particular in relation to replacing the RMBS currently provided by NAB. However, the risks do not appear to be beyond what would normally be expected for a banking business with CYBG Group's characteristics.

Asset Quality

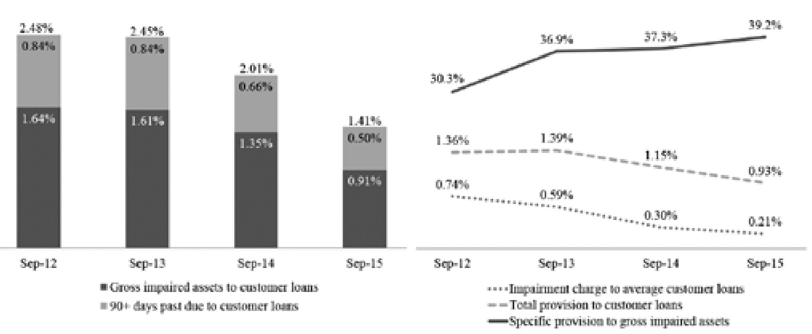
Over the last two to three years, CYBG Group has:

- shifted the composition of its loan portfolio towards mortgages and loans to SMEs. At 30 September 2015, mortgages represented 71% of customer loans, compared to 56% of customer loans as at 30 September 2012. Loans to large corporates have been substantially reduced.

  The mortgage portfolio:

  - is geographically diversified across the United Kingdom; and
  - exhibits solid credit parameters. As at 30 September 2015:
    - the indexed average loan to value ("LTV") ratio was 58.3%; and
    - 10% of loans had an LTV ratio of 80% or more and only 4% exceeded 90%; and
- reduced credit impaired loans:

CYBG Group – Pro Forma Asset Quality Ratios
(September 2012 to September 2015)



Source: Scheme Booklet and Grant Samuel analysis

While CYBG Group's credit impaired loans have fallen as economic conditions in the United Kingdom have improved, CYBG Group management has also taken action to reduce the exposure to higher risk sectors.

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Regulatory Supervision

CYBG Group and its banking operations are closely supervised by the PRA. In preparing for the demerger, NAB agreed with the PRA that it would complete an "out of cycle" Internal Capital Adequacy Assessment Process ("ICAAP") which addressed the position of CYBG Group on a stand alone basis. The ICAAP was submitted in February 2015 and covered a number of areas including asset quality, operational risk, transition, pensions and conduct.

In May 2015, after a period of extensive consultation, the PRA provided guidance on the stand alone capital requirements for CYBG Group. This included the requirement that NAB provide CYBG Group with capital support for legacy conduct costs not covered by existing provisions to a total cap of £1.7 billion. The £1.7 billion cap was determined by the PRA having regard to severe stress testing of provision assumptions as at 30 September 2014 and was substantially in excess of CYBG's calculation of its potential conduct liability under severe stress scenarios.

While the PRA has not "approved" the Proposal as such or certified the stand alone viability of CYBG Group, it is reasonable to assume that if the PRA had any material concerns about the stand alone viability, it would have raised its objections directly with NAB.

Other

One other source of potential risk for CYBG Group is its defined benefits pension scheme, which, from time to time, may have insufficient assets to cover the defined benefit liabilities of the scheme. In recent years, the investment strategy has been de-risked and NAB has injected funds into the scheme. As at 30 September 2015, the scheme was in surplus from an accounting perspective. However, the most recent scheme funding valuation as at 30 September 2013 indicated an actuarial funding deficit of £450 million and CYBG Group agreed to make additional contributions to eliminate the deficit. While CYBG Group will make no additional contributions in FY16, it has agreed to additional contributions of £50 million per year from FY17 to FY21 and £55 million in FY22. These contributions have been reflected in CYBG Group's capital plan and the risks associated with the pension scheme obligations are reflected in CYBG Group's capital requirements. On this basis, it is reasonable to conclude that the potential pension liabilities of CYBG Group are manageable.

8.3.3 Operational Viability

While CYBG Group is subject to overall control and supervision by NAB and has to act within certain limits set by NAB, it has operated on a reasonably autonomous basis since acquisition with its own management team and its own board of directors (including several independent non-executive directors), all of whom are subject to approval by the PRA. In conjunction with the Proposal, the management team has been strengthened with the appointment of three new, highly experienced executives including the Chief Executive Officer (refer to Section 7.3).

Over the last few years, CYBG Group has invested heavily in developing its own scaleable banking technology platform which is quite separate to NAB's systems. The platform has significant unutilised capacity.

There are certain functions where NAB has provided a significant level of service and support to CYBG Group, in particular the credit risk engine and the treasury platform. In this context:

- under the PRA "ring fencing" requirements, CYBG Group is required to move to stand alone functionality by 2018;

- CYBG Group's ICAAP submission to the PRA included a detailed plan for separation and replication of capabilities within CYBG Group;
- as part of the Proposal, Clydesdale Bank and NAB will put in place a Transitional Services Agreement designed to achieve full stand alone capability for CYBG Group by 31 December 2018; and
- a number of initiatives have already commenced/been completed, including:
  - completion of a data separation assessment to identify services that will need to be separated immediately on implementation of the Proposal (i.e. treasury, IT, operations and data) (some of which has been completed);
  - establishment of separate risk policies and procedures for NAB post Proposal and CYBG Group;
  - engagement with suppliers to mitigate commercial and operational risks in relation to contracts; and
  - development of a corporate website.

The costs and people requirements to achieve full stand alone capability are not insignificant but the task is relatively well defined and does not involve innovation or untried technologies and/or processes.

8.3.4 Market Viability

In terms of its attractiveness to investors in the short to medium term, CYBG Group faces a number of challenges, including:

- a track record of poor financial performance (loan losses etc.);
- a low return on equity;
- a high level of conduct issue costs (historically) with a consequential impact on reputation and some ongoing exposure;
- a geographical focus on regions where the economic growth outlook is relatively weak (Scotland, parts of Northern England); and
- limited ability to pay dividends in the next two years because of the low return on equity and the need to grow capital to support underlying growth in the business. No dividend is planned to be paid until 2017.

While these considerations are not inconsequential:

- ultimately, these considerations will be reflected in the CYBG security price;
- the business has stabilised and there has been a material improvement in underlying financial performance since FY12 (albeit with some regression in FY15);
- the business has been restructured and simplified with a well-defined focus on retail and SME banking services;
- management has developed a strategic plan designed to provide a pathway to CYBG Group's generation of a return on equity equal to its cost of capital over a five year period. The primary factors contributing to the expected improvement include:
  - growth in the number of retail customers and a deepening of the relationship with existing customers (marketing spending has been significantly increased);
  - continued growth in the mortgage book through intermediaries;
  - a reinvigorated marketing programme to the SME sector;

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- run off of low yielding assets including tracker mortgages (£2.6 billion portfolio as at 30 September 2015) and corporate loans (£1.1 billion portfolio as at 30 September 2015); and
- a reduction in costs through branch optimisation and increased investment in technology and systems;

- the exposure of CYBG Group investors to the financial costs of past conduct issues is well protected through:
  - existing unutilised provisions totalling £986 million; and
  - the Conduct Indemnity Deed that limits it to exposure to additional conduct costs of £120 million (if the further conduct costs that arise are less than £1.235 billion, being the £1.7 billion conduct mitigation package less the £465 million capital injection on 24 September 2015);
- the geographical focus does provide CYBG Group with strong market shares and brand recognition in its core markets;
- over the last 18 months, United Kingdom equity markets have shown a willingness to invest in IPOs in the banking sector and, more particularly, in situations where regular payment of dividends was some time down the track:

Recent United Kingdom Banking IPOs

Date	Company	Business	% Sold in IPO	Amount Raised (£ million)	Stated Dividend Policy
June 2014	One Savings Bank plc ("OSB")	Specialist lender focused retail (mortgages) and SME sector	35%	143	Dividend paid in FY14, 18% payout ratio Targeting 25% minimum payout starting 31 December 2015
June 2014	TSB	Full service bank for retail and SME customers (4.5 million customers, 630 branches)	39%	501	40-50% of net profit from year ending 31 December 2017
November 2014	Virgin Money Holdings (UK) plc ("Virgin")	Retail banking through 80 branches and online	25%	316	Payout ratio of 10-20% commenced with interim dividend in 2015 (16% payout ratio)
March 2015	Aldermore Group plc ("Aldermore")	Banking services to SME sector (asset finance, invoice finance, commercial mortgage) and residential mortgages (12 offices)	40%	260	No payout specified. Initial dividend in year ending 31 December 2017
April 2015	Shawbrook Group plc ("Shawbrook")	Specialist lending to SME sector and retail customers (10 offices)	42%	250	Initial dividend in year ending 31 December 2016

Source: Company announcements

- the new senior management team:
  - is highly credentialed and appears to be well regarded; and
  - provides a clean break from the past.

These counterpoints do not eliminate the challenges but, on balance, the issues do not seem to be at a level that would prevent a reasonable level of investor interest or the development of a liquid market.

8.4 Advantages and Benefits of the Proposal

8.4.1 Comparison to Alternatives

A number of alternative divestment methods are available to NAB. These include:

- trade sale (to another bank or financial institution);
- IPO of 100% (in the United Kingdom market), possibly with some priority for NAB shareholders;
- partial IPO with sell down over time in tranches (similar to NAB's progressive sale of GWB);
- demerger of 100%; or
- partial demerger with IPO component.

While it is inevitable that any proposal will involve some compromises and drawbacks, the board and management of NAB have considered each of these alternatives and determined that the Proposal is the most effective means of achieving the objectives.

A trade sale would have its attractions, particularly if there was an acquirer that could extract significant synergies, but:

- there are few obvious, qualified acquirers in the current climate. NAB has had discussions with a number of potential buyers since 2009 but none progressed to the point of formal offers capable of acceptance. The market conditions and performance issues across the industry probably meant that transactions that provided a relatively clean exit for NAB were not feasible through most of this period. While there has been a marked improvement in circumstances:
  - most potential acquirers are still focussed on improving the performance of their own businesses and/or dealing with legacy issues; and
  - few have the financial capacity to acquire CYBG Group for cash (rather than equity);
- it would be difficult for NAB to get value for the potential earnings uplift over the next few years;
- a trade sale process could be protracted and would have no certainty of success. Even today, the circumstances (and the complexities) are not amenable to a structured auction process. Any such transaction is likely to be executable only on a one-on-one basis; and
- conduct liabilities and management of future claims would be a complex issue to resolve.

In any event, NAB has remained open to receiving offers for the business until the final decision on the Proposal was made (although no offer that was sufficiently compelling to proceed with was received).

A 100% IPO would have the advantage of immediately creating a shareholder base of "natural holders" but would also have a number of drawbacks:

- the pricing would inevitably be based on current earnings and would represent a portfolio price. Moreover, the pricing of a public issue would normally reflect a discount to the expected post issue trading price;
- value would be crystallised at this point in time and NAB shareholders would not have any exposure to any improvement in the business over time (unless they subscribed through the IPO);

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- a raising of circa £2 billion for a company such as CYBG Group would be extremely challenging in the current market. Even by United Kingdom market standards, that would be a very substantial raising and one of that magnitude would probably require a more "exciting story" than CYBG Group. While there have been a number of successful IPOs in the banking sector since the beginning of 2014 (refer to Section 8.3.4):
  - none involved more than circa 40% of the issued capital being offered for sale; and
  - none of the capital raisings exceeded circa £500 million; and
- there is no certainty that a 100% IPO would be able to be completed and NAB would be exposed to the vagaries of market conditions.

A partial IPO of CYBG Group followed by progressive sell downs (in a manner similar to NAB's exit from GWB) may solve some of these issues but:

- it would likely mean that CYBG Group would remain part of NAB for several more years (depending on any escrow period). It would not achieve a quick, clean exit;
- the exposure to market conditions would remain, arising at the time of each sell down;
- pricing at each stage would inevitably reflect some discount and the fact that NAB was a known seller would create the perception of an overhang that could adversely affect trading in CYBG shares; and
- it would have an unfavourable impact on NAB's capital position as NAB would have a remaining interest in CYBG Group that would require a corresponding deduction to CET1 capital equal to the value of the investment.

The key attractions of the demerger (with partial IPO) are that:

- it provides more certainty compared to other options. The outcome is largely in the control of NAB. The only significant uncertainty is the success or otherwise of the Institutional Offer component which, at worst, will leave NAB with a 25% interest in CYBG;
- the Institutional Offer component will assist in developing a stronger, more liquid market in CYBG's securities than if there was no Institutional Offer and provides a strong base in CYBG's natural "home market" to support the eventual transition to a predominantly United Kingdom based share register. A successful Institutional Offer will underpin CYBG's premium listing on the LSE and inclusion in key indices;
- NAB shareholders retain exposure to the upside potential from improved performance of CYBG Group and/or corporate activity. Corporate activity is inherently unpredictable but given the radical reshaping of the United Kingdom banking industry over the past decade and the competitive dynamics, it is believed that there is significant potential for industry consolidation or restructuring. This year has already seen the successful acquisition of TSB (spun out by Lloyds in 2014) by Banco de Sabadell S.A. ("Sabadell"). CYBG Group would be well placed to participate in any further consolidation. Its strong but focussed geographic franchise and retail/SME focus would be attractive to those with complementary strengths. Additionally, as a stand alone organisation, CYBG Group may have more flexibility in pursuing corporate transactions than it would as a wholly owned subsidiary of NAB (e.g. mergers may be more practical); and
- shareholders will receive the full market price (less brokerage) on sale and will (in general) have the flexibility to choose when to sell.

8.4.2 Impact on NAB

The Proposal should make a significant contribution to the clarity and simplification of NAB's business. It will enable the board and management to focus solely on the higher returning Australian and New Zealand business, and in particular:

- it will eliminate the need for management resources devoted to, and other oversight costs associated with, owning and managing a physically remote, relatively complex business (magnified by it being subject to intense regulation);
- management will have a reduced span of control which should enable a more effective focus; and
- it will eliminate a source of potential distraction for both management and the board (such as the conduct issues that have arisen over the last few years).

In addition:

- operations across the bank (funding, treasury, human resources, IT) will be less complex;
- the Proposal will eliminate the need for management of NAB's exposure of movements in the A$/£ exchange rate (at least once the CYBG Group capital instruments have finally matured or been sold); and
- it will give NAB a stronger capacity to invest consistently in its core business. The financial drag of CYBG Group's performance over the past 3-4 years has inhibited this capacity to some extent.

In Grant Samuel's opinion, these benefits are real but are not directly measurable and will only be manifested in performance measures over the medium to longer term.

8.4.3 Impact on CYBG Group

The essence of CYBG Group's corporate strategy (a focus on retail and SME banking) is not materially different than the strategy that would be implemented if NAB retained 100% ownership of UK Banking.

Nevertheless, the Proposal should result in a number of benefits that, over time, should lead to better performance of the business. These include:

- a reduction in the layers of management and simplification of decision making processes. At present, key decisions will likely involve all of CYBG Group and NAB management, the CYBG board and the NAB board. Inevitably, this results in cumbersome decision making processes and the potential for conflict and second guessing of those "on the ground". The Proposal should therefore lead to:
    - greater speed of decision making which will be important in a highly competitive industry such as financial services; and
    - better decision making as ultimate decisions will rest with parties closer to the market;
- full control for CYBG Group over where, how and when it invests financial and human resources in developing its business and freedom to set its own strategic priorities;
- flexibility for CYBG Group to adapt its capital structure (whether through dividend policy or raisings) to better align with its growth objectives, local regulatory requirements and/or risk appetite;

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- elimination of controls and restrictions that have been applied by NAB to the business from time to time to conform to NAB strategic priorities, competing requirements or other constraints (e.g. in relation to marketing spend or headcount);
- the potential to attract higher quality management. An autonomous, locally listed company will be more attractive to senior executives than a wholly owned subsidiary of a bank located half way around the world. In this context, the Proposal was a key factor in attracting the new Chief Executive Officer; and
- the ability to directly incentivise management based on CYBG Group's performance (rather being in NAB group incentive schemes).

8.4.4 Shareholder Flexibility

Immediately following implementation of the Proposal, NAB shareholders (except selling shareholders) will hold both NAB shares and CYBG securities. The Proposal will therefore provide shareholders with increased flexibility to arrange their investment exposure to NAB and CYBG Group according to their own preferences.

Notwithstanding that both operate in the financial services industry, the two businesses have different characteristics and it is likely that NAB and CYBG Group will appeal to different investors:

Investment Characteristics	
NAB Post Proposal	**CYBG Group**
Australian/New Zealand operations	United Kingdom operations
One of four major domestic banks	Mid-sized "challenger" bank (low national market share)
Operations across all aspects of retail and wholesale/corporate banking	Focussed on retail and SME
High return on equity (>14%)	Low return on equity (circa 5%) but improving through turnaround
High dividend payout ratio (>70%)	No dividend until 2017, in time up to 50% of earnings

To the extent that investors desire diversification, it is generally more effective and efficient for them to achieve that through shareholdings in listed entities rather than investee companies achieving it through corporate ownership.

8.5 Risks of the Proposal

8.5.1 The Institutional Offer

The Institutional Offer component of the Proposal means that it is not a "pure demerger" where the shareholders of the parent company also own (at least initially) 100% of the demerged entity.

The introduction of external parties that, if the Institutional Offer is completed in full, will own 25% of CYBG means that there are value issues for NAB shareholders to consider.

However, the Institutional Offer cannot proceed until the demerger is completed and the bookbuild will therefore not occur until after the NAB shareholder meeting to approve the Proposal (the Institutional Offer price is currently planned to be announced on 2 February 2016 in the United Kingdom). Accordingly, NAB shareholders are being asked to vote on the Proposal without knowing the price at which new external shareholders will be acquiring their interest in CYBG Group (or whether they will invest at all).

This transaction structure creates two key risks for NAB shareholders:

- that the pricing of the Institutional Offer is materially below the fair market value of a portfolio interest in CYBG Group; or
- that the Institutional Offer is scaled back or does not proceed for whatever reason.

Offer Pricing

While NAB shareholders will have no control over the pricing of the Institutional Offer:

- there have been a number of successful IPO's of banks similar to CYBG Group in the United Kingdom over the past two years (refer to Section 8.3.4) that raised amounts of up to circa £500 million. These banks have also performed relatively well since listing, notwithstanding the increased volatility in equities markets globally in recent months:

United Kingdom Bank IPOs – Share Price Performance

Company	Listing Date	Listing Price (£)	Current Price[32] (£)	Change (%)	Days Listed
OSB	10 June 2014	1.70	3.52	+107%	534
TSB	25 June 2014	2.60	3.40	+31%[33]	398
Virgin	18 November 2014	2.83	3.54	+25%	373
Aldermore	13 March 2015	1.92	2.37	+23%	258
Shawbrook	8 April 2015	2.90	3.26	+12%	232

Source: Bloomberg

Despite the recent volatility in global equities markets, the IPO market in the United Kingdom has remained active:

- the October 2015 IPO of Worldpay, a payments processing business, raised £2.5 billion, making it the largest IPO in the United Kingdom in the last two years. Building materials company Ibstock plc and payments provider Equiniti Group also listed in October 2015 after raising £770.5 million and £315 million respectively; and
- the United Kingdom government has announced that it intends to sell down its remaining interest in Lloyds (currently circa 12%, with a market value of £2 billion) to retail investors in March-May 2016.

This activity suggests that, in the current market, there is likely to be reasonable demand for investment in CYBG Group and a reasonably positive attitude to the sector by investors (subject, of course, to pricing).

In addition, the recent takeover of TSB by Sabadell at a substantial premium to pre bid levels should assist in confirming the potential for more corporate activity;

- there are a number of listed entities in the banking sector that can provide valuation benchmarks and the market parameters applying to these peers are at reasonable levels:

32 Based on share prices as at 26 November 2015.

33 TSB was acquired by Sabadell at £3.40 per share in July 2015. The price shown in the table is the offer price of £3.40 per share and the number of days listed is up to 28 July 2015, the date that TSB was delisted from the LSE.

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Selected Listed United Kingdom Banks – Market Ratings[34]						
	Market Capitalisation (£ millions)	Price/ NTA	Price Earnings Multiple[35]		Return on Equity[35]	
			2015	2016	2015	2016
Challenger and Specialist Banks						
Virgin	1,570.7	1.3	14.5	10.9	9.0%	11.0%
Shawbrook	896.8	3.0	13.3	10.2	20.7%	21.5%
OSB	856.1	3.1	10.2	9.4	31.4%	27.8%
Aldermore	815.3	1.8	11.1	9.4	18.3%	17.0%
Major Banks						
Lloyds	52,148.4	1.0	8.7	9.5	14.2%	12.7%
Barclays	37,792.7	0.8	10.2	8.4	6.5%	7.8%
RBS	35,099.5	0.7	11.6	13.1	2.3%	3.4%

Source: Capital IQ

- the scale of the raising (likely to be around £500 million) should be digestible in a market the size of the United Kingdom;
- there will be a comprehensive global offering process consistent with market best practice including:
  - detailed prospectus;
  - extensive investor roadshow and marketing program; and
  - globally recognised sponsors and issue managers.

  NAB has had the opportunity to meet with prospective IPO investors to provide an overview of CYBG Group's strategy and business and the initial feedback has been positive;
- the price of the Institutional Offer is only one part of the value equation for NAB shareholders. The Institutional Offer is designed to create an initial base of United Kingdom (or international) institutional investors that are "natural holders" of CYBG shares. A successful offer will:
  - validate the pricing of CYBG securities, providing clear guidance for subsequent trading;
  - immediately create an informed base of investors likely to buy and sell shares, enhancing the liquidity of trading in CYBG shares from the outset; and
  - enable CYBG to be accepted for a premium listing on the LSE and therefore inclusion in the relevant FTSE indices. CYBG is not expected to qualify for the key FTSE 100 Index but it is expected to rank well within the FTSE 250 Index[36]. While this index is not as well recognised as the FTSE 100 Index, inclusion should underpin buying of CYBG shares by mid-cap index funds and other passive investors.

  These factors are likely to have a significant positive impact on the secondary trading of CYBG shares in the months after listing which will benefit any NAB shareholders wishing to sell during this period;
- the funds from the Institutional Offer (which will be received by NAB) will be recognised as capital for regulatory purposes. The improved capital ratios will give

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34 Based on share prices as at 26 November 2015.

35 Price earnings multiples are based on broker consensus cash earnings. Return on equity is based on broker consensus cash earnings and average shareholders' equity.

36 NAB has received confirmation from the UKLA that the market capitalisation of CYBG shares and CYBG CDIs (i.e. 100% of CYBG) will be included in the market weighting for inclusion in FTSE indices.

NAB added flexibility and the opportunity to generate additional income from its higher returning core businesses in Australia and New Zealand. These incremental profits may, in part, offset any discount inherent in the issue price;

- the financial consequences for a NAB shareholder of underpricing the Institutional Offer are relatively minor. Even if the Institutional Offer was, say, 20% underpriced, the loss to shareholders would be less than 10 cents per NAB share (compared to a market price of around $28-30 per NAB share); and
- the board of NAB will have the right to cancel the Institutional Offer if it is not satisfied with the price.

Scale Back or Non Completion of the Institutional Offer

It is also possible that the Institutional Offer could be scaled back (i.e. a smaller percentage than 25% is sold) or fail to proceed at all for a variety of reasons. For example, the demand at acceptable price levels may be limited or the pricing may be unacceptably low. Alternatively, material market disruption could lead to the closure of the new issue window at the time of the Institutional Offer.

A failure to proceed with the Institutional Offer would be suboptimal and would mean that a number of the benefits from the Institutional Offer outlined above would not be realised:

- NAB has received confirmation from the UKLA that a failure to proceed with the Institutional Offer will not affect the likelihood of CYBG being admitted to trading on the LSE. However, in these circumstances, there is unlikely to be any meaningful liquidity on the LSE and trading will largely be restricted to the ASX, which is likely to result in insufficient liquidity to qualify for inclusion in FTSE indices. Trading on the ASX will be supported by the inclusion of CYBG in indices (the S&P/ASX 100 Index and the S&P/ASX 200 Index) but as a non-Australian business with no dividend until 2017, the market price would probably be weaker than if the Institutional Offer had proceeded; and
- NAB (and therefore its shareholders) would retain ownership of the 25% holding and would have the option of selling it at a later date when conditions may be more favourable. While NAB management does not expect that retaining a 25% interest in CYBG will have a material impact on NAB's return on equity and dividends per share, such a decision would mean that NAB's CET1 ratio and its capital position would be weaker than if the Institutional Offer had proceeded[37]. However, NAB management's calculations indicate that NAB's CET1 ratio would still be above NAB's revised target CET1 ratio of 8.75-9.25% and provide an adequate buffer over minimum regulatory requirements.

It is more difficult to assess the impact of an outcome where the Institutional Offer was only partially completed. The impact would depend in part on the extent of scaling back.

8.5.2 Share Register Realignment and Flowback

There is typically a period after a demerger in which there are reasonably high levels of buying and selling activity as investors restructure their interests either because they are obliged to (e.g. index driven issues) or because they want to increase or decrease their exposure to one or other of the new listed entities. This can lead to a temporary period of share price weakness in the aftermath of a demerger until the register is stabilised.

More broadly, the structure of the CYBG register, even if the Institutional Offer is completed in full, is less than ideal:

[37] As NAB will not have received the proceeds from the Institutional Offer and under APRA's regulatory standards, will not be able to include the value of the retained interest in CYBG in the calculation of its regulatory capital ratios.

- its much smaller size will mean that CYBG will be a less liquid stock than NAB;
- holdings and therefore trading will be split between two markets, the LSE and the ASX. While the fungibility of CYBG CDIs and CYBG shares should mean that arbitrage eliminates any significant price differentials, the separation of the total market for CYBG securities across two exchanges still fractures trading pools to some extent; and
- the majority of the CYBG securities will be held, at least initially, by investors (Australian retail and institutional investors) who are not natural holders of a mid-sized United Kingdom bank with a franchise concentrated in Scotland and Northern England.

These drawbacks will be exacerbated by:

- the lack of immediate dividends and the fact that future dividends will not be franked for Australian taxation purposes; and
- the relatively small size of the investment in CYBG in relation to a shareholder's investment in NAB (less than 5% in terms of market value).

Accordingly, there may be sustained selling of CYBG securities by NAB shareholders over a period of time that could weaken the share price performance of CYBG. On the other hand:

- a sale facility will be made available to NAB shareholders with 2,000 or fewer shares. This process will allow CYBG securities issued to those NAB shareholders to be placed with investors in a more structured manner that may reduce the impact on the CYBG security price;
- CYBG's inclusion in the FTSE 250 Index, the FTSE 350 Index and the relevant banks and financials sub-indices should drive buying by United Kingdom based mid-cap index funds and passive investors in the period following listing (at least to the extent they did not participate in the Institutional Offer). This source of buying will assist to some extent in balancing some of the selling by existing NAB shareholders;
- the fact that CYBG will be listed on the ASX in the form of CDIs and is expected to qualify for inclusion in the S&P/ASX 100 Index and the S&P/ASX 200 Index means that:
  - securities will be readily tradeable through local brokers;
  - there is expected to be a relatively liquid market for CYBG CDIs in Australia which may encourage some investors to hold on to their CDIs; and
  - most Australian based funds with restricted mandates should not be forced to sell the CYBG CDIs they receive;
- CYBG Group offers securityholders meaningful upside potential through both improved performance over time and the possibility of corporate activity; and
- NAB estimates that approximately 25% of its shareholder base comprises offshore institutions. They are likely to have a greater natural interest in holding CYBG securities (on the assumption they are interested in global exposure to the banking industry).

In this context, it is worth considering the December 2003 demerger by AMP Limited of its holding in HHG PLC, now called Henderson Group plc ("Henderson"), a United Kingdom based funds management business. There has been a significant restructuring of the shareholder base in Henderson over time but even after 12 years there are still approximately 35,000 holders of CDIs representing 88% of the total number of shareholders and 65% of the issued capital (despite two share issues in the United Kingdom during this period). In fact, most of Henderson's substantial shareholders are Australian investment institutions. This suggests that there will not necessarily be a "rush to the exits" by Australian based NAB shareholders.

8.5.3 Conduct Issues

CYBG Group has incurred significant costs and raised substantial provisions in relation to a number of conduct issues over the past six years and additional costs are anticipated to continue to arise over the next several years. To protect investors in CYBG Group and satisfy the PRA, NAB and CYBG Group have put in place the Conduct Indemnity Deed (refer to Section 5) under which NAB will have a potential liability for certain conduct costs up to £1.115 billion[2] (plus compensation for any tax incurred).

These arrangements have a number of potential impacts. However, they are arguably of less concern for NAB shareholders than they at first appear because, at present, NAB shareholders have a 100% exposure to any future liabilities arising from any of the conduct issues attributable to CYBG Group's activities.

Accordingly, the risk is not that NAB may need to pay compensation under the indemnity component of the arrangements. Rather, the risk for NAB shareholders is in the carriage of proceedings in relation to any future matters. Going forward, conduct issues will be managed by CYBG Group (which is appropriate given that they relate to businesses it owns and operates, and in some cases may relate to current customers). However, given that CYBG Group will be indemnified for all but £120 million of the costs/losses (if the further conduct costs that arise are less than the capped amount of £1.235 billion[38], there is a risk that it will be less robust in defending its position and/or negotiating settlements than NAB would have been. In this context:

- NAB has put in place a number of procedures designed to ensure it has appropriate oversight and protections. For example:
  - conduct matters other than payment protection insurance, certain interest rate hedging products and certain fixed rate tailored business loans are required to meet minimum thresholds before they quality for coverage;
  - there are specified governance arrangements including:
    - oversight by a joint committee of CYBG and NAB (although NAB will not have any decision making powers);
    - annual audit rights to verify correct recognition and calculation of provisions and withdrawals from designated accounts; and
    - a dispute resolution procedure (including determination by a third party or by court proceedings in the event the issue cannot be agreed);
  - amounts paid to CYBG under the capped indemnity are required to be held in designated accounts allowing use of funds to be monitored;
  - annual review of the remaining capped indemnity amount by the PRA (with an ability for the cap to be permanently reduced but no ability for it to be increased); and
  - on termination of the Conduct Indemnity Deed, CYBG is required to repay to NAB all remaining amounts in designated accounts that are not utilised three years following termination;

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[38] The total £1.7 billion capped indemnity less the £465 million provided to CYBG Group on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for conduct matters in its accounts for the year ended 30 September 2015.

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- CYBG Group currently has unutilised provisions of £986 million in relation to conduct issues. These provisions will bear the first £986 million of any conduct claims to the extent possible; and
- CYBG Group will bear, on a pro rata basis, up to £120 million of any conduct costs beyond the provision (if the further conduct costs that arise are less than £1.235 billion) so it has a direct financial interest in minimising these payments.

NAB does not expect that payments to CYBG under the capped indemnity will be taxable in the hands of CYBG Group. However, in the event that tax was to be payable, the Conduct Indemnity Deed contains provisions under which NAB has agreed to compensate CYBG for any actual tax suffered as a consequence of receiving payments under the capped indemnity.

8.5.4 Lack of Board and Management Track Record

The board of CYBG largely comprises directors who have been in place for some years. The senior independent director joined the board in 2004 and five other non-executive directors joined in 2012.

In contrast, the senior management team includes a number of new appointments including David Duffy (Chief Executive Officer), Ian Smith (Chief Financial Officer) and David Gillespie (Distribution Director). Each of these executives has a long track record in the financial services industry and appears to be well regarded by the market. The appointments resulted from a rigorous recruitment process designed to refresh and strengthen the management team in advance of the Proposal.

However, while the new team provides a clean break, these are critical roles for the organisation and there are risks given that they have not previously worked together as a team and the working relationship with the board is untested.

8.5.5 Transition Arrangements

Any separation of two organisations is a complicated exercise at an operational and administration level. In this case, detailed arrangements will be put in place through Transitional Services Agreements. These arrangements will cover a number of areas but the most important will relate to the credit risk engine and the treasury platform. The plan envisages CYBG Group becoming fully stand alone by 31 December 2018. This transition, which is relatively long by comparison with most other demergers, will involve significant expenditure by CYBG Group on systems and human resources.

Inevitably, there are risks that:

- expenditure (both one-off and ongoing) is higher than anticipated;
- there are delays in implementation; and/or
- new systems do not work effectively.

However, these risks should be manageable as the separation process primarily involves replicating existing processes rather than creating new or innovative services.

8.5.6 Implementation Risks

The Proposal is a complex transaction requiring numerous determinations and approvals, not all of which have been obtained at the date of this report. In particular:

- while NAB has received indicative advice from three ratings agencies that CYBG Group would have a rating on a stand alone basis that is categorised as "investment grade", no formal ratings will be issued until CYBG Group is a stand alone entity and any rating provided will be assessed at that time. There is no guarantee that CYBG Group's actual rating at that time will be in line with the indicative advice received. A material adverse change in CYBG Group's rating may increase its funding costs and reduce its profitability;

- although NAB has received confirmation from the UKLA that both CYBG shares and CYBG CDIs will count towards determining whether CYBG has a sufficient number of securities distributed to the public to enable a premium listing on the LSE, the position will not be finally determined until an application is made for admission and may be affected by the outcome of the Institutional Offer. CYBG will apply to the ASX for a standard (rather than a foreign exempt) listing should UK Admission not be received and all NAB shareholders (other than selling shareholders) will receive CYBG CDIs. This would be a suboptimal outcome for CYBG given its business operations are located in the United Kingdom and the natural holders of CYBG securities would be United Kingdom based investors;
- based on discussions, NAB expects that the market capitalisation of CYBG shares and CYBG CDIs (i.e. 100% of CYBG) will be included in the market weighting for inclusion in FTSE indices. Whether CYBG qualifies for inclusion in FTSE indices will not be determined until some months after CYBG commences trading on the LSE and will depend on a number of factors, including the outcome of the Institutional Offer and the trading price of CYBG shares. To the extent that CYBG is not included in relevant LSE indices (e.g. if the Institutional Offer does not proceed), there will be more limited liquidity in CYBG's share trading on the LSE and less demand from passive investors which may affect its market value; and
- NAB has applied to the Australian Commissioner of Taxation for a class ruling that no determination will be made that will treat any part of the capital reduction as an assessable unfranked dividend. If the Commissioner of Taxation does not provide this ruling, there will be adverse tax consequences for NAB shareholders as they will be required to include that part of the capital reduction deemed to be an unfranked dividend in their assessable income. At the date of this report, the ATO has indicated to NAB that it does not have any issues with providing the class ruling but NAB has not received a draft ruling from the Commissioner of Taxation. In any event, the tax ruling will not be issued in final binding form until the demerger has been implemented.

These implementation risks are not insignificant but are not beyond the types of risks normally associated with transactions of this kind.

8.6 Costs and Disadvantages

8.6.1 Incremental Operating Costs

The Proposal will result in the loss of the financial benefits that result from operating the two businesses within a single listed corporate group.

CYBG Group already operates on a largely stand alone basis. However, following the Proposal, CYBG Group will be a stand alone entity separately listed on the LSE and the ASX and will incur additional operating costs. These costs include:

- costs associated with having a separate listing for CYBG on the LSE and the ASX including costs related to maintaining a company secretarial function, a separate governance structure and a separate investor relations function, LSE and UKLA listing fees, ASX listing fees, share registry costs, annual reports (preparation, audit review and printing) and shareholder communications; and
- some additional costs associated with certain corporate functions, services and internal management systems previously provided by, or in conjunction with, NAB such as IT, insurance, accounting, treasury, legal, human resources and marketing.

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CYBG has estimated that the incremental impact on CYBG Group's cost base, after allowing for the corporate costs currently being recharged from NAB and the estimated costs to be incurred for the provision of transitional services, will be approximately £15-25 million per annum.

There is potential for incremental funding costs for CYBG Group as a result of it no longer being part of NAB (and having the support of NAB as its parent company). However, CYBG believes that any impact is unlikely to be material:

- based on feedback from ratings agencies, CYBG expects that CYBG Group will retain an investment grade credit rating and the extent of downgrade from prior ratings, if any, will be relatively minor;
- the vast majority of CYBG Group's funding base is provided by customer deposits. Wholesale funding (which requires a credit rating) represented approximately 13% of CYBG Group's funding base as at 30 September 2015. An investment grade credit rating should be sufficient to avoid any adverse impact on deposit rates payable by CYBG Group;
- the wholesale funding primarily used by CYBG Group are secured (RMBS, covered bonds) where the quality of the security is the primary driver of funding cost; and
- the existing senior debt and capital funding currently provided by NAB was based on arm's length terms.

8.6.2 One-off Costs

NAB has estimated that the total one-off costs of the Proposal will be approximately $379 million[39] (before tax). These costs include transaction, execution and separation costs to implement the demerger and to complete the Institutional Offer in full.

Of the total one-off costs, approximately $165 million (before tax) will have been incurred at the time NAB shareholders vote on the Proposal. Therefore, the additional costs that will be incurred if the Proposal proceeds are approximately $214 million (before tax).

While the one-off costs are large in absolute terms, they are not significant in relative terms. Total one-off costs (before tax) represent approximately 0.5% of NAB's current market capitalisation. In any event, NAB would expect to incur broadly comparable costs if UK Banking was divested on some alternative basis.

8.6.3 Capped Indemnity

NAB will provide an indemnity to CYBG Group against potential losses relating to legacy conduct costs not covered by existing provisions up to the capped indemnity amount of £1.115 billion[2] (plus any payments under the tax indemnity). This is a disadvantage for NAB shareholders as the full quantum of the capped indemnity amount is expected to be deducted from NAB's CET1 capital on completion of the demerger (even though actual costs may not be incurred for some years, if at all).

The ultimate outcome over time is not significantly different, as NAB would have funded 100% of the losses while CYBG Group remained a wholly owned subsidiary of NAB and this would have been reflected in lower profits, which also flow through to CET1 capital. However, the deduction to CET1 capital has been required to be made up front (and probably for more than the ultimate cost).

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[39] Excluding any costs associated with the Conduct Indemnity Deed.

The requirement to provide an indemnity was one of the factors underpinning NAB's decision to undertake the Capital Raising to restore NAB's capital position. The Capital Raising was at a discount to NAB's share price at the time (although this discount did not penalise participating shareholders). In contrast, had the conduct payments been recognised over time as they were incurred, it is likely that the impact on CET1 capital could have been managed through the DRP, which would be less dilutive to NAB's return on equity and EPS.

8.6.4 Tax Consequences

Unlike most demergers in Australia, NAB shareholders will not be eligible for rollover relief under the demerger provisions of the Income Tax Assessment Act 1997 ("Tax Act") which would otherwise have allowed shareholders to defer the CGT consequences of the capital reduction.

Details on the taxation consequences of the Proposal for NAB shareholders are set out in Section 6 of the Scheme Booklet.

Assuming the Commissioner of Taxation confirms that it will not treat any part of the capital reduction as an assessable unfranked dividend, the outcome for NAB shareholders will be effectively the same as if CGT rollover relief was available except that:

- shareholders who acquired their NAB shares prior to 20 September 1985 will not retain this pre-CGT status for their CYBG securities. The CYBG securities will be taken to have been acquired on the date of the demerger and will have a cost base equal to the amount of the capital reduction. However, this outcome is expected to apply to NAB shareholders holding less than 4% of NAB shares (and probably not to all of their holdings); and
- the disposal of CYBG securities by any NAB shareholder (including selling shareholders) within 12 months of the date of the demerger will not be eligible for the CGT discount concession (whereas the original acquisition date of the NAB shares would have applied to the CYBG securities under the demerger provisions of the Tax Act).

Shareholders who acquired their NAB shares on or after 20 September 1985 will also realise a capital gain to the extent that the capital reduction is greater than the cost base of the NAB shares held. While this is a disadvantage for NAB shareholders, given the size of the capital return (as an illustrative example, approximately $1.25 per share assuming CYBG has a market capitalisation on listing of 0.75 times NTA as at 30 September 2015[40]), it is extremely unlikely that any NAB shareholder will realise a capital gain (NAB shares have traded in the range $3.50-44.21 since 20 September 1985).

8.6.5 Direct Foreign Exchange Exposure

Shareholders currently hold shares in NAB, an Australian incorporated and ASX listed entity whose functional and presentation currency is Australian dollars. NAB has subsidiaries and operations in New Zealand and the United Kingdom and has historically had subsidiaries in the United States. While it is therefore exposed to fluctuations in foreign currencies, the exposure of NAB shareholders is indirect:

- the financial performance and position of all subsidiaries is translated to Australian dollars for reporting purposes (with differences recognised in the FCTR); and

[40] This calculation also assumes an exchange rate of A$1 = £0.4623, 75% of CYBG is demerged to NAB shareholders and 2,625.8 million NAB issued shares. The actual capital return will be determined by the CYBG security price on listing.

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- NAB's investment in foreign entities and its foreign borrowings and other foreign currency instruments to some extent act as a natural hedge against NAB's foreign currency exposure.

As a result of the Proposal, NAB shareholders will hold securities in CYBG, a United Kingdom incorporated and LSE listed entity. CYBG Group's functional and presentation currency will be pounds sterling. NAB shareholders who are resident outside the United Kingdom will have direct exposure to fluctuations in the pound:

- for those NAB shareholders who receive CDIs, the price at which CDIs trade on the ASX will be expected to mirror the price at which CYBG shares trade on the LSE adjusted for the A$/£ exchange rate; and
- any dividends paid by CYBG will be denominated in pounds sterling. While CYBG Group will pay any dividend or other cash distribution to CYBG CDI holders resident in Australia or New Zealand in Australian dollars or New Zealand dollars respectively, these CYBG CDI holders will still be exposed to the A$/£ exchange rate or NZ$/£ exchange rate.

8.7 Other Considerations

8.7.1 NAB Index Weighting and Liquidity

As at 26 November 2015, NAB had a market capitalisation of approximately $78 billion and was included in all of the major S&P/ASX indices, where it ranked at number 4.

The Proposal is expected to result in a reduction in NAB's market capitalisation and index weighting (likely to be broadly equivalent to the value attributed to CYBG Group). While a reduction in index weighting can have an adverse impact on the share price:

- the reduction in weighting should have limited direct impact on index based investors because, other things being equal, the aggregate weighting of NAB and CYBG in the S&P/ASX 100 and 200 Indices should remain substantially the same (although only the CDI component of CYBG's capital will be included, which could lead to rebalancing by some investors); and
- the reduction in NAB's market capitalisation (and therefore weighting) will be relatively minor (expected to be less than 5%). Accordingly:
  - the reduction will not result in any material shift in NAB's ranking in any key indices; and
  - there should be no impact on the overall liquidity of NAB shares.

8.7.2 Loss of Diversification

The Proposal will result in the loss of any benefits of geographical diversification inherent in NAB's current mix of business. This is a different type of diversification compared to most demergers where a business operating in a different industry is demerged. Geographical diversification is based on the premise that markets in different parts of the world may not be highly correlated with one another. It is arguable that the downside protection benefits from geographical diversification, particularly in financial services, are minimal given economic globalisation and an increasingly interconnected world.

In any event, the impact from a shareholder perspective should be immaterial:

- CYBG Group represents only around 5% of NAB's earnings (excluding "Other") and as a result, any geographical diversification benefits would be immaterial; and
- shareholders (other than selling shareholders and other shareholders not able to hold CYBG securities) will be able to replicate this diversification in their portfolio by

retaining an investment in both NAB and CYBG following the demerger. In fact, it is a benefit of the Proposal that shareholders will have an enhanced ability to choose the extent of diversification inherent in their portfolio by changing their holdings in NAB and CYBG as desired.

8.7.3 Dividends

If the Proposal is implemented, NAB shareholders will remain shareholders in NAB and become securityholders in CYBG. Dividends paid will depend on the performance of each entity, although the Proposal should not have a detrimental impact on dividends received by NAB shareholders:

- NAB expects to maintain the current target dividend payout ratio of 70-75% following implementation of the demerger (refer to Section 2.5 of the Scheme Booklet). The Proposal should not have a material impact on NAB's ability to maintain its dividend at current levels given that UK Banking has not made a material contribution to NAB's dividend paying capacity (although other corporate actions could impact NAB's ability to maintain dividends).

  NAB's dividend payout ratio for FY15 (calculated on cash basis net profit before specific items) would increase from around 74% to 77% on a pro forma basis. This is at the high end or above the payout ratios of NAB's peers (CBA has a target range of 70-80% of cash NPAT, Westpac's dividend payout ratio in FY15 was 75% and ANZ has a target dividend payout ratio of 65-70% of cash NPAT (and reported a dividend payout ratio for FY15 of 71%);
- NAB has not made any announcement about the level of future dividends. However:
  - the NAB board does have the ability to have a temporarily higher dividend payout ratio; and
  - subsequent to the 28 October 2015 announcement that the Proposal was proceeding, brokers have not forecast any reduction in the level of dividends for FY16 or future years; and
- NAB shareholders may also receive dividends from CYBG, although the first dividend payment is not planned until 2017. There will be no imputation credits on CYBG dividends and while this is a disadvantage, any dividends received will be in addition to dividends received from NAB.

At a minimum, this means that NAB shareholders should not suffer a reduction in dividends as a result of the Proposal.

8.7.4 Governance

CYBG securityholders will be subject to United Kingdom corporate law and regulation

As an Australian incorporated entity with a primary listing on the ASX, NAB is governed, inter alia, by the Corporations Act and the ASX Listing Rules and is regulated by ASIC. In contrast, CYBG Group will be subject to United Kingdom corporate law (under the Companies Act 2006 of the United Kingdom) and regulation by the Financial Conduct Authority ("FCA") including the listing rules made by the FCA pursuant to the Financial Service and Markets Act 2000 of the United Kingdom as well as the articles of association of CYBG.

A summary of the governance requirements is set out in Section 9.7 of the Scheme Booklet. While the requirements are in some respects different, there is no reason to believe that the overall level of shareholder protection will be inferior to that prevailing in Australia (the LSE is generally regarded as one of the world's leading stock exchanges). For example, the general principles of the City Code on Takeovers and Mergers are based on similar

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principles to the Eggleston Principles (which underpin the takeover provisions in the Corporations Act). Some specific rules are different:

- the takeover threshold is 30% (rather than 20% under the Corporations Act); and
- a bidder can acquire an initial stake above 30% from an existing holder as long as there is a follow on offer on the same terms.

However, the overall effects are broadly similar.

General meetings will be held in the United Kingdom

NAB has a long history of rotating its annual general meeting ("AGM") around Australia's major capital cities (Sydney, Melbourne, Brisbane, Adelaide and Perth). CYBG will hold its AGM in the United Kingdom. It will be impractical for most Australian based shareholders to attend these meetings, although Australian institutions with global affiliates may be able to do so. To this extent, Australian securityholders are being disenfranchised. However:

- the perceived importance of attending an AGM will vary from securityholder to securityholder. Many may not regard it as particularly important; and
- CDI holders will still be able to vote on resolutions put to shareholders (in the manner described below).

CYBG CDI holders will receive all notices and company announcements (such as annual reports) that CYBG shareholders are entitled to receive.

Inability of CDI holders to vote directly

Australian and New Zealand securityholders in CYBG will hold their interests in CYBG through CDIs listed on the ASX (unless they elect to receive CYBG shares listed on the LSE) and will be unable to vote their shares directly at CYBG general meetings. However, they have the following options:

- instruct the nominee and legal owner of the shares, CHESS Depositary Nominees Pty Limited ("CDN"), to vote the shares in the desired manner by proxy;
- instruct CDN to appoint the CDI holder as proxy, enabling the CDI holder to vote the CYBG shares at the meeting; or
- convert their CYBG CDIs into a holding of CYBG shares and vote these at the meeting, which may incur a fee and would require conversion back to CDIs to subsequently sell the shares on the ASX.

Clearly, CDI holders will be able to exercise their votes but the process is potentially more cumbersome.

8.7.5 Accounting Loss

The Proposal will result in NAB recognising a significant expense in its income statement in FY16 to reflect:

- an impairment expense equal to the difference between the fair value of CYBG securities and the carrying value of CYBG Group's net assets; and
- the unwinding of the FCTR related to CYBG Group.

The impairment expense is a non-cash item and, in any event, simply reflects the reality of the current situation.

The FCTR is a balance sheet reserve that represents the difference between the historical foreign exchange cost (plus accumulated earnings) of a foreign operation and the current foreign exchange spot rate and is shown as a deduction (in NAB's case) against shareholders' equity. On disposal or loss of control of a foreign operation, Australian accounting standards require that the FCTR be moved to the income statement, which crystallises the foreign exchange loss (in NAB's case) incurred on that investment. Moving the FCTR is capital neutral, as it already forms part of total shareholders' equity – the adjustment simply transfers the FCTR from the reserve to retained earnings (through current period earnings).

The quantum of these expenses will not be known until the Proposal has been implemented. However, the amounts involved are significant. For illustrative purposes, assuming that CYBG has a market capitalisation on listing of 0.75 times NTA as at 30 September 2015 and that the exchange rate is A$1 = £0.4623, the impairment expense would be approximately $2 billion and the unwinding of the FCTR would result in a loss of around $1 billion. Recognition of these amounts will have a material impact on NAB's FY16 net profit.

While these expenses are significant, they are one-off and have no cash impact. They will therefore not affect NAB's ability to pay a cash dividend in FY16 under the Corporations Act. However, they will cause NAB to breach APRA's "profits test", which limits dividend payments in any year to the after-tax earnings in that year (after taking into account any payments on more senior capital instruments) without the approval of APRA. NAB has received a waiver from the "profits test" from APRA for certain costs associated with the Proposal, including future payments under the Conduct Indemnity Deed.

8.7.6 Ineligible Shareholders

Ineligible shareholders will not be entitled to receive CYBG securities. The CYBG securities that otherwise would have been distributed to them will be transferred to a sale agent who will sell the securities in the LSE or the ASX market and distribute the sale proceeds to them, free of any brokerage costs or stamp duty (but excluding interest and after deducting any applicable withholding tax). Ineligible shareholders may also pay tax on any profit on that disposal (in their country of residence). However:

- their CYBG securities will be sold for market value;
- they can acquire CYBG securities through the LSE or the ASX following the listing if they wish to retain an exposure; and
- shareholders representing less than 0.1% of NAB's issued capital are expected to be affected by these provisions.

8.8 Market Value Considerations

It is not possible to accurately predict whether the combined market value of NAB and CYBG following implementation of the Proposal will exceed the market value of NAB immediately before the demerger (and in fact it cannot be established because there is no way of knowing what NAB's share price would have been in the absence of the Proposal).

In the short term there are factors that, all other things being equal, may negatively affect the combined value of NAB shares and CYBG securities:

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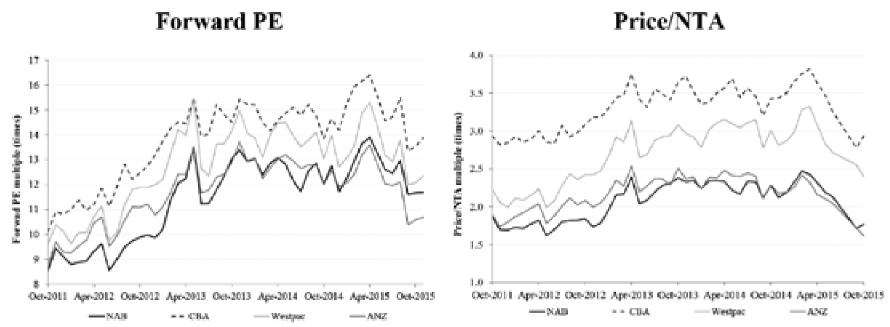
- the pro forma attributable EPS (i.e. NAB plus a shareholder's interest in CYBG) is lower than for NAB on a pre-demerger basis[41]. In addition, CYBG may trade at price earnings multiples that are lower than the multiples at which NAB currently trades;
- in the months following implementation of the Proposal, there may be some downward pressure on the CYBG security price from share register realignment (refer to Section 8.5.2); and
- recent market volatility.

On the other hand:

- the demerger is not being driven by a perception of "hidden value" to be unlocked but rather by a desire to find the most effective divestment structure for UK Banking;
- it is not appropriate just to consider value on the basis of share price movements immediately following implementation of the demerger. A number of the demerger studies show that there is a significant positive response following the announcement of demergers (i.e. well before implementation). Accordingly, the NAB share price may already be pricing in the market's perception of the benefits of the demerger;
- to the extent that NAB maintains is dividend at its current level, this will provide support for the NAB share price (despite NAB's reduced EPS and NTA per share);
- there is scope for a re-rating of NAB shares. NAB has historically rated at or towards the bottom of the four major Australian banks in terms of price earnings multiples and price/NTA multiples:

Australian Major Bank Multiples
(October 2011 to October 2015)



Source: Capital IQ, company reports and Grant Samuel analysis

There is potential for these multiples to improve (relative to peers) with the removal of UK Banking. For example:

- the Proposal will lift NAB's return on equity. For FY15, NAB's cash return on equity (before specified items) was 13.8%. NAB management has estimated that net of the various transaction impacts, on a pro forma basis, NAB's FY15 return on equity would be 14.6% following the Proposal (taking into account the full year impact of the Capital Raising and excluding the capital required to support the capped indemnity which will be reported in discontinued operations); and
- the stream of bad news emanating from UK Banking over the past 3-4 years has had a negative impact on the equity market perception of NAB. Arguably, UK Banking

[41] It should be noted that a number of adjustments that will impact NAB's and CYBG Group's actual performance following implementation of the Proposal have not been made to NAB's and CYBG Group's pro forma earnings for FY15 (refer to Sections 5.2.2 and 5.3.2). As a result, the actual impact of the Proposal on EPS could be different.

receives more focus than it warrants (given its relative contribution to group results). These negative perceptions inevitably have some impact on investor attitudes and market rating.

The Proposal will not entirely eliminate this market perception, particularly as NAB will still have an exposure to claims arising from conduct issues (and potentially continue to have up to a 25% shareholding for a period). However, following the demerger, it is more likely to be seen as a "past" issue rather than an ongoing problem (that could also impact on the underlying business); and

- there are a number of factors arising from the Proposal that are expected to lead to longer term performance benefits for both NAB and CYBG Group (refer to Sections 8.4.2 and 8.4.3). These factors should flow through to stronger earnings and an increase in shareholder value in the medium to long term.

The Finance Bill 2015-16, which (at the date of this report) has passed through the United Kingdom Parliament but has not yet received royal assent, contains changes to the taxation regime, including the taxation of banks. The key changes that affect CYBG Group are:

- a phased reduction in the levy on bank borrowings (to which CYBG Group is not currently subject) and its replacement by an 8% surcharge on the profits of all banks from January 2016 (albeit accompanied by a reduction in the general corporate tax rate to 18%); and
- a restriction on the tax relief available to individual tax payers on mortgage interest payments and other costs relating to investment properties ("buy to let"). The change, which limits relief to the standard 20% tax rate, will be implemented over four years from April 2017.

These tax changes may have a negative impact on the market value of CYBG. The share prices of the listed challenger banks did fall substantially following the announcement of these changes in July 2015, but have subsequently recovered. Further, the changes to the taxation of banks do not affect the merits of the demerger or the value proposition as NAB shareholders currently own 100% of CYBG Group and therefore are already exposed to the full impact of these changes. There would be an adverse impact to the extent that NAB realises less from the Institutional Offer than it would otherwise have received and its capital position would therefore be lower. However, given the subsequent recovery in challenger bank share prices, any effect is not material.

9 Impact on NAB's Ability to Pay its Creditors

In Grant Samuel's opinion, the capital reduction will not materially prejudice NAB's ability to pay its existing creditors:

- NAB's CET1 ratio will fall from 10.2% to 9.8% but this is comfortably above NAB's target CET1 ratio range of 8.75-9.25% and provides a buffer above NAB's minimum required CET1 ratio of 8% (from 1 January 2016);
- the reduction in NAB's shareholders' funds and earnings as a result of the demerger is relatively minor and on a pro forma basis (refer to Section 6.2 for details):
  - cash basis net profit (excluding specified items) falls by approximately 11% in FY14 and 5% in FY15; and
  - equity attributable to NAB ordinary shareholders as at 30 September 2015 falls by approximately 11%; and
- following the initial announcement of the Proposal in May 2015, each of the three major ratings agencies (S&P, Moody's and Fitch) reaffirmed NAB's long term debt rating.

Creditors of CYBG Group, who until the demerger were effectively creditors of NAB, will only have recourse to CYBG Group as a stand alone entity following implementation of the Proposal. While a stand alone CYBG Group will have a slightly weaker credit rating than it has under 100% NAB ownership:

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- CYBG Group's credit rating prior to the Proposal was premised on the implied support of NAB but NAB did not guarantee the liabilities of CYBG Group. Creditors of CYBG Group only ever had direct recourse to CYBG Group and its assets. In this respect, there is no direct change in a creditor's exposure;
- the stand alone credit ratings for CYBG Group are still expected to be "investment grade" and the extent of downgrade from prior ratings, if any, is relatively minor;
- as part of the Proposal, CYBG Group has received capital injections that have strengthened its capital position (which may not have occurred in the absence of the Proposal). As at 30 September 2015, CYBG had a CET1 ratio of 13.2%, compared to 9.4% as at 30 September 2014; and
- the PRA has considered the capital and liquidity of CYBG Group on a stand alone basis and capital and liquidity settings have been developed after considering a range of downside scenarios.

10 Other Matters

This concise report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual NAB shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by NAB in relation to the Proposal in its entirety.

Voting for or against the Proposal is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in NAB (pre or post the Proposal) or CYBG. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposal. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included as Appendix 1 to this concise report.

This concise report is a summary of Grant Samuel's full independent expert's report. The full report from which this concise report has been extracted is available on the demerger website (www.clydesdaledemerger.com.au). All the limitations, disclaimers and declarations set out in the full report apply to this concise report.

The opinion is made as at the date of this concise report and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

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Appendix 1

Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") or a concise independent expert's report ("Concise Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report and the Concise Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports and Concise Reports, Grant Samuel's client is the Entity to which it provides the Report and the Concise Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report and the Concise Report for National Australia Bank Limited in relation to the proposed demerger and partial initial public offering of CYBG ("the NAB Report" and "the NAB Concise Report" respectively), Grant Samuel will receive a total fee of approximately $1.2 million plus reimbursement of out-of-pocket expenses (as stated in Section 8.3 of the NAB Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the NAB Report and the NAB Concise Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report and a Concise Report. The guidelines for independence in the preparation of Reports and Concise Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 8.3 of the NAB Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with NAB or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal. Grant Samuel advises that NAB provides the Grant Samuel group of companies with commercial banking services and provides retail banking services to a number of its executives. These banking services are provided on arm's length terms.*
>
> *Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a total fee of approximately $1.2 million for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*
>
> *Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the NAB Concise Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the NAB Report, the NAB Concise Report and their respective FSGs. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372 AFS LICENCE NO 240985

Section Nine
Additional Information

Section Nine:
Additional Information

9.1 CYBG Shares on issue and structure of the Institutional Offer

The total number of shares on issue for CYBG PLC at the Demerger Date will be 879,315,256.

75% of CYBG Group (representing 659,486,442 CYBG Shares) will be demerged to NAB Shareholders.

NAB will offer 219,828,814 CYBG Shares, representing approximately 25% of the issued share capital of CYBG PLC, via the Institutional Offer. The total number of CYBG Shares offered to institutional investors, inclusive of any Over Allotment Option, will not exceed this amount.

As such, should the maximum number of CYBG Shares under the Institutional Offer be divested, and the maximum 15% Over Allotment Option be used, the number of CYBG Shares offered under the Institutional Offer will be 191,155,491, and the number of CYBG Shares allotted under the Over Allotment Option will be 28,673,323 (representing 15% of 191,155,491 CYBG Shares), such that the total number of CYBG Shares offered to institutional investors inclusive of the Over Allotment Option will be 219,828,814, as illustrated in the table below:

9.2 Intention of NAB Directors concerning the businesses of NAB (after the Demerger)

Other than as disclosed in this Scheme Booklet, it is the present intention of the current NAB Board following implementation of the Demerger that:

- the core NAB businesses will continue and be conducted as set out in Section 2;
- no major changes will be made to the NAB businesses (including redeployment of the fixed assets of NAB), except as contemplated within this Scheme Booklet; and
- the present policies of NAB relating to the employment of its employees will continue.

However, the present intention of the current NAB Board may change if circumstances require. Following the Demerger, the businesses of NAB (after the Demerger) and of CYBG Group will be the responsibility of their respective directors, and therefore the business of CYBG Group will be beyond the control of the current NAB Board.

CYBG shares on issue and structure of the Institutional Offer, assuming the maximum Institutional Offer size:

	No Over Allotment Option exercised		15% Over Allotment Option exercised	
	Number of CYBG Shares	**% of CYBG Shares on issue**	**Number of CYBG Shares**	**% of CYBG Shares on issue**
CYBG Shares demerged to NAB Shareholders	659,486,442	75.0%	659,486,442	75.0%
Total CYBG Shares offered to institutional investors, comprising:				
CYBG Shares offered under the Institutional Offer (excluding any Over Allotment Option)	*219,828,814*	*25.0%*	*191,155,491*	*21.7%*
CYBG Shares allotted by the Stabilising Manager under the Over Allotment Option	*0*	*0.0%*	*28,673,323*	*3.3%*
	219,828,814	25.0%	219,828,814	25.0%
Total CYBG Shares on issue	**879,315,256**	**100.0%**	**879,315,256**	**100.0%**

9.3 Interests of NAB Directors

9.3.1 NAB Directors' interests in NAB marketable securities

No marketable securities of NAB are held by or on behalf of NAB Directors and no NAB Directors are otherwise entitled to marketable securities of NAB as at the date of this Scheme Booklet other than the following interests (which are held either directly or indirectly):

NAB Shares held as at the date of this Scheme Booklet:

Name of NAB Director	Holding					
	NAB CPS II	NAB Subordinated Notes	ORDs	NIS	PR	MIS
Mr Michael A Chaney			30,643			
Mr Andrew G Thorburn			102,389		337,906	
Mr David H Armstrong	900		6,480			
Mr Daniel T Gilbert		2,000	17,486	1,253		
Mr Peeyush K Gupta			6,480			600,000 units
Dr Kenneth R Henry			6,860			
Ms Geraldine C McBride			2,160			
Mr Paul J Rizzo			6,290			
Ms Jillian S Segal			16,023	180		
Mr Anthony K T Yuen			10,464			

NAB CPS II = Fully paid preference shares that were issued directly by NAB on 17 December 2013 and listed on ASX under the code NABPB.

MIS = Relevant Interest in Managed Investment Scheme

PR = Performance Rights

NAB Subordinated Notes = Unsecured, subordinated debt obligations of NAB constituted by, and owing under a deed poll, issued by NAB under an offer document dated 21 May 2012

ORDs = NAB Shares

NIS = National Income Securities

No marketable securities of CYBG PLC are held by or on behalf of NAB Directors as at the date of this Scheme Booklet.

NAB Directors who hold NAB Shares will be entitled to vote at the Meetings and receive CYBG Securities under the Demerger on the same terms as all other NAB Shareholders.

NAB Directors who hold NAB Tier 1 Securities will be entitled to vote on the NAB Capital Reduction Resolution at the General Meeting on the same terms as all other NAB Tier 1 Securityholders.

Section Nine: Additional Information

9.4 Agreements or arrangements with NAB Directors in connection with the Demerger

No agreements or arrangements have been made between any NAB Director and any other person in connection with or conditional upon the outcome of the Demerger.

Other than as set out elsewhere in this Scheme Booklet, no director or proposed director of CYBG PLC, and no firm in which a director or proposed director of CYBG PLC is a partner or was a partner in the last two years, holds, or held at any time during the last two years before the date of lodgement of this Scheme Booklet for registration by ASIC, any interest in:

- the formation or promotion of CYBG PLC;
- any property acquired or proposed to be acquired by CYBG PLC in connection with its formation or promotion of the Demerger; or
- the Demerger,

and no amounts (whether in cash or securities or otherwise) have been paid or agreed to be paid, and no one has given or agreed to give a benefit, to any director or proposed director of CYBG PLC either to induce them to become, or to qualify them as, a director of CYBG PLC, or otherwise for services rendered by them in connection with the formation or promotion of CYBG PLC or the Demerger.

NAB Directors will receive CYBG Securities if the Demerger proceeds as they each currently own NAB Shares.

9.5 Payments and other benefits to NAB Directors, secretaries or executive officers

Other than as set out elsewhere in this Scheme Booklet, it is not proposed that any payment or benefit will be made or given to any director, secretary or executive officer of NAB or any body corporate related to NAB, as compensation for loss of, or as consideration for or in connection with their loss, of office or retirement from office, either:

- as a consequence of, or in connection with, the Demerger to which this Scheme Booklet relates; or
- where the amount of any payment or benefit which may be made to that person upon their loss of office or retirement from office may be materially affected by the Demerger.

9.6 Sale of CYBG Shares

No CYBG Shares were sold in the three months immediately before the date on which this Scheme Booklet was lodged with ASIC.

However, NAB intends to sell approximately 25% of the CYBG Shares on issue on the Demerger Date to institutional shareholders through the Institutional Offer, with unconditional trading of those CYBG Shares sold through the Institutional Offer expected to occur on 8 February 2016 (in the UK). In the event that the Institutional Offer does not proceed or NAB sells less than the full amount of the CYBG Shares proposed to be sold in the Institutional Offer, NAB will retain those CYBG Shares not sold in the Institutional Offer. Refer to Section 5.2 for further details.

9.7 NAB Employee Equity Plans

9.7.1 NAB Shares and Performance Rights

NAB currently operates the NAB Employee Equity Plans. The NAB Employee Equity Plans provide for grants of NAB Shares and Performance Rights to employees of NAB. NAB Shares granted to Participants under the NAB Employee Equity Plans are held by a trustee on behalf of the Participants, who obtain a beneficial interest in those NAB Shares. Further details on the terms of the offers made to Participants under the NAB Employee Equity Plans are contained in NAB's 2015 Remuneration Report.

Following the Demerger, some of the Participants will be employed by NAB while others will be employed by CYBG Group.

The table below details how the Demerger will impact the NAB Shares and Performance Rights held by Participants under the NAB Employee Equity Plans.

Security	Can the Participants vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution?	What will be the impact of the Demerger?
Performance Rights held on the Scheme Record Date	**No** – the terms of the Performance Rights do not provide a Participant with a right to vote at a meeting of NAB Shareholders.	• The Demerger will **not** result in any changes to the terms of the Performance Rights irrespective of whether the Participant is employed by NAB or CYBG Group after the Demerger. • A Participant will **not** receive CYBG Securities as part of the Demerger. • Participants who are employed by CYBG Group following the Demerger will continue to hold their Performance Rights. • The Demerger will **not** operate to accelerate the testing of the relevant performance hurdles or result in the Performance Rights lapsing, nor will a Participant be granted any compensation for the Demerger. • No adjustments to the performance hurdles applicable to the Performance Rights will be made to reflect the impact of the Demerger. However, when the performance hurdles are tested, the NAB Board currently has the flexibility under the terms of the Performance Rights, in its absolute discretion, to consider the impact of the Demerger in assessing any vesting outcomes. • If the Performance Rights vest, a Participant will continue to receive NAB Shares on exercise of the Performance Rights. • The value of the Performance Rights may be affected in correlation with the value of NAB Shares following the Demerger (which may increase or decrease in value – refer to Section 2.9 for information on the risks associated with an investment in NAB (after the Demerger)).
NAB Shares held on the Scheme Record Date by National Australia Trustees Limited ("NATL") on behalf of a Participant (irrespective of whether or not those NAB Shares can still be forfeited by the Participant)	**Yes** – by directing NATL how to vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution. The Participant is able to direct NATL by: • completing the Scheme Meeting – NATL Voting Instruction Form and the General Meeting – NATL Voting Instruction Form and returning them in accordance with the instructions on each form so that they are received by the NAB Share Registry by 11:00am on 24 January 2016; or • providing their voting instructions online (via a link from the Demerger Website) by 11:00am on 24 January 2016.	• The Demerger will **not** result in any changes to the terms of the NAB Shares. NATL will continue to hold the NAB Shares on behalf of Participants even if some of the Participants may be employed by CYBG Group following the Demerger. • As with all other Eligible AUSNZ Shareholders, NATL (as the registered holder of the NAB Shares) will receive one CYBG CDI for every four NAB Shares NATL holds unless (and to the extent) it elects to receive CYBG Shares. • It is anticipated that CYBG Securities received by NATL and allocated to a Participant will, unless sold in the Sale Facility (including to cover any tax payable on receipt of the CYBG Securities), be transferred to the Participant shortly after the Demerger Date. **Ability to indicate a preference to receive CYBG Shares** • NAB is offering NATL the option to make a Share Election in respect of separate parcels of NAB Shares that it holds on behalf of Participants whose registered addresses on NATL's register of beneficial holders as at the Scheme Record Date are in an Eligible Employee Jurisdiction (referred to as an "**Eligible Participant**"). Eligible Participants who would prefer to receive CYBG Shares instead of CYBG CDIs that they may otherwise become entitled to receive from NATL can indicate their preference by completing the Share Preference Form and returning it to the NAB Share Registry by 5:00pm on 2 February 2016. Eligible Participants may withdraw their Share Preference by lodging a Share Preference Withdrawal Form so that it is received by the NAB Share Registry by 5:00pm on 2 February 2016.

Section Nine: Additional Information

Security	Can the Participants vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution?	What will be the impact of the Demerger?

		Sale Facility – 2,000 NAB Shares or less
		
		• NAB is also offering NATL the option to have CYBG Securities which it is entitled to receive under the Demerger in respect of all (but not only some) NAB Shares held on behalf of an Eligible Participant, sold by the Sale Agent under the Sale Facility. This is only available where, as at the Scheme Record Date, NATL holds in aggregate 2,000 or less NAB Shares on behalf of the Eligible Participant (referred to as a "**Small NATL Employee Holder**"). In making an election to participate in the Sale Facility NATL may, but is under no obligation to, have regard to any preferences provided by Small NATL Employee Holders.
		• All CYBG Securities that NATL elects to participate in the Sale Facility (and which have been allocated to a Small NATL Employee Holder) will be sold by the Sale Agent and the Sale Facility Proceeds:
		    • remitted to the Small NATL Employee Holder (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax); or
		    • if they so elect, donated to the charity ShareGift (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax).
		• Small NATL Employee Holders who would prefer to have any CYBG Securities which they may otherwise become entitled to receive from NATL sold under the Sale Facility should make their Sale Facility Preference online through the Demerger Website or complete and return the enclosed NATL Sale Facility Preference Form so that it is received by the NAB Share Registry by 5:00pm on 2 February 2016. If a Small NATL Employee Holder wishes to donate their Sale Facility Proceeds to ShareGift, they should ensure they tick the "Sell and Donate to ShareGift" box. Small NATL Employee Holders may withdraw their Sale Facility Preference online through the Demerger website, or by completing a NATL Sale Preference Withdrawal Form and returning it to the NAB Share Registry by 5:00pm on 2 February 2016.
		• If a Small NATL Employee Holder makes a Sale Facility Preference, they should not make a Share Preference. If a Small NATL Employee Holder makes both a Sale Facility Preference and a Share Preference, the Sale Facility Preference will take precedence and the Share Preference will be disregarded.
		
		Participants outside the Eligible Employee Jurisdictions
		
		• Participants with a registered address in a jurisdiction other than an Eligible Employee Jurisdiction cannot indicate their preference by providing a Share Preference or a Sale Facility Preference. Associated CYBG Securities held by NATL will be sold in the Sale Facility and the Sale Facility Proceeds distributed by NATL (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax).

Security	Can the Participants vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution?	What will be the impact of the Demerger?

Partly Paid Shares held on the Scheme Record Date by National Nominees Limited ("NNL") on behalf of a Participant	**Yes** – by directing NNL how to vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution.
	
	The Participant is able to direct NNL by:
	
	• completing the Scheme Meeting – NNL Voting Instruction Form and the General Meeting – NNL Voting Instruction Form and returning them in accordance with the instructions on each form so that they are received by the NAB Share Registry by 11:00am on 24 January 2016; or
	• providing their voting instructions online (via a link from the Demerger Website) by 11:00am on 24 January 2016.
		• As with all other Eligible AUSNZ Shareholders, NNL will (as the registered holder of the NAB Shares) receive one CYBG CDI for every four Partly Paid Shares NNL holds unless (and to the extent) it elects to receive CYBG Shares.
		• It is anticipated that CYBG Securities received by NNL and allocated to a Participant will, unless sold in the Sale Facility, be transferred to the Participant shortly after the Demerger Date.
		
		Ability to indicate a preference to receive CYBG Shares
		
		• NAB is offering NNL the option to make a Share Election in respect of separate parcels of Partly Paid Shares that it holds on behalf of Participants whose registered addresses on NNL's register of beneficial holders as at the Scheme Record Date are in an Eligible Employee Jurisdiction (referred to as an "**Eligible Partly Paid Participant**"). Eligible Partly Paid Participants who would prefer to receive CYBG Shares instead of CYBG CDIs that they may otherwise become entitled to receive from NNL can indicate their preference by completing the Share Preference Form and returning it to the NAB Share Registry by 5:00pm on 2 February 2016. Eligible Partly Paid Participants may withdraw their Share Preference by lodging a Share Preference Withdrawal Form so that it is received by the NAB Share Registry by 5:00pm on 2 February 2016.
		
		Sale Facility – 2,000 NAB Shares or less
		
		• Where, as at the Scheme Record Date, NNL holds in aggregate 2,000 or less NAB Shares on behalf of an Eligible Partly Paid Participant (referred to as a "**Small NNL Employee Holder**"), the Small NNL Employee Holder may elect to sell all (but not only some) of the CYBG Securities to which they are entitled under the Demerger and the Sale Facility Proceeds will be:
		    • remitted to the Small NNL Employee Holder (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax); or
		    • if they so elect, donated to the charity ShareGift (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax).
		• Small NNL Employee Holders who wish to have any CYBG Securities which they may otherwise be entitled to receive from NNL sold under the Sale Facility should make their Sale Facility Preference online through the Demerger Website or complete and return the enclosed NNL Sale Facility Preference Form, so that it is received by the NAB Share Registry by 5:00pm on 2 February 2016. If a Small NNL Employee Holder wishes to donate their Sale Facility Proceeds to ShareGift, they should ensure they tick the "Sell and Donate to ShareGift" box. Small NNL Employee Holders may withdraw their Sale Facility Preference online through the Demerger Website, or by completing a NNL Sale Preference Withdrawal Form and returning it to the NAB Share Registry by 5:00pm on 2 February 2016.

Section Nine: Additional Information

Security	Can the Participants vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution?	What will be the impact of the Demerger?
		• If a Small NNL Employee Holder makes a Sale Facility Preference, they should not make a Share Preference. If a Small NNL Employee Holder makes both a Sale Facility Preference and a Share Preference, the Sale Facility Preference will take precedence and the Share Preference will be disregarded. **Participants outside the Eligible Employee Jurisdictions** • Participants with a registered address in a jurisdiction other than an Eligible Employee Jurisdiction cannot indicate their preference by providing a Share Preference or a Sale Facility Preference. Associated CYBG Securities held by NNL will be sold in the Sale Facility and the Sale Facility Proceeds distributed by NNL (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax).
NAB Shares held on the Scheme Record Date by the SIP Trustee on behalf of a Participant (irrespective of whether or not those NAB Shares can still be forfeited by a Participant)	**Yes** – by directing the SIP Trustee how to vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution. The Participant is able to direct the SIP Trustee by providing their voting instructions online (via a link from the Demerger Website) by 5:00pm (GMT) on 21 January 2016.	• The SIP Trustee will continue to hold the NAB Shares on behalf of Participants employed by NAB following the Demerger. • NAB Shares held on behalf of Participants employed by CYBG Group following the Demerger will be transferred to those Participants (or sold, if the Participant so requests) following the Demerger. • As with all other Eligible Overseas Shareholders, the SIP Trustee will receive (as the registered holder of the NAB Shares) one CYBG Share for every four NAB Shares it holds unless (and to the extent) it elects to receive CYBG CDIs. • A number of the CYBG Securities received by the SIP Trustee on behalf of Participants will be sold to pay the tax arising on receipt of the CYBG Securities. • It is anticipated that the balance of the CYBG Securities received by the SIP Trustee on behalf of a Participant will, unless sold in the Sale Facility, be transferred to the Participant shortly after the Demerger Date. **Ability to indicate a preference to receive CYBG CDIs** • NAB is also offering Participants whose registered address on the SIP Trustee's register of beneficial holders as at the Scheme Record Date is in an Eligible Employee Jurisdiction (referred to as an "**Eligible SIP Participants**") the option to make a CDI Preference. Eligible SIP Participants can do this by completing the CDI Preference Form and returning it in accordance with the form by 5:00pm on 2 February 2016.

Security	Can the Participants vote on the Demerger Resolutions and the CYBG Capital Reduction Resolution?	What will be the impact of the Demerger?

		Sale Facility – 2,000 NAB Shares or less
		• Where, as at the Scheme Record Date, the SIP Trustee holds in aggregate 2,000 or less NAB Shares on behalf of an Eligible SIP Participant (referred to as a "**Small SIP Employee Holder**"), the Small SIP Employee Holder may elect to sell all (but not only some) of the CYBG Securities to which they are entitled under the Demerger (after the sale of sufficient CYBG Securities to pay the tax arising on receipt of CYBG Securities) and the Sale Facility Proceeds will be:
		  • remitted to the Small SIP Employee Holder (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax); or
		  • if they so elect, donated to the charity ShareGift (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax).
		• Small SIP Employee Holders who wish to have any CYBG Securities which they may otherwise be entitled to receive from the SIP Trustee sold under the Sale Facility must make a Sale Facility Preference online (via a link from the Demerger Website) by 5:00pm on 2 February 2016. If a Small SIP Employee Holder wishes to donate their Sale Facility Proceeds to ShareGift, they should ensure they tick the "Sell and Donate to ShareGift" box. Small SIP Employee Holders may withdraw their Sale Facility Preference online (via a link from the Demerger Website) by 5:00pm on 2 February 2016.
		• If a Small SIP Employee Holder makes a Sale Facility Preference, they should not make a CDI Preference. If a Small SIP Employee Holder makes both a Sale Facility Preference and a CDI Preference, the Sale Facility Preference will take precedence and the CDI Preference will be disregarded.

Section Nine: Additional Information

9.7.2 Potential tax implications

It is strongly recommend that Participants obtain independent professional tax advice regarding the implications of the Demerger on their Performance Rights and/or NAB Shares. The tax implications of the Demerger for Performance Rights and NAB Shares will be dependent on the particular circumstances of the Participant, including their periods of service and their tax residence history.

9.8 General information on UK companies

If the Demerger proceeds, Share Receiving Shareholders will become shareholders of CYBG PLC, which is a company incorporated in England and Wales and proposed to be listed on the main market for listed securities of the LSE, and will have the rights and privileges of shareholders set out in the *Companies Act (UK)* and the Articles.

CYBG PLC is or will be (assuming that UK Admission becomes effective) subject to the requirements of the *Companies Act (UK)*, UK Listing Rules, Disclosure and Transparency Rules and the UK Takeover Code. A summary of certain key requirements is set out below.

9.8.1 The *Companies Act (UK)*

9.8.1.1 Obligations on companies

The *Companies Act (UK)* imposes a variety of general obligations on a company incorporated in England and Wales, including that:

- Changes to the directors, secretary or registered office of the company must be notified to the Registrar of Companies within 14 days of the change.
- Copies of all special or extraordinary resolutions must be filed with the Registrar of Companies within 15 days of being passed.
- Most charges granted by the company must be notified to the Registrar of Companies within 21 days from the date of creation of the charge. The prescribed particulars and a certified copy of the instrument creating the charge must be filed.
- A company must keep statutory books, which comprise:
  - a register of members
  - a register of directors
  - a register of secretaries
  - a register of directors' interests
  - a register of charges
  - minutes of all board, committee and company meetings together with any written resolutions.

In addition, the directors themselves are under a statutory duty to notify the company of any interests they have in shares or debentures of the company.

9.8.1.2 Matters requiring shareholder approval

The *Companies Act (UK)* provides that various matters to be entered into or undertaken by a company incorporated in England and Wales, often outside of its ordinary course of business, require shareholder approval.

There are principally two approval thresholds dependent upon the nature of the transaction:

- **Ordinary resolution** – a resolution passed by a simple majority of the votes cast (in person or by proxy) by shareholders entitled to vote on the resolution (i.e. greater than 50%). Examples of matters requiring approval by way of an ordinary resolution include:
  - providing loans and guarantees to the company's directors;
  - granting directors' service contracts exceeding a term of two years;
  - removing the company's directors against their will;
  - appointment and, in certain circumstances, removal of the company's auditor;
  - substantial property transactions (between the company and a director or a connected person of a director);
  - redenomination of the company's share capital;
  - approval of the appointment of directors;
  - authorising directors to allot shares;
  - the declaration of a final dividend; and
  - approval of political donations or expenditure which fall within certain statutory definitions.
- **Special resolution** – a resolution passed by shareholders representing not less than 75% of the total voting rights of members who, being eligible to vote, do so in person or by proxy. Examples of matters requiring approval by way of a special resolution include:
  - amending the company's articles of association;
  - disapplying pre-emption rights/sale of treasury shares;
  - varying rights attaching to classes of shares of the company;
  - entering into share buy-backs;
  - reduction of notice of meeting for a traded company from 21 days to 14 days in certain circumstances; and
  - a reduction of share capital.

9.8.1.3 Rights of shareholders

The *Companies Act (UK)* provides shareholders of companies incorporated in England and Wales with various rights, including:

- **The right to request or requisition a meeting** – Shareholders representing at least 5% of a company's paid up share capital carrying voting rights have a right to request the directors to call a general meeting of the shareholders of the company.
- **The right to appoint proxies to attend and vote at meeting on their behalf** – Shareholders are entitled to appoint another person as their proxy to exercise all or any of their rights to attend, speak and vote at a meeting of the company.
- **The right to seek relief for oppressive conduct** – A shareholder of the company may petition the UK Court for relief where:
    - the affairs of the company are being, or have been, conducted in a manner that is unfairly prejudicial to the shareholders' interests as a member; or
    - an actual or proposed act or omission of the company is or would be so prejudicial.

  Examples of conduct which may be held to be unfairly prejudicial include:
    - breaches of fiduciary duty;
    - improper dilution of minority shareholders;
    - failure to abide by the company's articles of association; and
    - non-compliance with the *Companies Act (UK)*.

  Once a court is satisfied that a petition for relief is well founded, it may make an appropriate order. The most common order is for the shares of the petitioning member to be bought by other members of the company or even by the company itself.
- **The right to bring legal proceedings on behalf of the company** – If a director (including a former director) commits an actual, or proposed, act or omission involving any negligence, default, breach of duty and/or breach of trust, from which a cause of action arises, the court has discretion to permit shareholders of the company to bring a claim in their own name on behalf of the company, against the directors and/or a relevant third party. This is known as a derivative claim.

  There is no minimum shareholding required in order to bring a derivative claim, but the court will look at the size of a shareholding in deciding whether or not to exercise its discretion to permit a derivative claim.

  In order for the court to permit a derivative claim, two pre-conditions must be satisfied:
    - the claim must not be contrary to the duty to promote the success of the company; and
    - the action on which the claim is based must not have been authorised or ratified by shareholders.

  If these pre-conditions are satisfied, the court then has discretion whether or not to permit the claim.

  As the claim is brought on behalf of the company, if the claim is successful, any award granted by the court will be for the company (as opposed to the shareholder who brought the claim on behalf of the company).
- **The right to vote on the directors' remuneration report and policy** – The directors of a company incorporated in England and Wales and listed on the LSE are required to put (i) a remuneration report (which reports on remuneration for the previous year) and (ii) a remuneration policy (which sets out how the company intends to compensate directors going forward) to a shareholder vote. Shareholders will vote on the remuneration report annually but the vote is advisory only, so a negative vote on that resolution would not have an automatic impact or affect the remuneration payable to any particular individual. The remuneration policy will be subject to a binding vote at the company's annual general meeting at least once every 3 years. If approved by shareholders, the policy will be effective from the date of the annual general meeting and will remain valid for up to three financial years without needing further shareholder approval. However, should any changes be proposed to the remuneration policy within the three years, shareholders would again need to vote on the revised policy by way of a binding vote. Remuneration payments can only be made to directors in accordance with the approved policy.

9.8.1.4 Regulation of changes in the rights attaching to shares

Under the *Companies Act (UK)*, rights attaching to a class of shares in the company may only be varied by:

- consent in writing by the holders of at least three-quarters in nominal value of the issued shares of that class which are voted, whether in person or by proxy (excluding any shares held as treasury shares); or
- a special resolution of the holders of that class of shares passed at a separate general meeting sanctioning the variation.

9.8.2 The UK Listing Rules

As well as initial requirements for its listing, the UK Listing Rules prescribe ongoing requirements for UK listed companies with which CYBG PLC must comply (assuming UK Admission becomes effective):

- A listed company and its subsidiaries are, subject to certain exceptions, prohibited from entering into transactions with directors of, and substantial shareholders in, the company (and their associates) without first informing the independent shareholders by way of a circular and obtaining their prior approval.

- A listed company may not issue further equity securities for cash without shareholder approval and without first offering them to the existing equity shareholders and other entitled holders of equity securities in the company. The pre-emption requirement may be disapplied by a special resolution of the listed company.
- The above provision need not be complied with by a listed company with respect to securities representing fractional entitlements, or securities which the company considers necessary or expedient to exclude from the offer because of the laws or regulatory requirements of any territory outside the United Kingdom.
- A listed company is obliged to provide shareholders with all necessary facilities and information to enable them to exercise their rights in relation to, for example, shareholders' meetings, voting, the allocation and payment of dividends and interest, and the issue of new securities of the company. In each financial year of CYBG PLC, the annual report and accounts of CYBG PLC, notice of the annual general meeting and an appropriate form of proxy relating thereto will be provided to or made available to CYBG Shareholders. To the extent that any other general meetings of the company are convened during the year, CYBG PLC shareholders will also receive notice of that meeting (and an appropriate form of proxy relating thereto).
- The prior approval of the UKLA is required to be obtained where the company seeks to publish prospectuses or certain circulars to shareholders.
- There are specific requirements for the content of circulars sent to shareholders and for the prospectuses issued by a listed company.
- In certain transactions by a listed company (such as acquisitions and disposals), depending on the size and nature of the transaction, it may be necessary to issue an explanatory circular to shareholders and, in the case of larger transactions, also to obtain their consent by simple majority in general meeting.
- A listed company is under a number of obligations if it wishes to purchase its own listed securities. For example if the company seeks to purchase less than 15% of its equity share capital, it must comply with certain pricing requirements.
- A listed company must promptly announce via a Regulatory Information Service ("**RIS**") when changes are made to the board.
- A listed company must announce via an RIS as soon as possible of events relating to its share capital, including the following:
  - alterations to capital structure;
  - any redemption of listed shares; and
  - (except in relation to a block listing of securities) results of any new issue of equity securities or a public offer of equity securities.

Copies of announcements made by CYBG PLC and released to an RIS will not be sent to shareholders but copies will be available on CYBG PLC's website (**www.cybg.com**).

9.8.2.1 Customary Annual Authorities

Certain standing authorities which are customary for UK listed companies will be sought from CYBG PLC's shareholders at each annual general meeting of CYBG PLC following Demerger. These include authorities in relation to the allotment of shares, the disapplication of pre-emption rights and the ability for the company to make market purchases of its own shares in each case, such authorities being subject to various conditions and/or restrictions.

9.8.3 The Disclosure and Transparency Rules

The Disclosure and Transparency Rules set out various disclosure requirements and continuing obligations that apply to listed companies in the UK. As such, assuming UK Admission becomes effective, CYBG PLC will be obliged to comply with these rules, which apply in addition to the UK Listing Rules. These rules include that:

- Generally, a listed company must announce via an RIS as soon as possible any inside information which directly concerns it. "Inside information" is, in summary, information of a precise nature which is not generally available which directly or indirectly relates to the company or its shares and which would, if generally available, be likely to have a significant effect on the price of its shares and is information which a reasonable investor would be likely to use as part of the basis of the investor's investment decisions.
- Save for certain very limited exceptions, inside information may not be selectively disclosed before announcement via an RIS.
- A listed company must ensure equal treatment for all shareholders of listed shares in the same position.
- Persons discharging managerial responsibilities and their connected persons must notify listed companies in respect of transactions conducted in securities of the listed company. The listed company must, in turn, announce via an RIS details of these transactions. Persons discharging managerial responsibilities includes directors and certain senior executives of the company.
- The preparation of the accounts of a listed company must be carried out in accordance with a number of requirements, which include the need for independent auditors and compliance with certain financial reporting standards. In addition, certain specific financial information specified in the UK Listing Rules must be included in the annual report and accounts.
- A listed company must prepare a half yearly report containing certain financial information and other information relating to important events and risks.

- A person must notify a listed company of certain percentages of voting rights the person holds directly or indirectly (either as a shareholder or through certain financial instruments) (namely, those of 3% or more). The listed company must, in turn, announce this information via an RIS.
- Any changes to the rights attaching to the listed company's shares must be announced via an RIS without delay.

9.8.4 The UK Takeover Code

After the Demerger, acquisitions of voting rights in CYBG PLC will be regulated by, among other regulations, the City Code on Takeovers and Mergers ("**UK Takeover Code**").

The UK Takeover Code regulates takeover and merger transactions, however effected, pursuant to which control of public companies (and, in some cases, private companies) resident in the United Kingdom is to be obtained or consolidated. Control, in summary, means a holding or aggregated holdings of shares carrying 30% or more of the voting rights of a company, irrespective of whether the holding or holdings give de facto control. Voting rights normally means all the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting.

The UK Takeover Code is published and administered by the Panel on Takeovers and Mergers.

The general principles on which the UK Takeover Code is based include, in summary:

- All shareholders of the same class must be afforded equivalent treatment and if a person acquires control, the other shareholders must be protected.
- All shareholders must have sufficient time and information to enable them to reach a properly informed decision on the bid, and where it advises shareholders, the offeree's board must give its views on the effect of the implementation of the bid.
- The offeree's board must act in the interests of the company as a whole and not deny shareholders the opportunity to decide on the merits of the bid.
- False markets must not be created in the securities of any company concerned in the bid in such a way that rise and fall of prices of securities becomes artificial and the normal functioning of the market is distorted.
- An offeror may only announce a bid after ensuring they can fulfil in full any cash consideration (if any) and after taking all reasonable measures to secure the implementation of other type of consideration.
- An offeree must not be hindered in the conduct of its affairs for longer than is reasonable by a bid.

Rule 9 of the UK Takeover Code provides that if an acquisition of interests in shares were to increase the aggregate holding of the acquirer and its concert parties to interests in shares carrying 30% or more of the voting rights in CYBG PLC, the acquirer and, depending on circumstances, its concert parties would be required to make an immediate cash offer for the outstanding shares in CYBG PLC at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30% and 50% of the voting rights in CYBG PLC if the effect of such acquisition were to increase that person's percentage of the total voting rights in CYBG PLC.

In addition, under the *Companies Act (UK)*:

- If an offeror were to make an offer to acquire all the shares in CYBG PLC not already owned by it and were to acquire 90% of the shares to which the offer related, the offeror could compulsorily acquire the remaining 10% of shares.
- If a takeover offer related to all the shares in CYBG PLC and at any time before the end of the period during which the offer could be accepted, the offeror held or had agreed to acquire not less than 90% of the shares, any shareholder who had not accepted the offer could require the offeror to acquire their shares.

In each case, specific timing and notice requirements apply, as well as a right to object, as prescribed by the *Companies Act (UK)*.

9.9 CYBG PLC's financial information

Following the Demerger, CYBG PLC's financial statements will be:

- prepared in accordance with IFRS as adopted by the EU as applied in accordance with the *Companies Act (UK)*; and
- audited in accordance with International Standards on Auditing (UK and Ireland).

9.10 Compliance with section 593 of the *Companies Act (UK)*

As required by section 593 of the *Companies Act (UK)*, prior to allotting any CYBG Shares to NAB (as nominee and bare trustee for the Scheme Participants or the Sale Agent, as applicable) as consideration for the transfer by NAB of the entire issued share capital of CYBI to CYBG PLC, CYBG PLC must, during the period of six months immediately preceding the allotment of such shares, obtain a valuer's report addressed to it from an independent qualified person, meeting the eligibility criteria set out in the *Companies Act (UK)*.

This report has been obtained by CYBG PLC and, as required by section 593 of the *Companies Act (UK)*, has been sent to NAB as the proposed allottee of the CYBG Shares. The report contains a statement from the valuer that, on the basis of a market value assessment using income and market approaches carried out by it, in its opinion the value of the total consideration provided by NAB for the allotment to it of the CYBG Shares (being all of the issued shares in CYBI) is not less than £1,099,094,070 being the aggregate nominal value of the CYBG Shares to be treated as paid up by the consideration. The report is not required to, and does not, contain a detailed valuation of CYBG PLC.

Provided that the allotment of the CYBG Shares pursuant to the Demerger takes place during the six months immediately following the making of the report to CYBG PLC, then in obtaining the report and in sending it to NAB, CYBG PLC has complied with the obligations applicable to it under section 593 of the *Companies Act (UK)* in connection with the allotment of such shares.

A copy of the report will be available for download from the Demerger Website **www.clydesdaledemerger.com.au** from the date of this Scheme Booklet. It is also expected that a copy of the report will be available for download by the public from the Registrar of Companies' website shortly following its filing with the Registrar of Companies (which, as required by the *Companies Act (UK)*), will take place within one month of the allotment of the CYBG Shares to NAB pursuant to the Demerger.

NAB will also provide a hard copy of the report to NAB Shareholders on request. To request a copy of the report, please contact the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.

9.11 Admission, dealings, share certificates, CREST, CHESS Depositary Interests and other arrangements for shareholders

9.11.1 UK Admission and Australian Admission of CYBG PLC

Application will be made to the UKLA for all of the issued and to be issued CYBG Shares to be admitted to the premium listing segment of the UKLA Official List and to the LSE for such CYBG Shares to be admitted to trading on the LSE's main market for listed securities. It is expected that UK Admission will become effective on or about 8:00am (GMT) on 8 February 2016 on an unconditional basis. Normal trading is expected to commence at 8:00am (GMT) on 8 February 2016 in the UK.

It is also intended that CYBG PLC will also apply for admission to the ASX Official List as an ASX foreign exempt listing and for official quotation of the CYBG CDIs on ASX. It is expected that on 3 February 2016 CYBG PLC will be admitted to the ASX Official List and CYBG CDIs will commence trading on ASX on a deferred settlement basis. Normal trading of CYBG CDIs is expected to commence on 17 February 2016.

If UK Admission does not become effective, it is intended that CYBG PLC applies to ASX for a standard listing rather than a foreign exempt listing. There is no guarantee that ASX will grant CYBG PLC either a standard listing or a foreign exempt listing.

If UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date then any Share Election will be disregarded and be of no effect and it is proposed that all Eligible Overseas Shareholders will receive CYBG CDIs instead of CYBG Shares under the Demerger.

The Demerger is not conditional on receipt of approval for Australian Admission or UK Admission becoming effective.

9.11.2 Dealings

Dealings in CYBG Shares on the LSE are expected to commence on the LSE at 8:00am (GMT) on 2 February 2016 on a conditional basis.

Dealings in CYBG CDIs are expected to commence on ASX on a deferred settlement basis on 3 February 2016. Trading on ASX is expected to commence on a normal settlement basis on 17 February 2016.

The entitlement to receive the CYBG Securities pursuant to the Demerger is not transferable save to satisfy valid market claims. If you are an Eligible Shareholder who will receive CYBG Securities, it is your responsibility to determine your entitlement to CYBG Securities before trading those securities, to avoid the risk of selling securities that you do not or will not own. If you sell CYBG Securities without receiving confirmation of your entitlement, you do so at your own risk.

9.11.3 CREST

CREST is the UK system for the paperless settlement of trades in listed securities and the holding of uncertificated listed securities, operated by Euroclear UK & Ireland Limited. It avoids the need for share certificates which delay trading. The Articles will permit the holding of CYBG Shares within CREST and CYBG PLC will apply for the CYBG Shares to be admitted to CREST with effect from the Demerger Date.

Accordingly, settlement of transactions in CYBG Shares following the Demerger Date may take place within CREST if the relevant shareholders so wish.

Share Receiving Shareholders can choose to have their CYBG Shares delivered to their CREST account. To do this:

- **Eligible Overseas Shareholders** must complete the CREST Details Form and return it in accordance with the instructions on the CREST Details Form so that it is received by the NAB Share Registry by 5:00pm on the Election Date (3 February 2016).

- **Eligible AUSNZ Shareholders who make a Share Election** must include their CREST account details on their Share Election Form. Refer to Section 4.4.3.1 for details on how to make a Share Election.

If a Share Receiving Shareholder does not have a CREST account or does not provide their CREST account details, they will receive their CYBG Shares in certificated form. If Share Receiving Shareholders receive their CYBG Shares in certificated form they will, subject to certain eligibility conditions, be able to sell their CYBG Shares through banks, stockbrokers or intermediaries offering share dealing facilities.

9.11.4 CHESS Depositary Interests (CDIs)

9.11.4.1 Introduction

CDIs are units of beneficial ownership in foreign securities, where legal title to the securities is held by an Australian depositary entity, the Authorised Nominee for the purpose of enabling CYBG PLC to be traded on ASX. The Authorised Nominee is an approved general participant of ASX Settlement and a wholly-owned Subsidiary of ASX. The Authorised Nominee does not charge CYBG PLC or investors any fees for acting as the Authorised Nominee in respect of the CYBG CDIs and will be the registered holder of the CYBG Shares underlying the CYBG CDIs. NAB has decided that Eligible AUSNZ Shareholders will receive CYBG CDIs instead of CYBG Shares as part of the Demerger (unless they specifically elect to receive CYBG Shares). NAB has also decided to offer all Eligible Overseas Shareholders the option to receive CYBG CDIs instead of CYBG Shares.

CYBG CDIs are able to be traded on ASX using CHESS (ASX's electronic transfer and settlement system) but CYBG Shares cannot be traded on ASX. CYBG Shares will be traded on the LSE (assuming UK Admission becomes effective).

ASX Guidance Note 5 *CHESS Depositary Interests (CDIs)* (available here **http://www.asx.com.au/documents/rules/gn05_chess_depositary_interests.pdf**) and the Authorised Nominee's *Understanding CHESS Depositary Interests* (available here **http://www.asx.com.au/documents/settlement/CHESS_Depositary_Interests.pdf**), both provide information on the differences between holding CDIs and the underlying shares.

CYBG CDIs will be issued, held and traded subject to the relevant provisions of the Articles.

9.11.4.2 Holding statements

If a CYBG CDI Holder is sponsored by a participant in CHESS, the holder can hold their CYBG CDIs on the CHESS sub-register. Otherwise, CYBG CDIs will be held on the issuer-sponsored CDI sub-register. Each CYBG CDI Holder will receive a holding statement which sets out the number of CYBG CDIs held by the CYBG CDI Holder and the reference number of their holding. These holding statements will be provided to CYBG CDI Holders when a CYBG CDI holding is first established and if there is a change in their holding of CYBG CDIs. A summary of the rights and entitlements of CYBG CDI Holders is set out below. Further information about CYBG CDIs is available from the CYBG CDI Registry or your broker.

9.11.4.3 Ratio of CYBG CDIs to CYBG Shares

Each CYBG CDI will represent one underlying CYBG Share.

9.11.4.4 Meetings

Where CYBG CDI Holders instruct the Authorised Nominee to appoint the CYBG CDI Holder or another person nominated for that purpose as its proxy in accordance with the procedures summarised below, the proxy so appointed will be able to attend and vote at meetings as the Authorised Nominee's proxy.

9.11.4.5 Voting

In order to vote at a meeting of CYBG PLC, a CYBG CDI Holder may:

- Instruct the Authorised Nominee, as legal owner of the CYBG Shares, to vote CYBG Shares represented by their CYBG CDIs in a particular manner – the instruction form must be completed and returned to CYBG CDI Registry prior to a record date fixed for the relevant meeting ("**CDI Voting Instruction Receipt Time**") which is notified to CYBG CDI Holders in the voting instructions included in a notice of meeting.
- Instruct the Authorised Nominee, as legal owner of CYBG Shares, to appoint the CYBG CDI Holder or a third party nominated for that purpose by the CYBG CDI Holder as its proxy so that the proxy so appointed may attend meetings and exercise the votes attached to CYBG Shares represented by their CYBG CDIs as the Authorised Nominee's proxy. The instruction form must be completed and returned to the CYBG CDI Registry prior to the CDI Voting Instruction Receipt Time.

Alternatively, a CYBG CDI Holder can convert their CYBG CDIs into a holding of CYBG Shares and vote those CYBG Shares at a meeting of CYBG PLC (this must be undertaken prior to a record date fixed by the CYBG Board for determining the entitlement of members to attend and vote at the meeting and, if the holder later wishes to sell their investment on ASX, it would first be necessary to convert those CYBG Shares back to CYBG CDIs). Further details on the conversion process are set out below.

Instruction forms and details of these alternatives will be included in each notice of meeting sent to CYBG CDI Holders by CYBG PLC.

As CYBG CDI Holders will not be registered on the CYBG Register as the legal owners of CYBG Shares, they will not be entitled to vote at CYBG PLC meetings unless one of the above steps is taken.

9.11.4.6 Converting CYBG CDIs to CYBG Shares

CYBG CDI Holders may at any time after 8 February 2016 convert their CYBG CDIs to a holding of CYBG Shares by:

- in the case of issuer-sponsored CYBG CDIs, notifying the CYBG CDI Registry; or
- in the case of CYBG CDIs sponsored on the CHESS sub-register, notifying their broker.

In both cases, once the CYBG Share Registry has been notified, it will cancel the CYBG CDIs and procure the transfer on the Australian Branch Register of the relevant number of CYBG Shares from the Authorised Nominee into the name of the CYBG Holder that has requested the conversion or their CREST participant. CYBG Shares will then be removed to CYBG PLC's principal share register and a certificate will be issued in the name of the CYBG Holder or CYBG Shares deposited into their account with their CREST participant.

Holding CYBG Shares will, however, prevent a person from selling their shares on ASX, as only CYBG CDIs will be traded on ASX.

Your broker or the CYBG Share Registry can assist you to convert your CYBG CDIs into CYBG Shares that can be traded on LSE (assuming UK Admission becomes effective). There may be a fee for this service and the CYBG Share Registry or your broker can advise you of this when you arrange conversion.

9.11.4.7 Converting CYBG Shares to CYBG CDIs

CYBG Shares may be converted into CYBG CDIs at any time after 8 February 2016 by:

- Certificated CYBG Shareholders – completing and lodging a UK Register Removal and CDI Issuance Form to the CYBG Share Registry (see details below on where to return the form). The form can be downloaded from **www.investorcentre.co.uk**; and
- CREST CYBG Shareholders – having their CREST participant submit an electronic CREST withdrawal/CDI issuance request.

UK Register Removal and CDI Issuance Forms should be returned to Computershare's Global Transaction team by either email: **!ALLUKGlobalTransactionTeam@computershare.co.uk** or by facsimile: +44 (0) 370 889 3120.

The CYBG Share Registry will then move the CYBG Shares to the Australian Branch Register and procure the transfer of the securities from the holder's name into the name of the Authorised Nominee and establish a CYBG CDI holding in the name of the relevant holder in the CYBG CDI register. A holding statement will then be issued to the CYBG CDI Holder.

Your broker or the CYBG Share Registry can assist you to convert your CYBG Shares to CYBG CDIs.

There may be a fee for this service and the CYBG Share Registry or your broker can advise you of this when you arrange conversion.

9.11.4.8 Communication with CDI Holders

CYBG CDI Holders will receive all notices and company announcements (such as annual reports) that CYBG Shareholders are entitled to receive.

9.11.4.9 Dividends and other distributions

CYBG PLC is generally required to treat CYBG CDI Holders, in respect of the distribution of dividends and other entitlements, as if they were the holders of the underlying CYBG Shares, to the extent possible.

CYBG CDI Holders are entitled to receive all the direct economic benefits and entitlements in relation to the CYBG Shares held by the Depositary Nominee.

If a cash dividend or any other cash distribution is declared in a currency other than Australian or New Zealand dollars, CYBG PLC currently intends to convert that dividend or other cash distribution to which CYBG CDI Holders are entitled into:

- Australian dollars for CYBG CDI Holders resident in Australia; or
- New Zealand dollars for CYBG CDI Holders resident in New Zealand,

and distribute it to the relevant CYBG CDI Holders in accordance with the CYBG CDI Holder's entitlement. All other CDI Holders will receive any cash dividends or cash distributions in Pound Sterling.

Due to the need to convert dividends from Pounds Sterling to Australian or New Zealand dollars in the above mentioned circumstances, CYBG CDI Holders may potentially be advantaged or disadvantaged by exchange rate fluctuations, depending on whether the Australian or New Zealand dollar weakens or strengthens against the Pound Sterling during the period between the declaration of the dividend and conversion into Australian or New Zealand dollars.

9.11.4.10 Corporate Action

CYBG PLC is generally required to treat CYBG CDI Holders, in respect of corporate action, as if they were the holders of the underlying CYBG Shares, to the extent possible.

In addition to the distribution of dividends and other entitlements, corporate action includes, but is not limited to, bonus issues, rights issues, and schemes of arrangement (including any action taken by CYBG PLC to reduce, or that will have the effect of reducing, the number of CYBG Shares held by the Authorised Nominee).

9.11.4.11 Takeovers

If a takeover bid is made in respect of any of CYBG Shares of which the Authorised Nominee is the registered holder, the Authorised Nominee is prohibited from accepting the offer made under the takeover bid except to the extent that acceptance is authorised by the relevant CYBG CDI Holders in respect of the CYBG Shares represented by such holding of

CYBG CDIs in accordance with the ASX Settlement Operating Rules. The Authorised Nominee must accept a takeover offer in respect of the CYBG Shares represented by such holding of CYBG CDIs if a CYBG CDI Holder instructs it to do so and must notify the entity making the takeover bid of the acceptance.

9.11.4.12 Rights on liquidation and winding up

In the event of CYBG PLC's liquidation, dissolution or winding up, a CYBG CDI Holder will be entitled to the same economic benefit on their CYBG CDIs (through the Authorised Nominee) as holders of CYBG Shares.

9.11.4.13 Other rights

As CYBG CDI Holders will not be registered on the CYBG Register as the legal owners of CYBG Shares, any other right conferred on CYBG CDI Holders may be exercised by means of them instructing the Authorised Nominee.

9.11.4.14 Fees

The Authorised Nominee does not charge investors any fees for acting as the Authorised Nominee in respect of CDIs.

9.11.4.15 Trading in CYBG CDIs

CYBG CDI Holders who wish to trade CYBG CDIs will be transferring beneficial title to CYBG Shares rather than legal title. The transfer will be settled electronically by delivery of the relevant CYBG CDI holding through CHESS, thereby avoiding the need to effect settlement by the physical delivery of certificates. Trading in CDIs is no different to trading in other CHESS approved securities.

On 3 February 2016, trading in CYBG CDIs will commence initially on a deferred settlement basis and, after that, is expected to commence on a normal settlement basis on 17 February 2016.

Holders of CYBG CDIs trading on a deferred settlement basis and before the issue of the holding statement in respect of their CYBG CDIs do so at their own risk.

In particular:

- Eligible AUSNZ Shareholders should not trade CYBG CDIs on a deferred settlement basis if they have made, or plan to make, a Share Election or Sale Election; and
- Eligible Overseas Shareholders who are not Selling Shareholders should not trade CYBG CDIs on a deferred settlement basis until they have made a CDI Election.

The proceeds from sale of securities sold on a deferred settlement basis will not be received until after the deferred settlement period has ended.

9.11.4.16 Differences between CYBG CDIs and CYBG Shares

The major differences are that:

- CYBG CDI Holders will not have legal title in the underlying CYBG Shares to which the CYBG CDIs relate, as legal title to CYBG Shares will be held by the Authorised Nominee. CYBG CDI Holders will, however, have beneficial ownership of the underlying CYBG Shares and legal and beneficial ownership of the CYBG CDIs; and
- a CYBG CDI Holder will not be able to vote personally as a CYBG Shareholder at a general meeting of CYBG PLC. Instead, CYBG CDI Holders will be provided with a voting instruction form which will enable them to instruct the Authorised Nominee, as legal owner of the CYBG Shares, in relation to the exercise of voting rights. In addition, a CYBG CDI Holder will be able to request the Authorised Nominee to appoint the CYBG CDI Holder or a third party nominated by the CYBG CDI Holder as its proxy so that the proxy so appointed may attend meetings and vote personally as the Authorised Nominee's proxy (refer to Section 9.11.4.5 for further details).

9.11.4.17 Further Information

For further information in relation to CDIs and the matters referred to above, see ASX Guidance Note *5 CHESS Depositary Interests (CDIs)* (available here **http://www.asx.com.au/documents/rules/gn05_chess_depositary_interests.pdf**) and the Authorised Nominee's *Understanding CHESS Depositary Interests* (available here **http://www.asx.com.au/documents/settlement/CHESS_Depositary_Interests.pdf**), the ASIC MoneySmart website (**www.moneysmart.gov.au**) or contact your broker, the CYBG Share Registry or the CYBG CDI Registry at the details provided below:

CYBG Share Registry

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

Postal Address:
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Phone +44 (0) 370 702 0003

CYBG CDI Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067
Australia

Postal address
GPO Box 2975
MELBOURNE VIC 3001
Australia

Local call: 1300 850 505
Telephone (outside Australia): +61 3 9415 4000

9.12 Resolution Powers

The entitlement of a CYBG Shareholder or any CYBG CDI Holder to any CYBG Shares and CYBG CDIs, any such person's rights attaching to any CYBG Shares or any CYBG CDIs, CYBG PLC's obligations to any CYBG Shareholder in their capacity as a CYBG Shareholder or CYBG CDI Holder and the provisions of the Articles will be subject to the exercise by a Relevant Resolution Authority of a Resolution Power, including by, but not limited to:

- the cancellation or reduction of any amount owed by CYBG PLC to any CYBG Shareholder or CYBG CDI Holder in respect of any CYBG Securities or any dividend or distribution on them;
- the cancellation of any CYBG Shares, or the reduction of the nominal value of any CYBG Shares;
- the transfer or issue of or suspension of rights (in whole or in part) in respect of any or all CYBG Securities or other instruments of ownership or other securities or obligations of CYBG PLC to any Relevant Resolution Authority or such other person as that Relevant Resolution Authority determines; or
- the conversion of any or all CYBG Securities into other instruments of ownership or other securities or obligations of CYBG PLC as any Relevant Resolution Authority may determine,

that may result from or relate to any such exercise, and each CYBG Shareholder and CYBG CDI Holder will be deemed to consent to any such exercise.

CYBG PLC, each CYBG Shareholder and each CYBG CDI Holder will be bound by any exercise by a Relevant Resolution Authority of a Resolution Power in relation to any or all of the CYBG Securities. The entitlement of a CYBG Shareholder or CYBG CDI Holder to CYBG Shares and CYBG CDIs, any such person's rights attaching to the CYBG Shares and CYBG CDIs and CYBG PLC's obligations to any such person will be subject to and will be varied, to the extent necessary, to give effect to any exercise by a Relevant Resolution Authority of a Resolution Power.

The CYBG Directors may authorise any CYBG Director or other person to do anything, exercise any powers, take any action and/or execute and deliver any document as agent for and on behalf of any CYBG Shareholder or CYBG CDI Holder as the CYBG Directors consider necessary to give effect to the exercise by a Relevant Resolution Authority of a Resolution Power and the related provisions in the Articles (including in respect of the transfer of any CYBG Securities and/or any discontinuance of any overseas, local or other register). All acts and things done by or on behalf of any CYBG Director or other person will be as good and valid as if they had been done by the relevant CYBG Shareholder or CYBG CDI Holder, who is deemed to ratify and confirm whatever is done in the exercise of that authority.

The validity of any action or exercise of the authority granted by the Articles in respect of a Resolution Power is not to be questioned and all claims, demands and rights against CYBG PLC of the relevant CYBG Shareholder or CYBG CDI Holder are extinguished in respect of the exercise of the authority granted by the Articles.

9.13 ASIC and ASX waivers, confirmations and approvals

9.13.1 ASIC relief as to secondary sales of CYBG Shares and CYBG CDIs

ASIC has granted an exemption from the resale provisions in sections 707(3) to 707(6) of the *Corporations Act* to permit CYBG Shares and CYBG CDIs to be freely on-sold in the 12 months following their distribution under the Demerger or the Institutional Offer (irrespective of whether those CYBG Shares or CYBG CDIs were distributed to Scheme Participants, investors who acquire CYBG Shares pursuant to the Institutional Offer, the Sale Agent or the Authorised Nominee). Specifically, the exemption applies where:

- after the Demerger, a holder of CYBG Securities makes an offer of CYBG Securities for sale;
- within the previous 12 months of the offer, the CYBG Securities were issued or transferred to a holder of NAB Shares, the Authorised Nominee or to the Sale Agent (or its related body corporate) under the Demerger, or to a person under the Institutional Offer;
- the offer is not made within 12 months of a sale or transfer of the CYBG Securities by a person (other than NAB) who:
  - controls CYBG PLC;
  - would have been required by subsection 707(2) of the Corporations Act to give disclosure to investors under Part 6D.2 but for section 708 of the Corporations Act; and
  - did not give disclosure to investors under Part 6D.2 because of section 708 of the Corporations Act.

As required by the ASIC relief, NAB confirms that this Scheme Booklet is in substantially the same form as the draft Scheme Booklet provided to ASIC on or around 3 December 2015 and the definition of Sale Facility in this Scheme Booklet is identical to the definition in the draft Scheme Booklet provided to ASIC.

9.13.2 ASIC relief as to Sale Facility

ASIC has granted an exemption from certain requirements that NAB may otherwise be required to comply with in order to operate the Sale Facility, including:

- Section 601ED of the *Corporations Act* in relation to the Sale Facility; and
- Divisions 2 to 5 of Part 7.9 of the *Corporations Act* in relation to an interest in the Sale Facility.

ASIC has also confirmed that NAB does not need to comply with Division 5A of Part 7.9 of the *Corporations Act* to the extent that NAB invites an Ineligible Shareholder and/or an electing Small Shareholder to make an offer to sell their CYBG Shares or CYBG CDIs through the Sale Facility. As required by the ASIC relief, NAB confirms that this Scheme Booklet is in substantially the same form as the draft Scheme Booklet provided to ASIC on or around 3 December 2015 and that the definition of Sale Facility in this Scheme Booklet is identical to the definition in the draft Scheme Booklet provided to ASIC.

9.13.3 ASIC relief as to short selling

Section 1020B(2) of the *Corporations Act* provides that a person may only sell securities covered by that section if, at the time of sale, they have (or believe on reasonable grounds that they have) a presently exercisable and unconditional right to vest the securities in the buyer of those securities (subject to certain limited exceptions). ASIC has granted an exemption which confirms that the sale of any CYBG CDIs by a CDI Receiving Shareholder while CYBG CDIs are trading on a deferred settlement basis (or by any person who has acquired CYBG CDIs on ASX during that period) will be exempt from the operation of section 1020B(2) of the *Corporations Act*. As required by the ASIC relief, NAB confirms that this Scheme Booklet is in substantially the same form as the draft Scheme Booklet provided to ASIC on or around 3 December 2015 and that the definition of CDI Receiving Shareholder in this Scheme Booklet is identical to the definition in the draft Scheme Booklet provided to ASIC.

9.13.4 Other ASIC relief

Regulation 8302(d) of Part 3 of Schedule 8 to the Corporations Regulations requires this Scheme Booklet to disclose particulars of any payment or benefit that is proposed to be made or given to any director, secretary or executive officer of NAB or a related body corporate of NAB ("**Relevant Person**") as compensation for the loss of office, or as consideration for or in connection with his or her retirement from office. ASIC has granted NAB relief from this requirement such that this Scheme Booklet is not required to:

- disclose particulars of payments or benefits which may be made to a Relevant Person in relation to their loss of office or retirement from office, unless:
  - the Relevant Person will lose office or retire from office as a consequence of, or in connection with, the Demerger; or
  - the amount of any payment or benefit which may be made to the Relevant Person upon their loss of or retirement from office may be materially affected by the Demerger; or
  - the Relevant Person is not a NAB Director and such payments are not disclosed on an aggregate basis; and
- state the identity of any Relevant Person who will lose office or retire from office in connection with the Demerger, unless that person is a NAB Director.

As required by the ASIC relief, NAB confirms that this Scheme Booklet is in substantially the same form as the draft Scheme Booklet provided to ASIC on or around 3 December 2015.

9.13.5 ASX waivers and confirmations

Application has been made for, and ASX has agreed to grant, the following waivers and confirmations in connection with the Demerger:

- Listing Rule 1.11 Condition 1 – waiver from the requirement that the LSE be a member of the World Federation of Exchanges
- Listing Rule 1.11 Condition 2 – confirmation that the timetable for dual track Scheme and Institutional Offer process meets the timing requirements in this condition
- Listing Rule 1.11 Condition 4 – confirmation that the last annual report of CYBI (rather than the last annual report of CYBG PLC) will be provided, given that CYBG PLC is a newly incorporated entity
- Certain confirmations in relation to:
  - ASX Settlement Operating Rules 5.12.1 and 5.14.1
  - ASX Settlement Operating Rules 13.2.3, 13.4.3, 13.5.12 and 13.6.7
  - Listing Rule 6.12,

  to the extent that there is an exercise of a Resolution Power by a Relevant Resolution Authority (as discussed in Section 9.12).

  If CYBG PLC applies to ASX for a standard listing rather than a foreign exempt listing, ASX has confirmed a number of procedural waivers/confirmations in connection with the standard listing application.

9.14 Availability of documents

NAB will provide a copy of any of the following documents to a NAB Shareholder or NAB Tier 1 Securityholder on their request:

- The annual financial report of NAB for the year ended 30 September 2015 lodged with ASIC by NAB. That report is available on NAB's website (**www.nabgroup.com/shareholder**) or on ASX (**www.asx.com.au**).
- Any continuous disclosure notices given by NAB since the lodgement of the annual financial report for the year ended 30 September 2015, which are available on ASX (**www.asx.com.au**).
- NAB's constitution, which is also available on NAB's website (**www.nabgroup.com/shareholder**).

To request a copy of any of the above documents, please send your written request to:

Company Secretary
National Australia Bank Limited
Level 1, 800 Bourke Street
Docklands VIC 3008
Australia

Section Nine: Additional Information

9.15 Consents and disclaimers

Each of the parties named below as consenting parties:

- has given and has not, before lodgement of this Scheme Booklet with ASIC, withdrawn its written consent to be named in this Scheme Booklet in the form and context in which it is named;
- has given and has not, before the lodgement of this Scheme Booklet with ASIC, withdrawn its written consent to the inclusion of its respective statements and reports (where applicable) noted next to its name below, and the references to those statements and reports in the form and context in which they are included in this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet other than those statements referred to below in respect of that person's name (and as consented to by that person);
- has not caused or authorised the issue of this Scheme Booklet; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Scheme Booklet.

Role	Consenting parties	Relevant statement or report
NAB Share Registry	Computershare Investor Services Pty Limited	N/A
Australian legal adviser	King & Wood Mallesons	N/A
UK and US legal adviser	Clifford Chance LLP	N/A
Financial advisers – NAB	Macquarie Morgan Stanley	N/A N/A
Independent Expert	Grant Samuel & Associates Pty Limited	Independent Expert's Report (concise and full)
Investigating Accountant	Ernst & Young Transaction Advisory Services Limited	Independent Limited Assurance Report

9.16 Interests of advisers

NAB and CYBG Group have engaged a number of advisors in connection with the Demerger and the proposed Institutional Offer.

Of the total one-off costs comprising transaction, execution and separation costs to implement the Demerger and to complete the full Institutional Offer which are estimated to be approximately $379 million pre-tax ($353 post-tax) and are described in Section 2.8.5, it is estimated that:

- Ernst & Young Transaction Advisory Services Limited will be paid a fee of $125,000 for the preparation of the Independent Limited Assurance Report. Ernst & Young will be paid a fee of approximately $1.45 million for the provision of financial and taxation due diligence services to NAB and CYBG Group in relation to the Demerger and the proposed Institutional Offer. Ernst & Young and Ernst & Young LLP (UK) will also be paid in aggregate up to approximately $7 million for various other additional assurance and review services, including assurance services in relation to the Prospectus;
- Grant Samuel & Associates Pty Limited will be paid a total fee of approximately $1.2 million for the preparation of its Independent Expert's Report;
- King & Wood Mallesons will be paid approximately $9 million as NAB's Australian legal adviser and Clifford Chance LLP will be paid approximately £20 million as NAB's UK and US legal adviser. Those fees include fees for work undertaken in relation to due diligence, reglulatory engagement, contractual and marketing documentation, separation, and the establishment of CYBG Group as a standalone group, including changes to CYBG's capital structure, and arrangements relating to the debt securities issued (and to be issued) by the CYBG Group;
- Macquarie will be paid up to $19 million for financial advisory services;
- Morgan Stanley will be paid up to £15 million for financial advisory services;
- Computershare Investor Services Pty Limited and Computershare Investor Services PLC will be paid approximately $3 million in their capacities as NAB Share Registry, CYBG CDI Registry and CYBG Share Registry; and
- the Managers will be paid a fee of 2.5% of the proceeds from the Institutional Offer in connection with their role on the proposed Institutional Offer. That amount is inclusive of a discretionary element, which may not be paid in full. Certain of the Managers may also be paid fees in connection with the proposed re-marketing and sale of the AT1 Notes and Tier 2 Notes of CYBG Group as described in Section 4.10.2.3.

In addition, fees are payable to a range of other legal, consulting and advisory firms in relation to the Demerger and the proposed Institutional Offer, including in respect of prudential, strategy and governance matters, as well for other separation costs and other transaction costs that are not advisory in nature.

9.17 Foreign selling restrictions

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice and observe these restrictions. Any failure to comply with these restrictions may contravene applicable securities laws. NAB disclaims all liabilities to such persons. If you are a NAB Shareholder who is a nominee, trustee or custodian, you are advised to seek independent advice as to how you should proceed.

No action has been taken to register or qualify this Scheme Booklet, the Demerger or the CYBG Securities, or otherwise permit a public offering of CYBG Securities, in any jurisdiction outside of Australia.

9.17.1 United States

Any securities to be issued under the Demerger have not been, and will not be, registered under the U*S Securities Act* or under the securities law of any state or other jurisdiction of the United States. Any securities to be issued under the Demerger will be issued in reliance upon the exemption from the registration requirements of the *US Securities Act* provided by section 3(a)(10) thereof, and only to the extent that corresponding exemptions from the registration or qualification requirements of state "blue sky" securities laws are available. In particular, securities to be issued under the Demerger have not been, and will not be, qualified under the laws of the state of California in the United States.

For the purpose of qualifying for the exemption from the registration requirements of the *US Securities Act* provided by section 3(a)(10) thereof, NAB will advise the Court that its sanctioning of the Scheme will be relied upon by NAB as an approval of the Scheme following a hearing on its fairness to NAB Shareholders, at which hearing all such holders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme, and with respect to which notification has been given to all such holders.

Holders of CYBG Securities who are "affiliates" (as such term is defined in Rule 144 under the *US Securities Act*) of CYBG PLC after the Effective Date, will be subject to certain United States transfer restrictions related to the CYBG Securities received pursuant to the Scheme. Under United States securities laws, a holder of NAB Shares who is an affiliate of CYBG PLC after completion of the Scheme, may not resell the CYBG Securities received pursuant to the Scheme without registration under the *US Securities Act*, except (i) pursuant to Rule 144 under the *US Securities Act*, if available, (ii) outside the United States pursuant to Regulation S under the *US Securities Act*, (iii) pursuant to another available exemption from the registration requirements of the US Securities Act, or (iv) in a transaction not subject to such requirements. Whether a person is an affiliate of CYBG PLC for such

Section Nine: Additional Information

purposes depends upon the circumstances, but can include certain officers and directors and significant shareholders of CYBG PLC. The NAB Directors and the CYBG Directors may be affiliates of CYBG PLC after the Effective Date, in which case they may not sell or otherwise dispose of any CYBG Securities received by them pursuant to the Scheme, except as set forth above.

All NAB Shareholders (including, without limitation, nominees, trustees or custodians) who would, or otherwise intend to, forward this document and its accompanying documents to any jurisdiction, should seek appropriate independent professional advice before taking any action.

9.17.2 California

This Scheme Booklet may not be re-distributed to any person in California other than an "institutional investor" as that term is defined in California law as set forth below. This Scheme Booklet does not constitute an offer to sell, nor a solicitation of any offer to purchase, to any record or beneficial owner of NAB Shares resident in the state of California other than an "institutional investor" as defined below. For record holders acting on behalf of others, such person's acceptance of CYBG Securities pursuant to the Demerger shall, whether for their account or the account of others, constitute a representation and warranty that they are not accepting any such CYBG Securities on behalf of any resident in California other than a resident that has certified to such holder in writing that it is an institutional investor as defined below.

For these purposes, "institutional investor" means any bank, savings and loan association, trust company, insurance company, investment company registered under the Investment Company Act, pension or profit-sharing trust (other than a pension or profit-sharing trust of the issuer, a self-employed individual retirement plan or individual retirement account), any "qualified institutional buyer" as defined in Rule 144A under the *US Securities Act*, any organization described in section 501(c)(3) of the Internal Revenue Code (i.e., a qualified charity) which has total assets (including endowment, annuity and life income funds), of not less than $5 million according to its most recent audited financial statement; any corporation which has a net worth on a consolidated basis according to its most recent audited financial statement of not less than $14 million; any wholly-owned subsidiary of any exempt institutional investor; the US Federal Government; any agency or instrumentality of the US Federal Government; any corporation wholly-owned by the US Federal Government; any state, city, city and county, or county; any agency or instrumentality of a state, city, city and county, or county; any state university or state college; and any retirement system for the benefit of employees of any of the foregoing.

9.17.3 Hong Kong

The contents of this Scheme Booklet have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Demerger. If NAB Shareholders are in any doubt about any of the contents of this Scheme Booklet, they should obtain independent professional advice.

9.17.4 New Zealand

Under the Demerger, CYBG Securities may be distributed to Eligible AUSNZ Shareholders with registered addresses in New Zealand in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2013* (New Zealand).
This Scheme Booklet is not an investment statement or prospectus or product disclosure statement under New Zealand law and has not been registered, filed with, or approved by any New Zealand regulatory authority or under or in accordance with the New Zealand *Securities Act* 1978, New Zealand *Financial Markets Conduct Act* 2013 or any other relevant law in New Zealand. It may not contain all the information that an investment statement or prospectus or product disclosure statement under New Zealand law is required to contain. It is a term of the distribution of CYBG Securities under the Demerger that such CYBG Securities are distributed in compliance with the laws of Australia and the United Kingdom and any code, rules and requirements relating to the offer that apply in Australia or the United Kingdom.

9.18 NAB's ADRP

Holders of receipts under NAB's ADRP will not receive any CYBG Securities under the Demerger. Deutsche Bank Trust Company Americas, the depositary under NAB's ADRP, will endeavour to arrange the sale of the CYBG Securities provided to NNL under the Demerger in respect of the NAB Shares that NNL holds in its capacity as custodian under NAB's ADRP. The proceeds of any such sale will be distributed to holders of receipts under NAB's ADRP in accordance with the terms of the deposit agreement governing NAB's ADRP.

9.19 Other information material to the making of a decision in relation to the Demerger

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Demerger being information that is within the knowledge of any NAB Director which has not previously been disclosed to NAB Shareholders or NAB Tier 1 Securityholders.

9.20 Supplementary information

NAB will issue an additional supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date:

- a material statement in this Scheme Booklet is misleading or deceptive
- a material omission from this Scheme Booklet
- a significant change affecting a matter included in this Scheme Booklet
- a significant new matter has arisen that would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, NAB may circulate and publish any supplementary document by:

- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia
- posting the supplementary document on NAB's website and the Demerger Website
- making an announcement to ASX.

Any updated information about the Demerger which is not materially adverse to investors is likely to be made available by announcement to ASX and on NAB's website (**www.nabgroup.com.au**). Where updated information about the Demerger is materially adverse to investors, a supplementary document will be issued and made available in accordance with regulatory requirements.

Prior to the Meetings, NAB will provide a copy of the updated information free of charge, to any person who requests a copy by visiting **www.clydesdaledemerger.com.au** or by calling the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.

9.21 Further information

Any NAB Shareholder or NAB Tier 1 Securityholder requiring assistance in understanding the matters raised in this document may visit **www.clydesdaledemerger.com.au** or call the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.

For legal reasons, the NAB Shareholder Information Line will not provide advice on the merits of the Demerger or of the CYBG Securities or any of the available elections or give any financial, legal or taxation advice. NAB Shareholders and NAB Tier 1 Securityholders should seek their own independent legal, financial, taxation or other professional advice.

Any information provided through the NAB Shareholder Information Line will not override the contents of this Scheme Booklet.

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Section Ten
Glossary

Section Ten:
Glossary

£100m Termination	Has the meaning given to it in Section 4.9.8.
AAS or Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board.
AASB 9	Australian Accounting Standard AASB 9 *Financial Instruments* (2014).
Additional Tier 1 Capital	Additional Tier 1 Capital as calculated in accordance with the Relevant Regulations.
Admission	UK Admission and Australian Admission.
ADI	Authorised Deposit-taking Institution.
ADRP	American Depositary Receipt Program.
Aggregate Exposure Amount	The Capped Indemnity Amount as at the Demerger Date plus £120 million.
APRA	Australian Prudential Regulation Authority.
Articles of Association or Articles	The articles of association of CYBG PLC which have been adopted conditional on and with effect on and from the time and date on which the Demerger is implemented in accordance with its terms, as amended or superseded from time to time.
Asset and Liability Committee	The asset and liability committee of the CYBG Group.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691) or, as the case requires, the financial market operated by it.
ASX Foreign Exempt Listing	A secondary listing on ASX of a foreign entity having a primary listing on another securities exchange.
ASX Listing Rules	The listing rules of ASX from time to time as modified by any express written confirmation, waiver or exemption given by ASX.
ASX Listing Rules (Standard Listing)	The ASX Listing Rules and any other rules of ASX which are applicable for so long as CYBG PLC is admitted to the official list of ASX (excluding as an ASX Foreign Exempt Listing), each as amended or replaced from time to time, except to the extent of any express written waiver by ASX
ASX Official List	The official list of entities that ASX has admitted and not removed.
ASX Settlement Operating Rules	The operating rules of the clearing and settlement facility operated by ASX Settlement Pty Limited (ABN 49 008 504 532).
AT1 Notes	Capital notes qualifying as Additional Tier 1 Capital pursuant to the Relevant Regulations.
ATO	Australian Taxation Office.

Audited Annual Reports	Has the meaning given to it in Section 3.13.1.1.
AUSNZ Participant	A Participant resident in Australia or New Zealand on the Scheme Record Date.
Australian Branch Register	The Australian branch register of members of CYBG PLC, on which the Authorised Nominee's holdings of CYBG Shares are located for CYBG CDI issuance and cancellation purposes and for so long as any CYBG Shares are represented by CYBG CDIs.
Australian Admission	Admission of CYBG PLC to the ASX Official List (either as an ASX foreign exempt listing or, if UK Admission does not become effective by 7:00pm on the second Business Day after the Demerger Date, a standard listing) and for official quotation of the CYBG CDIs on ASX.
Authorised Nominee	CHESS Depositary Nominees Pty Limited (ACN 071 346 506, AFSL 254514), an approved general participant of ASX Settlement Pty Limited (ABN 49 008 504 532) and a wholly owned Subsidiary of ASX.
Authorities	HM Treasury, The Bank of England (including the PRA) and/or the FCA.
Average VWAP	Has the meaning in the Scheme.
Basel Committee	Basel Committee on Banking Supervision.
basis risk	Inability of the pricing 'basis' for asset and liability products to be replicated in the financial markets.
BCAs	Business current accounts.
BCOB	The Banking: Conduct of Business sourcebook.
Big Five	The large UK national banks consisting of Barclays, HSBC, Lloyds, RBS and Santander.
BIS	Department for Business Innovation and Skills.
BNZt	Bank of New Zealand (New Zealand company number 428849).
BoE	Bank of England.
BRRD	CYBG Group Recovery and Resolution Directive (2014/59/EU).
BTL	Buy-to-let.
Business Day	Any day that is both a Business Day within the meaning given in the ASX Listing Rules and a day that banks are open for business in Melbourne, London and Glasgow.
CAGR	Compound average growth rate.

Section Ten: Glossary

Californian Shareholder	NAB Shareholders with a registered address in the State of California, United States.
Capital Raising	The fully underwritten 2 for 25 pro rata accelerated renounceable entitlement offer of new NAB Shares announced on 7 May 2015 and completed on 11 June 2015 which raised $5,526 million net of transaction costs.
Capital Reduction Aggregate Amount	The aggregate amount of the capital of NAB that is to be reduced in accordance with the NAB Capital Reduction Resolution calculated by multiplying the number of NAB Shares on issue at the Scheme Record Date by the average VWAP of CYBG Shares and CYBG CDIs as traded on the LSE and/or ASX respectively over the first five trading days following the Effective Date, divided by four.
Capital Reduction Portion	In relation to a Scheme Participant, the Capital Reduction Pro Rata Amount multiplied by the number of NAB Shares held by the Scheme Participant on the Scheme Record Date.
Capital Reduction Pro Rata Amount	The Capital Reduction Aggregate Amount divided by the number of NAB Shares on issue on the Scheme Record Date.
Capped Indemnity	The indemnity from NAB in favour of CYBG PLC in respect of certain qualifying conduct costs incurred by CYBG Group, which is capped at the Capped Indemnity Amount, subject to the Loss Sharing Arrangement, under the terms of the Conduct Indemnity Deed, a summary of which is set out in Section 4.9.
Capped Indemnity Amount	An amount equal to £1.58 billion less any Pre-Covered Provision Amount.
Cash Earnings	A non-IFRS financial measure used by NAB and CYBG Group as described in the Important Notices. Cash Earnings is the net profit attributable to owners of the company from continuing operations adjusted for the items NAB considers appropriate to reflect in its underlying performance. Cash Earnings does not purport to represent the cash flows, funding or liquidity position, nor any amount on a cash flow statement. Further information on Cash Earnings can be found in NAB's 30 September 2015 results announcement.
Cash Security Agreement	The agreement between NAB and CYBG PLC to secure all monies deposited by NAB with The Bank of England pursuant to the Conduct Indemnity Deed.
CASS	7 day Current Account Switching Service.
CASS Sourcebook	Client Assets Sourcebook.
CCA	*Consumer Credit Act 1974* (UK) and its related secondary legislation.
CDI Election	An election made by an Eligible Overseas Shareholder (other than a Selling Shareholder) to receive CYBG CDIs instead of CYBG Shares as part of the Demerger, by completing the CDI Election Form and returning it in accordance with the instructions on the CDI Election Form.

CDI Election Form	The form to be completed by an Eligible Overseas Shareholder (other than a Selling Shareholder) who wishes to make a CDI Election, which can be downloaded online at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.
CDI Preference	A preference made by an Eligible SIP Participant (other than an Eligible SIP Participant who makes a Sale Facility Preference) on whose behalf the SIP Trustee holds NAB Shares to receive CYBG CDIs instead of CYBG Shares to which the Eligible SIP Participant may otherwise become entitled.
CDI Preference Form	The form to be completed by an Eligible SIP Participant who wishes to make a CDI Preference, which can be downloaded online at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.
CDI Receiving Shareholder	• An Eligible AUSNZ Shareholder who has not made a valid Share Election or a Sale Election (or who has made a Share Election but such an election has been disregarded because UK Admission has not become effective); and • An Eligible Overseas Shareholder who has made a valid CDI Election.
CDI Voting Instruction Receipt Time	Has the meaning given to it in Section 9.11.4.5.
CDIs	CHESS Depositary Interests.
CEO	Chief Executive Officer.
CET1 Ratio or Common Equity Tier 1 Ratio	The ratio of Common Equity Tier 1 capital to risk weighted assets.
CGT	Capital gains tax.
CHAPS	Clearing House Automated Payment System.
CHESS	The clearing house electronic sub-register system of share transfers, operated by ASX Settlement.
Clydesdale or Clydesdale Bank	Clydesdale Bank plc registered in Scotland with registered number SC001111.
Clydesdale Bank Board	The board of directors of Clydesdale Bank.
Clydesdale Bank Business Updates	NAB's "Clydesdale Bank business update" announced to ASX on 7 July 2015 and NAB's "Clydesdale Bank background information" announced to ASX on 16 November 2015, each available on ASX (**www.asx.com.au**).
CMA	Competition and Markets Authority in the UK, or its relevant successors from time to time.
COBS	Conduct of Business sourcebook.

Section Ten: Glossary

Collateral Account	Has the meaning given in Section 4.9.4.
Commissioner	Commissioner of Taxation.
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital as calculated in accordance with the Relevant Regulations.
Companies Act (UK)	*Companies Act 2006* of the United Kingdom.
CONC	UK Consumer Credit sourcebook.
Conditions Precedent	Conditions precedent to the Scheme, as set out in Section 4.3.
Conduct Framework	The conduct framework of CYBG Group, which describes the set of objectives and desired outcomes in respect of CYBG Group's conduct towards its customers, designed to ensure fair customer outcomes.
Conduct Indemnity Deed	The deed between NAB and CYBG PLC setting out the terms of: • the Capped Indemnity; and • certain arrangements for the treatment and management of certain Conduct Matters, a summary of which is set out in Section 4.9.
Conduct Matter	Conduct issues relating to PPI, Standalone IRHP, Voluntary Scope TBLs and FRTBLs and other conduct matters in the period prior to the Demerger Date whether or not known at the Demerger Date.
Conduct Mitigation Package	Has the meaning given in Item 1.1 of Section 1.
Consumer Credit Regime	Collectively, FSMA and its secondary legislation, retained provisions in the CCA and rules and guidance in the FCA Handbook, including the CONC.
Consumer Rights Act	The *Consumer Rights Act 2015* (UK).
Corporations Act	*Corporations Act 2001* (Cth).
Court	The Supreme Court of Victoria.
CPP	Card Protection Plan.
CRA Regulations	Regulation (EC) No 1060/2009 on credit rating agencies, as amended.
CRD IV or Capital Requirements Directive	An EU legislative package made up of the Capital Requirements Directive (2013/36/EU) and the Capital Requirements Regulation (575/2013) implementing the proposal of the Basel Committee in the EU.
CRE	Commercial real estate.
CREST	The system for paperless settlement of trades in listed securities, of which Euroclear UK & Ireland Limited is the operator.

CREST Details Form	The form to be completed by an Eligible Overseas Shareholder (other than a Selling Shareholder) who wants their CYBG Shares delivered to their CREST account. The form can be downloaded online at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.
CRR	EU regulation on prudential requirements for credit institutions and investment firms (No 575.2013).
CSA	Credit Support Annexes.
Customer Fairness Model	A fairness model for the identification and management of potential conduct issues of the CYBG Group.
CYBIL	CYB Intermediaries Limited (formerly National Australia Insurance Services Limited).
CYBIHL	CYB Intermediaries Holdings Limited (formerly National Wealth Management Europe Holdings Limited).
CYBG Board	The board of directors of CYBG PLC from time to time.
CYBG Capital Reduction	The proposed reduction of the nominal value of the CYBG Shares in accordance with the terms of the CYBG Capital Reduction Resolution after the Demerger is implemented.
CYBG Capital Reduction Resolution	The ordinary resolution concerning the CYBG Capital Reduction to be considered by NAB Shareholders at the General Meeting in the form set out in the notice of general meeting contained in Annexure D of this Scheme Booklet.
CYBG CDI	A unit of beneficial ownership in a CYBG Share (in the form of a CDI) that is registered in the name of the Authorised Nominee in accordance with the ASX Settlement Operating Rules, for the purpose of enabling the securities to be recorded and transferred in accordance with those operating rules.
CYBG CDI Holder	The registered holder of a CYBG CDI.
CYBG CDI Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277), further details of which are set out in Section 9.11.4.17.
CYBG Court Order	The order of the UK Court confirming the CYBG Capital Reduction under section 648 of the *Companies Act (UK)*.
CYBG Deed Poll	The deed poll entered into by CYBG PLC in favour of Scheme Participants under which CYBG PLC undertakes to take the steps required to be performed by it under the Scheme, a copy of which is contained in Annexure B.
CYBG Director	A director of CYBG PLC.
CYBG Executive Committee	The members of the Executive Committee of CYBG Group.
CYBG Group	CYBI and its subsidiaries prior to the Demerger being implemented and, thereafter, CYBG PLC and its subsidiaries from time to time.

Section Ten: Glossary

CYBG HFI	Has the meaning given to it in Section 3.13.
CYBG HFI Balance Sheet	Has the meaning given to it in Section 3.13.
CYBG HFI Income Statement	Has the meaning given to it in Section 3.13.
CYBG HFI Income Statement – Management Basis	Has the meaning given to it in Section 3.13.
CYBG Information	Means, broadly, all information included in documents published in connection with the Demerger and the Institutional Offer (including the applications to ASX and LSE for Admission) which relates to the CYBG Shares and CYBG CDIs (and all rights, entitlements, liabilities and responsibilities attaching thereto), the CYBG Group and the business conducted by that group (including all financial information), and including the information for which CYBG PLC takes responsibility for in this Scheme Booklet as set out in the Important Notices Section.
CYBG Plans	The DEP, LTIP, SIP and SAYE Plan.
CYBG PLC or Company	CYBG PLC, incorporated and registered in England and Wales (registered number 09595911).
CYBG Pro Forma Historical Balance Sheet	Has the meaning given to it in Section 3.13.
CYBG Pro Forma Historical Financial Information	Has the meaning given to it in Section 3.13.
CYBG Register	The register of members of CYBG PLC including any branch register.
CYBG Security	A CYBG Share or a CYBG CDI.
CYBG Securityholder	A CYBG Shareholder or a CYBG CDI Holder.
CYBG Share	A fully paid ordinary share in the capital of CYBG PLC.
CYBG Share Registry	Computershare Investor Services Plc (registered number 3498808), further details of which are set out in Section 9.11.4.17.
CYBG Shareholder	The registered holder of a CYBG Share following implementation of the Demerger.
CYBG Statement of Capital	The statement of capital (approved by the UK Court) showing with respect to CYBG PLC's share capital, as altered by the CYBG Court Order confirming the CYBG Capital Reduction, the information required by section 649 of the *Companies Act (UK)*.
CYBI	CYB Investments Limited (formerly National Australia Group Europe Limited), a company incorporated in England and Wales (registered number 02108635).
CYBI Shares	All of the shares in the capital of CYBI on issue at the Demerger Date.
DB Scheme	The Yorkshire and Clydesdale Bank Pension Scheme.

DB Trustee	Yorkshire and Clydesdale Bank Pension Trustee Limited.
DC Scheme	Yorkshire and Clydesdale Bank Defined Contribution Scheme.
DC Trustees	YCB DC Trustee Limited.
default shares	Has the meaning given to it in Part 8 of Annexure G.
Demerger	The proposed demerger of CYBG Group from NAB pursuant to which all of the issued share capital of CYBI will be transferred to CYBG PLC by NAB in consideration for the issue and transfer of CYBG Shares to NAB in accordance with the Sale and Purchase Agreement, in part for the benefit of NAB and in part for the benefit of Scheme Participants under the Scheme, and the NAB Capital Reduction.
Demerger Date	8 February 2016 or such other date for implementation of the Demerger as determined by the NAB Board prior to the Effective Date.
Demerger Deed	The deed between NAB and CYBG PLC dealing with separation arrangements between the parties arising in connection with the Demerger, a summary of which is set out in Section 4.8.3.
Demerger Principle	The underlying principle of the Demerger as described in the Demerger Deed and Section 4.7.1.
Demerger Resolutions	The Scheme Resolution and the NAB Capital Reduction Resolution.
Demerger Website	**www.clydesdaledemerger.com.au**
Designated Account	Has the meaning given to it in Section 4.9.5.
DEP	CYBG Deferred Equity Plan.
DGSD	EU directive on deposit guarantee schemes.
DISP	Dispute Resolution sourcebook.
Divestment Notice	Has the meaning given to it in paragraph 3.1.7 of Part 8 of Annexure G.
Dividend Shares	Shares purchased using any dividends paid on Free, Partnership or Matching Shares under the SIP.
DNBA	Digital Next Best Action, as further described in Section 3.3.2.3.
DTA	Deferred tax asset.
DTRs or Disclosure and Transparency Rules	The disclosure rules and transparency rules produced by the FCA under Part VI of FSMA and forming part of the handbook of the FCA as, from time to time, amended.
EaR	Earnings at Risk.

Section Ten: Glossary

EBA	European Banking Authority.
eCRS	Electronic credit rating system.
EEA or European Economic Area	The EU, Iceland, Norway and Liechtenstein.
Effective	The coming into effect, pursuant to section 411(10) of the *Corporations Act*, of the order of the Court made under sections 411(4)(b) and 411(6) in relation to the Scheme.
Effective Date	The date on which the Scheme becomes Effective, expected to be 2 February 2016.
Election Date	5:00pm on 3 February 2016.
Eligible AUSNZ Shareholder	A NAB Shareholder whose registered address on the NAB Share Register as at the Scheme Record Date is in Australia or New Zealand.
Eligible Employee Jurisdictions	Australia, New Zealand, the UK, United States (excluding the state of California), Singapore, Hong Kong, Japan, Ireland and Canada.
Eligible Overseas Shareholder	A NAB Shareholder whose registered address on the NAB Share Register as at the Scheme Record Date is in the UK, United States (excluding California), Singapore, Hong Kong, Japan, Ireland or Canada.
Eligible Participant	A Participant whose registered address on NATL's register of beneficial holders as at the Scheme Record Date is in an Eligible Employee Jurisdiction.
Eligible Partly Paid Participant	A Participant whose registered address on NNL's register of beneficial holders as at the Scheme Record Date is in an Eligible Employee Jurisdiction.
Eligible SIP Participant	A Participant whose registered address on the SIP Trustee's register of beneficial holders as at the Scheme Record Date is in an Eligible Employee Jurisdiction.
Eligible Shareholder	An Eligible AUSNZ Shareholder or an Eligible Overseas Shareholder.
ELTI or Executive Long Term Incentive Rights	Executive Long Term Incentive Rights.
EMIR	European Market Infrastructure Regulation (Regulation 648/2012).
EMU	European Monetary Union.
End Date	31 August 2016, or such later date as is agreed by NAB and CYBG PLC.
EU Consumer Rights Directive	The EU directive on Consumer Rights (2011/83/EC).
European Union or EU	An economic and political union of 28 Member States which are located primarily in Europe.
Eurozone	The Member States of the European Union that have adopted the euro as their common currency and sole legal tender.

Executive CYBG Directors	David Duffy, Debbie Crosbie and Ian Smith.
Executive Plans	The LTIP and DEP.
FATCA	Foreign Account Tax Compliance Act (Cth).
FCA	The Financial Conduct Authority of the UK or its relevant successors from time to time.
FCA Handbook	The FCA's handbook of rules and guidance.
FCTR	Foreign currency translation reserve.
FEMR	The Fair and Effective Markets Review, a joint review and consultation by The Bank of England, HM Treasury and the FCA into the way wholesale financial markets functions.
FICC	Fixed Income, Currencies and Commodities.
Financial year or FY	Financial year of the relevant entity. For example, FY14 indicates the financial year ended 30 September 2014. NAB's financial year is 1 October to 30 September.
First Court Hearing	The hearing of the application made to the Court for orders under Section 411(1) of the *Corporations Act* to convene the Scheme Meeting.
Fitch	Fitch Ratings Limited.
FLS	The UK Government's "funding for lending" scheme.
FOS	The Financial Ombudsman Service.
FPC	Financial Policy Committee.
Fractions Aggregate	Has the meaning given to it in the Scheme.
Free Shares	Shares that may be awarded for free under the SIP to each participant in the plan.
FRTBLs	Fixed rate tailored business loans.
FSA	Financial Services Authority.
FSA 2012	The *Financial Services Act 2012* (UK).
FSCS	UK Financial Services Compensation Scheme.
FSMA	The *Financial Services and Markets Act 2000* (UK) as amended.
FTEs	Full time equivalent employees.

Section Ten:
Glossary

GAAP	Generally accepted accounting principles.
GDP	Gross Domestic Product.
General Meeting	The general meeting of NAB Shareholders and NAB Tier 1 Securityholders convened to consider the NAB Capital Reduction Resolution and the CYBG Capital Reduction Resolution.
General Meeting – NATL Voting Instruction Form	The form to be used by Participants who hold a beneficial interest in NAB Shares held by NATL under a NAB Employee Equity Plan, to direct NATL how to vote those NAB Shares on the resolutions at the General Meeting.
General Meeting – NNL Voting Instruction Form	The form to be used by Participants who hold a beneficial interest in Partly Paid Shares held by NNL under a NAB Employee Equity Plan, to direct NNL how to vote those Partly Paid Shares on the resolutions at the General Meeting.
General Meeting Proxy Form	The proxy form for the General Meeting which accompanies, if applicable, this Scheme Booklet.
General Prohibition	The FSMA prohibition on any person from carrying on a "regulated activity" (as defined in the FSMA) by way of business in the UK unless that person is authorised or exempt under the FSMA.
Genpact	Genpact Ltd.
GMT	Greenwich Mean Time.
Good Leaver	A participant in any of the CYBG Plans who leaves employment due to injury, disability, redundancy, transfer of the employing business or company out of CYBG Group, retirement or on death.
GWB	Great Western Bank.
HMRC	Her Majesty's Revenue and Customs in the UK.
HSBC	HSBC Bank plc.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
ICAAP	Internal Capital Adequacy Assessment Process.
ICB	Sir John Vickers' Independent Commission on Banking.
ICG	Individual Capital Guidance, which sets out additional minimum capital requirements by the PRA.
ICOBS	Insurance: Conduct of Business sourcebook.
IFRS	International Financial Reporting Standards.

IGA	Intergovernmental agreement regarding the implementation of FATCA.
ILAA	Individual Liquidity Adequacy Assessment.
IMD2	The recast Insurance Mediation Directive.
Implementation Deed	The deed between NAB, CYBI, CYBG PLC and Clydesdale Bank under which each party will undertake specified obligations to give effect to the Demerger, a summary of which is set out in Section 4.8.1.
Independent Expert	Grant Samuel & Associates Pty Limited (ABN 28 050 036 372).
Independent Expert's Report	The report of the Independent Expert, a concise version of which is set out in Section 8 and a copy of the full Independent Expert's Report from which the concise version has been prepared and is available on **www.clydesdaledemerger.com.au** and can be obtained free of charge by calling the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.
Independent Limited Assurance Report	The report of the Investigating Accountant set out in Section 7.
Indirect Access Review	The PSR's market review into the supply of indirect access to payment systems.
Industry Overview	Description of the UK retail and SME banking market released as part of the Clydesdale Bank Business Updates.
Ineligible Shareholder	A NAB Shareholder, who as at the Scheme Record Date is not an Eligible Shareholder.
Infrastructure Review	The PSR market review into how infrastructure is provided for certain payment systems in the UK.
Institutional Offer	The potential sale of CYBG Shares by NAB to institutional investors through a placing, and pursuant to the Over Allotment Option.
Insurance Intermediary Business	Has the meaning given to it in Item 1.5 of Section 1.
Insurance Intermediary Business Restructure	Has the meaning given to it in Item 1.5 of Section 1.
Intercompany Loan Agreement	The global intercompany loan agreement between Lanark Funding and Lanark Issuer that forms the basis of the primary source of funds from Lanark Funding to the Lanark Issuer to make payments on the notes issued pursuant to the Lanark Programme.
Investigating Accountant	Ernst & Young Transaction Advisory Services Limited (AFS Licence Number 240585).
IPO Percentage	Percentage of CYBG Shares, up to approximately 25%, which are sold in the Institutional Offer.
IRB	Internal Ratings Based.

Section Ten:
Glossary

IRHP	Interest rate hedging products.
IRRBB	Interest rate risk in the banking book.
ISDA	International Swaps and Derivatives Association.
IT	Information technology.
Lanark Funding	Lanark Funding Limited.
Lanark Issuer	Lanark Master Issuer plc.
Lanark Programme	A £20 billion residential mortgage-backed master trust note programme established by Clydesdale Bank in 2007.
Lannraig Funding	Lannraig Funding Limited.
Lannraig Issuer	Lannraig Master Issuer plc.
Lannraig Programme	The £10 billion buy-to-let mortgage-backed master trust note programme, established by Clydesdale Bank in 2011.
LCR	Liquidity coverage ratio.
LCH	LCH.Clearnet Limited.
Leverage Ratio	Tier 1 Capital divided by an exposure measure, calculated in accordance with CRD IV guidance.
LIBOR	London Interbank Offered Rate.
LLP	Clydesdale Covered Bonds No. 2 LLP.
Loss of Control Date	The date on which NAB ceases to control CYBG Group, as determined in accordance with AAS, and no later than the Demerger Date.
Loss Share	The percentage of a provision raised or increase in a provision which equates to the proportion that £120 million bears to the Aggregate Exposure Amount, expressed as a percentage, for which it has been agreed under the Loss Sharing Arrangement that CYBG PLC will be responsible.
Loss Sharing Arrangement	The arrangement relating to the Capped Indemnity pursuant to which CYBG PLC will be responsible for the Loss Share.
LSE or the London Stock Exchange	The London Stock Exchange plc, together with its relevant successors from time to time or, if the context so requires, its main market for listed securities.
LTI	Loan-to-income.
LTIP	CYBG Long-Term Incentive Plan.

LTV	Loan-to-value.
Macquarie	Macquarie Capital (Australia) Limited (ABN 79 123 199 548; AFSL 314416.
Macquarie Capital	The Macquarie Capital business group of Macquarie Capital (Europe) Limited.
Management Basis	The consolidated income statement data that is presented on a management basis, which the CYBG Directors believe better reflects the underlying performance of CYBG Group's business.
Managers	Morgan Stanley, Macquarie Capital, Merrill Lynch International, J. P. Morgan Securities plc, Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette and Woods) and RBC Europe Limited.
Marketable Parcel	Has the meaning given to it in the ASX Listing Rules.
Matching Shares	CYBG Shares that may be awarded under the SIP when a participant purchases Partnership Shares.
MCD	Mortgage Credit Directive.
MCDO	Mortgage Credit Director Order 2015.
MCOB	Mortgages and Home Finance Conduct of Business sourcebook.
Meetings	The Scheme Meeting and the General Meeting, and each a "Meeting".
Member State	Member state of the European Economic Area.
MIF Regulation	The proposed Regulation on interchange fees for card-based payment transactions.
MiFID II	Directive and associated regulation on markets in financial instruments adopted by the European Parliament and European Council on 15 May 2014.
MIPRU	The Mortgage and Home Finance Firms, and Insurance Intermediaries sourcebook.
mismatch risk	The mismatch between repricing dates of interest-bearing assets and liabilities.
MLC	MLC Limited.
MMR	Mortgage Market Review.
Moody's	Moody's Investors Service Limited.
Morgan Stanley	Morgan Stanley & Co. International plc.
MREL	The BRRD requirement for firms to meet the minimum requirement for own funds and eligible liabilities.

Section Ten: Glossary

NAB or NAB Group	National Australia Bank Limited (ABN 12 004 044 937) and, where the context requires, its subsidiaries from time to time.
NAB (after the Demerger)	Comprising NAB and its subsidiaries but excluding CYBG Group.
NAB (after the Demerger) Pro Forma Historical Balance Sheet	Has the meaning given to it in Section 2.8.1.
NAB (after the Demerger) Pro Forma Historical Financial Information	Has the meaning given to it in Section 2.8.1.
NAB (after the Demerger) Pro Forma Historical Income Statements – Cash Earnings Basis	Has the meaning given to it in Section 2.8.1.
NAB (after the Demerger) Pro Forma Historical Income Statements – Statutory Basis	Has the meaning given to it in Section 2.8.1.
NAB Board	The board of directors of NAB.
NAB Capital Reduction	The reduction in the capital of NAB by the Capital Reduction Aggregate Amount to be applied equally against each NAB Share on issue as at the Scheme Record Date in accordance with the terms of the NAB Capital Reduction Resolution.
NAB Capital Reduction Resolution	The ordinary resolution concerning the NAB Capital Reduction to be considered by NAB Shareholders and NAB Tier 1 Securityholders at the General Meeting, the form of which is set out in the Notice of General Meeting in Annexure D.
NAB CPS	Convertible preference shares, being fully paid preference shares issued by NAB on 20 March 2013.
NAB CPS II	Convertible preference shares, being fully paid preference shares issued by NAB on 17 December 2013.
NAB Directors	The directors of NAB.
NAB Employee Equity Plans	• National Australia Bank Staff Share Ownership Plan; • National Australia Bank Staff Share Allocation Plan; • National Australia Bank New Zealand Staff Share Allocation Plan; • National Australia Bank Share Incentive Plan; • National Australia Bank Performance Rights Plan; and • any other employee equity plan operated by NAB.
NAB Information	Means, broadly, all information or documents published in connection with the Demerger and the Institutional Offer (including the applications to ASX and LSE for Admission) in relation to the NAB Shares and all rights, entitlements, liabilities and responsibilities attaching thereto, NAB (after the Demerger), the business of NAB (after the Demerger) and all information describing the process for, and mechanics of, the Demerger and the Institutional Offer, and including the information for which NAB takes responsibility in this Scheme Booklet as set out in the Important Notices section.

NAB Share	A fully paid ordinary share in NAB or a Partly Paid Share, and NAB Shareholding has a corresponding meaning.
NAB Shareholder	A person who is registered in the NAB Share Register as the holder of a NAB Share.
NAB Share Register	The register of members of NAB maintained by or on behalf of NAB in accordance with section 168(1) of the *Corporations Act*.
NAB Share Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) in its capacity as provider of registry services in respect of the NAB Share Register.
NAB Tier 1 Securities	National Income Securities, NAB CPS and NAB CPS II.
NAB Tier 1 Securityholder	A person who is registered as a holder of a NAB Tier 1 Security.
NAB Tier 1 Security Registers	The register of holders of NAB CPS, the register of holders of NAB CPS II and the register of holders of National Income Securities, each established and maintained by the NAB Share Registry.
National Income Securities	The securities issued under a prospectus dated 10 May 1999.
NATL	National Australia Trustees Limited (ABN 80 007 350 405).
NATL Sale Facility Preference Form	The form of that name accompanying, if applicable, this Scheme Booklet.
NATL Sale Preference Withdrawal Form	The form that must be used by Small NATL Employee Holders to withdraw their Sale Facility Preference which can be downloaded online at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.
NEL	National Equities Limited.
New Provision	A new provision or an increase to an existing provision that Clydesdale Bank (or another subsidiary within CYBG Group) establishes at such time after Admission and prior to the termination of the Capped Indemnity for a Relevant Conduct Matter in an amount that is covered in full by the Capped Indemnity, subject to the Loss Share Arrangement.
Nippon Life	Nippon Life Insurance Company.
NNL	National Nominees Limited.
NNL Sale Facility Preference Form	The form of that name accompanying, if applicable, this Scheme Booklet.
NNL Sale Preference Withdrawal Form	The form that must be used by Small NNL Employee Holders to withdraw their Sale Facility Preference which can be downloaded online at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.

Section Ten: Glossary

Non-Executive CYBG Directors	James Pettigrew, Richard Gregory, David Allvey, David Browne, Barbara Ridpath, David Bennett, Teresa Robson-Capps, Alex Shapland and Richard Sawers.
Non-Executive CYBG Shareholder Director	A non-executive CYBG Director appointed to the Board by NAB pursuant to the Relationship Agreement.
Non-resident NAB Shareholders	NAB Shareholders who are not residents of Australia for income tax purposes.
Notice of General Meeting	The notice of meeting set out in Annexure D.
Notice of Scheme Meeting	The notice of meeting set out in Annexure C.
NSFR	Net stable funding ratio.
Offer Price or Institutional Offer Price	The price per CYBG Share at which CYBG Shares are to be sold under the Institutional Offer.
Official Journal	The Official Journal of the European Union is the official compendium of EU legislation and other official documents of the EU institutions, bodies and agencies.
OFT	The Office of Fair Trading.
Operator	The operator of the relevant system.
Order	The *Financial Services and Markets Act 2000 (Financial Promotion) Order 2005*, as amended.
OTC	Over the counter.
Over Allotment Option	The option granted by NAB, pursuant to which the Stabilising Manager may require NAB to sell additional Sale Shares at the Offer Price.
Over Allotment Shares	CYBG Shares sold pursuant to the Over Allotment Option.
Participants	A person who, on the Scheme Record Date: • holds Performance Rights; or • holds a beneficial interest in a NAB Share under a NAB Employee Equity Plan.
Partly Paid Shares	A partly paid ordinary share in NAB.
Partnership Shares	CYBG Shares purchased by participants in the SIP using contributions from pre-tax salary.
Past Business Review	The examination of sales practices and other evidence to provide an assessment as to whether sales to customers were suitable in light of the customer's circumstances.
PCA or PCAs	Personal current accounts.
PCBS	Parliamentary Commission on Banking Standards.

Pensions Regulator	The regulator established under Part I of the *Pensions Act 2004* (as amended) in the United Kingdom.
Performance Right	A performance right is a right granted under the National Australia Bank Performance Rights Plan to acquire one NAB Share once the performance right has vested based on achievement of the relevant performance hurdle or at the NAB Board's discretion.
PLAC	Primary loss-absorbing capacity.
Post-5 Year Equity Subscription Termination	Has the meaning given to it in Section 4.9.8.
PPI	Payment protection insurance.
PRA	Prudential Regulation Authority of the UK or its relevant successors from time to time.
PRA Handbook	The PRA's handbook of rules and guidance.
PRA Remuneration Code	The PRA remuneration code as set out in the PRA handbook.
PRA Rulebook	The PRA's rulebook of rules and guidance.
Pre-Covered Provision Amount	The amount of any provision(s) relating to any Conduct Matters raised or increased by CYBG Group between 31 March 2015 and the Demerger Date in respect of which NAB has provided specific support at any time after 31 March 2015 but prior to the Demerger Date.
Pre-Demerger Provision Amounts	Has the meaning given to it in Section 4.9.2.
Product Governance Framework	An enhanced product governance framework with a standardised "best practice" model implemented by CYBG Group across product management in 2013.
Prospectus	The prospectus intended to be released relating to CYBG PLC and UK Admission and which will comprise a prospectus in accordance with the Prospectus Rules.
Prospectus Directive	Directive 2003/71/EC (as amended, including by Directive 2010/73/EC) and includes all relevant implementing measures in each Relevant Member State.
Prospectus Rules	The prospectus rules published by the FCA under section 73A FSMA.
Proxy Form	A Scheme Meeting Proxy Form and/or General Meeting Proxy Form (as applicable).
PSD	Directive 2007/64/EC on payment services in the internal market.
PSD2	The legislative proposal to revise the PSD, published in July 2013 by the European Commission.
PSP	Payment system providers.

Section Ten: Glossary

PSR	New Payment Systems Regulator introduced by the *CYBG Grouping Reform Act*.
QIS	The Basel Committee's quantitative impact study.
Qualified Institutional Buyers or QIBs	Has the meaning given in Rule 144A under the *US Securities Act*.
Qualified Investors	Qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC as amended, including by Directive 2010/73/EC).
RAO	The *Financial Services and Markets Act 2000* (Regulated Activities) Order 2001.
RBS	Royal Bank of Scotland Group plc, which includes the RBS, NatWest and Ulster Bank brands.
RCB Programme	A €10 billion regulated covered bond programme established by Clydesdale Bank in 2010 unconditionally and irrevocably guaranteed as to payments of interest and principal by Clydesdale Covered Bonds No.2 LLP.
RCB Regulations	The legislative proposal to revise the PSD, published in July 2013 by the European Commission.
RCB Sourcebook	The Regulated Covered Bonds Sourcebook Instrument 2008.
Recast DGSD	Directive 2014/49/EU on deposit guarantee schemes.
Registrar of Companies	The registrar of companies incorporated in England and Wales.
Regulation S	Regulation S under the *US Securities Act*.
Regulations	The *Uncertified Securities Regulations 2001* (SI 2001 No. 3755) (including any modification, re-enactments or substitute regulations for the time being in force).
Regulatory Approvals	Such approvals, consents, waivers or other acts from or by any regulatory authorities as are necessary or, in the reasonable opinion of NAB, desirable in connection with or to implement the Demerger.
Relationship Agreement	A relationship agreement entered into between CYBG PLC and NAB which will, conditional on UK Admission becoming effective and NAB holding at least 10% of the issued share capital of CYBG PLC, regulate the ongoing relationship between CYBG PLC and NAB following UK Admission becoming effective.
Relevant Conduct Matters	Has the meaning given to it in Section 4.9.1.
Relevant Legislation	The UK Banking Act and any other laws, orders, regulations, rules, instruments or requirements from time to time in force or applicable in the UK and any associated PRA and/or FCA rules relating to the resolution of banks, banking group companies, investment firms or financial institutions or any of their affiliates.
Relevant Member State	Each Member State of the EEA that has implemented the Prospectus Directive.

Relevant Person	Has the meaning given to it in Section 9.13.4.
Relevant Regulations	At any time the applicable laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect.
Relevant Resolution Authority	The Bank of England or any other regulatory or governmental agency, body or authority which has authority under Relevant Legislation to exercise a Resolution Power.
relevant system	Has the meaning given to it in the Regulations.
Remuneration Committee	The remuneration committee of CYBG PLC.
Resident CYBG Shareholders	CYBG Shareholders who are residents of Australia for income tax purposes.
Resident NAB Shareholders	NAB Shareholders who are residents of Australia for income tax purposes.
Resolution Power	Any power existing from time to time under Relevant Legislation, among others, pursuant to which the shares or other securities of or relating to (or rights attaching to such shares or other securities) a bank, banking group company or investment firm can be compulsorily transferred, cancelled, reduced, suspended or converted into other securities, in each case, in whole or in part and/or any other law, regulation, rule or requirement relating to, or in connection with, the resolution of banks, banking group companies and/or investment in effect and applicable in the UK to CYBG PLC or any of its subsidiary undertakings.
Retained Stake Shares	NAB's holding in CYBG Shares as a consequence of a retained holding arising following the Demerger and the Institutional Offer (which, for the avoidance of doubt, shall exclude such CYBG Shares held by NAB as a result of wealth management, custody or other ordinary course business activities).
Reverse Transitional Services Agreement	The agreement to be entered into by NAB and Clydesdale Bank PLC, under which Clydesdale Bank PLC will provide, or procure the provision of, certain services to NAB for a period following the Demerger, a description of which is set out in Section 4.8.5.
RIS	A Regulatory Information Service as defined in the UK Listing Rules.
Risk Management Framework	The totality of systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk.
RLS	Retail and lending services.
RMBS	Residential mortgage-backed securities.
ROE	Return on equity.
ROTE	Return on tangible equity.
Rule 144A	Rule 144A under the *US Securities Act*.
RWAs	Risk weighted assets.

Section Ten: Glossary

S&P	Standard & Poor's Credit Market Services Europe Limited.
Sale Agency Deed	The Deed to be entered into between NAB and the Sale Agent in relation to the Sale Facility.
Sale Agent	The person or persons to be appointed by NAB to sell or facilitate the transfer of the CYBG Securities attributable to Ineligible Shareholders and on behalf of Selling Shareholders and the Fraction Aggregate, as contemplated by clause 4 of the Scheme and in accordance with the Sale Facility, and includes any custodian acting on behalf of such person(s).
Sale and Purchase Agreement	The sale and purchase agreement dated 27 November 2015 entered into between NAB and CYBG PLC in relation to the acquisition by CYBG PLC of all the CYBI Shares on issue at the Demerger Date.
Sale Election	An election made by a Small Shareholder to have all (but not only some) of the CYBG Securities to which the Small Shareholder is entitled under the Demerger sold by the Sale Agent and the Sale Facility Proceeds remitted to that Small Shareholder (or donated to the charity ShareGift), by lodging a Sale Election online through the Demerger Website or completing and returning the enclosed Sale Facility Form in accordance with the instructions on the Share Facility Form, so that it is received by the NAB Share Registry by 5:00pm on 3 February 2016.
Sale Election Withdrawal Form	The form that must be used by Small Shareholders to withdraw their Sale Election which can be downloaded online at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.
Sale Facility	The facility to be established by NAB and managed by the Sale Agent under which Selling Shareholders' CYBG Securities and the Fraction Aggregate may be sold in accordance with the terms of the Scheme and the Sale Agency Deed, as described in Section 4.5.
Sale Facility Form	The form of that name accompanying, if applicable, this Scheme Booklet or such other form as NAB may permit or agree in connection with the sale of CYBG Securities under the Sale Facility.
Sale Facility Preference	A preference made by a Small Employee Holder who would prefer to have any CYBG Securities which they may otherwise become entitled to receive from a Trustee sold under the Sale Facility.
Sale Facility Proceeds	The proceeds from the sale of a Selling Shareholder's CYBG Securities under the Sale Facility, calculated on an averaged basis so that all Selling Shareholders receive the same price for each CYBG Security sold on their behalf.
Sale Shares	The Shares to be sold by NAB in the Institutional Offer.
Santander	Santander UK plc.
SAYE Plan	CYBG Save As You Earn Plan.
SBS	Strategic Business Services.

Scheme	A scheme of arrangement under Part 5.1 of the *Corporations Act* between NAB and NAB Shareholders as described in this Scheme Booklet and as set out in Annexure A, subject to any modification made or required by the Court.
Scheme Booklet	This document, which includes the Scheme, the Deeds Poll, the explanatory statement for the Scheme, the Notice of Scheme Meeting and the Notice of General Meeting.
Scheme Meeting	The meeting of NAB Shareholders ordered by the Court pursuant to section 411(1) of the *Corporations Act* to consider the Scheme Resolution.
Scheme Meeting – NATL Voting Instruction Form	The form to be used by Participants who hold a beneficial interest in NAB Shares held by NATL under a NAB Employee Equity Plan, to direct NATL how to vote those NAB Shares on the resolution at the Scheme Meeting.
Scheme Meeting – NNL Voting Instruction Form	The form to be used by Participants who hold a beneficial interest in Partly Paid Shares held by NNL under a NAB Employee Equity Plan, to direct NNL how to vote those Partly Paid Shares on the resolution at the Scheme Meeting.
Scheme Meeting Proxy Form	The proxy form for the Scheme Meeting which accompanies, if applicable, this Scheme Booklet.
Scheme Participant	Each person registered on the NAB Share Register as the holder of a NAB Share on the Scheme Record Date.
Scheme Record Date	7:00pm on 5 February 2016.
Scheme Resolution	The resolution to approve the Scheme, to be considered by NAB Shareholders at the Scheme Meeting, the form of which is set out in the Notice of Scheme Meeting in Annexure C.
SCV	Single Customer View.
SDRT	UK Stamp Duty Reserve Tax.
SEC	U.S. Securities and Exchange Commission.
Second Court Hearing	The hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the *Corporations Act* approving the Scheme.
secretary	The company secretary of CYBG PLC from time to time.
section 793 notice	A notice served by CYBG PLC under section 793 of the *Companies Act (UK)*.
Security Election	A CDI Election or a Share Election.
Security Election Withdrawal Form	The form that must be used by: • Eligible AUSNZ Shareholders to withdraw their Share Election; and • Eligible Overseas Shareholders to withdraw their CDI Election, which can be downloaded online at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.

Section Ten: Glossary

Select Committee	The UK Treasury Select Committee.
Selling Shareholder or Sale Facility Shareholder	An Ineligible Shareholder or a Small Shareholder who elects to participate in the Sale Facility, and includes NATL where (and to the extent that) NATL elects to sell through the Sale Facility all (but not some) of the CYBG Securities to which NATL is entitled under the Scheme on behalf of, and in respect of, a Small Employee Holder.
Senior Managers	Those persons named as the senior managers in Part 3 of Annexure G.
Senior Managers Regime	The Senior Managers Regime rules of individual accountability of the FCA and PRA under the UK Banking Reform Act.
Share Election	An election made by an Eligible AUSNZ Shareholder (other than a Selling Shareholder) or an AUSNZ Participant to receive CYBG Shares instead of CYBG CDIs as part of the Demerger provided UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date, by completing the Share Election Form and returning it in accordance with the instructions on the Share Election Form.
Share Election Form	The form to be completed by an Eligible AUSNZ Shareholder (other than a Selling Shareholder) or an AUSNZ Participant who wishes to make a Share Election, which can be downloaded at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days.
ShareGift	ShareGift Australia (registered charity ABN 27 086 590 485), a not-for-profit organisation that gives shareholders an easy administrative and cost effective way to donate shares or cash proceeds to the community.
Share Preference	A preference made by an Eligible Participant or an Eligible Partly Paid Participant (other than an Eligible Participant or an Eligible Partly Paid Participant who makes a Sale Facility Preference) on whose behalf NATL or NNL holds NAB Shares to receive CYBG Shares instead of CYBG CDIs that the Eligible Participant or Eligible Partly Paid Participant may otherwise become entitled to.
Share Preference Form	The form to be completed by an Eligible Participant or an Eligible Partly Paid Participant who wishes to make a Share Preference, which can be downloaded at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.
Share Preference Withdrawal Form	The form that must be used by Eligible Participants and Eligible Partly Paid Participants to withdraw their Share Preference which can be downloaded online at **www.clydesdaledemerger.com.au** or obtained by contacting the NAB Shareholder Information Line on 1300 367 647 (within Australia) or +61 3 9415 4299 (outside Australia) between 8:00am and 7:30pm during Business Days from 14 December 2015.

Share Receiving Shareholder	Assuming UK Admission becomes effective by 7:00pm on the second Business Day after the Demerger Date: • An Eligible AUSNZ Shareholder (other than a Selling Shareholder) who makes a Share Election; and • An Eligible Overseas Shareholder (other than a Selling Shareholder) who has not made a CDI Election.
SIP	CYBG Share Incentive Plan.
SIP Trustee	The Trustee from time to time of the National Australia Bank Share Incentive Plan.
Skilled Persons Review	Has the meaning given to it in Part 6 of Annexure G.
Small Employee Holder	A Small NATL Employee Holder, a Small NNL Employee Holder and a Small SIP Employee Holder.
Small Holder	A holder of CYBG Securities who holds less than a marketable parcel of securities in CYBG PLC.
Small NATL Employee Holder	An Eligible Participant who individually has a beneficial interest in 2,000 NAB Shares or less held by NATL as at the Scheme Record Date.
Small NNL Employee Holder	An Eligible Partly Paid Participant who individually has a beneficial interest in 2,000 NAB Shares or less held by NNL as at the Scheme Record Date.
Small Shareholder	An Eligible Shareholder who individually holds 2,000 NAB Shares or less as at the Scheme Record Date.
Small SIP Employee Holder	An Eligible SIP Participant who individually has a beneficial interest in 2,000 NAB Shares or less held by the SIP Trustee as at the Scheme Record Date.
SME	Micro, small and medium sized enterprises.
SRR	The special resolution regime.
Stabilisation Period	A maximum of 30 calendar days commencing on the first day of conditional trading of CYBG Shares on the LSE.
Stabilising Manager	Morgan Stanley & Co. International plc.
Standalone IRHP	Standalone interest rate hedging products.
Structural Hedge	The hedging activity undertaken to manage the CYBG Group's structural interest rate risk which arises from the sensitivity of the CYBG Group's current and future net interest income to movements in market interest rates. The main components of this structural interest rate risk are: • the investment of non-interest bearing deposits and equity into interest-bearing assets; • the mismatch between repricing dates of interest-bearing assets and liabilities; and • basis risk, for example, the inability of the pricing 'basis' for customer asset and liability products to be replicated in the financial markets or the risk arising from changing relationships between different interest rate yield curves.

Section Ten: Glossary

STI Deferral	Short Term Incentive Deferral Rights.
Subsidiary	The meaning given to that term in the *Corporations Act*.
SUP	The Supervision sourcebook.
SVR	Standard variable rate.
Swap Income or Swap Expense	The net interest income received, or expense paid, on the two streams of cash flows on interest rate swaps recognised in net interest income within the CYBG HFI and within 'Swap income/other' in paragraph 6 of Part 4 of Annexure G.
SYSC	The Senior Management Arrangements, Systems and Controls sourcebook.
Tax Act	*Income Tax Assessment Act 1997* (Cth) or *Income Tax Assessment Act 1936* (Cth) as appropriate.
Tax Indemnity Provisions	The provisions of the Conduct Indemnity Deed under which NAB has agreed to compensate CYBG PLC for any actual tax (when incurred) that would not have been incurred but for the receipt of amounts by CYBG PLC (or subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments) under the Capped Indemnity or by members of the CYBG Group pursuant to subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments, a summary of which is set out in Section 4.9.9.
TBLs	Tailored Business Loans.
TCF	The Treating Customers Fairly initiative of the FCA.
Tier 1 Capital	Sum of Common Equity Tier 1 Capital and Additional Tier 1 Capital.
Tier 1 Ratio	Tier 1 Capital divided by risk weighted assets.
Tier 2 Capital	Tier 2 Capital as calculated in accordance with the Relevant Regulations.
Tier 2 Notes	Subordinated notes qualifying as Tier 2 Capital pursuant to the Relevant Regulations.
Total Capital	Sum of Tier 1 Capital and Tier 2 Capital.
Total Capital Ratio	Total Capital divided by risk weighted assets.
TR 14/14	The FCA's Thematic Review 14/14 "*Redress for payment protection insurance (PPI) mis-sales*".
Transaction Document	The Demerger Deed, the Conduct Indemnity Deed, the Cash Security Agreement, the Relationship Agreement, the Underwriting Agreement, the Transitional Services Agreements, the Scheme, the Deed Poll, Sale and Purchase Agreement or and any other document agreed by NAB and CYBG PLC in writing to be a Transaction Document.

Transfer Time	The earlier of (a) as soon as reasonably practicable after the time at which UK Admission becomes effective, and (b) 7:00pm on the second Business Day after the Demerger Date.
Transitional Services Agreements or TSAs	The agreements to be entered into by NAB and Clydesdale Bank PLC, under which NAB will provide certain services to CYBG Group and CYBG Group will provide certain other services to NAB, in each case for a period following the Demerger, a description of which is set out in Section 4.8.5.
Tribunal	The Upper Tribunal (Tax and Chancery Chamber).
Trustee	The SIP Trustee, NATL or NNL, as the case requires.
UCITS Directive	Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended.
UK	United Kingdom.
UK Admission	The admission of CYBG Shares to the premium listing segment of the UKLA Official List and to trading on the LSE's main market for listed securities and a reference to UK Admission becoming "**effective**" is to be construed in accordance with the UK Listing Rules or the Standards (as applicable).
UK Banking Act	The UK Banking Act 2009, as amended or re-enacted from time to time, and any orders, regulations, rules or instruments made thereunder.
UK Banking Reform Act or Banking Reform Act	The Financial Services (Banking Reform) Act 2013 (UK).
UK Corporate Governance Code or Code	The principles of good corporate governance and code of best practice published by the Financing Reporting Council.
UK Court	The High Court of Justice in England and Wales.
UK Court Hearing	The hearing by the UK Court to confirm the CYBG Capital Reduction under section 648 of the *Companies Act (UK)* at which the CYBG Court Order will be sought.
UKLA or UK Listing Authority	The UK Listing Authority, being the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA.
UKLA Official List or Official List	The official list maintained by the UKLA.
UK Listing Rules	The listing rules made by the FCA pursuant to Part VI of FSMA as amended from time to time.
UK Senior Managers Regime	The Senior Managers Regime rules of individual accountability of the FCA and PRA under the *Financial Services (Banking Reform) Act 2013*.
UK Takeover Code or Takeover Code	The *City Code on Takeovers and Mergers in the UK*.
Underlying Profit	A non-IFRS financial measure used by NAB and CYBG Group as described in the Important Notices. Underlying profit is Cash Earnings before the charge to provide for bad and doubtful debts and income tax expense.

Section Ten: Glossary

Underwriting Agreement	The underwriting agreement to be entered into between, among others, CYBG PLC, NAB and the Managers relating to the Institutional Offer, a description of which is contained in Section 5.4.
Unutilised Covered Amount	Has the meaning given to it in Section 4.9.6.
Unutilised Indemnity Amount	From time to time, the Capped Indemnity Amount (a) less: (i) any amount paid by NAB or paid out of the Collateral Account to CYBG PLC; (ii) any interest or tax deduction applied or required to be applied against provisions of a member of CYBG Group for conduct matters; and (iii) any amount paid by NAB to CYBG PLC in respect of costs incurred in implementing for investments in operational efficiency programmes which are not covered by the Capped Indemnity; and (b) plus any amount actually paid or repaid to NAB following a release or reduction of a provision of a member of CYBG Group for conduct matters, in each case, pursuant to the terms of the Conduct Indemnity Deed (and as may be reduced from time to time as a result of an assessment by the PRA).
US Securities Act	The United States *Securities Act of 1933*, as amended.
US Securities Exchange Act	The United States *Securities Exchange Act of 1934*, as amended.
UTCCR	The UK *Unfair Terms in Consumer Contracts Regulations 1999*.
VaR	Value at Risk.
Voluntary Scope TBLs	Has the meaning given to it in Item 1.1 of Section 1.
Voting Record Date	7:00pm on 25 January 2016.
VWAP	Volume weighted average price.
YBHL	Yorkshire Bank Home Loans Limited.
YESO	Year End Employee Share Offer Shares.

Annexure A
Scheme of Arrangement

Annexure A: Scheme of Arrangement

Scheme made under section 411 of the Corporations Act 2001 (Cth)

1. Definitions and interpretation

1.1 Definitions

In this Scheme:

APRA means the Australian Prudential Regulation Authority.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or the financial market operated by it as the context requires.

ASX Listing Rules means the listing rules of the ASX from time to time as modified by any express written waiver or exemption given by the ASX.

ASX Official List means the official list of entities that the ASX has admitted and not removed.

ASX Primary Listing means the admission of CYBG to the ASX Official List as a primary listing and the official quotation of all CYBG CDIs on the ASX where UK Admission does not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date.

ASX Settlement means ASX Settlement Pty Limited (ABN 49 008 504 532) as the holder of a licence to operate a clearing and settlement facility.

ASX Settlement Operating Rules means the operating rules of the clearing and settlement facility operated by ASX Settlement from time to time as modified by any express written waiver or exemption given by ASX or ASX Settlement.

ATO means the Australian Taxation Office.

Authorised Nominee means CHESS Depositary Nominees Pty Limited (ACN 071 346 506, AFSL 254514), an approved general participant of ASX Settlement and a wholly owned subsidiary of ASX.

Australian Admission means the admission of CYBG to the ASX Official List as an ASX foreign exempt listing and the official quotation of all CYBG CDIs on the ASX.

Average VWAP means the sum of the daily VWAP on each day of trading on each of the ASX and (if trading of CYBG Shares is permitted on the LSE) the LSE over the first five trading days following the Effective Date, divided by ten (or five if trading of CYBG Shares is not permitted on the LSE), with the value of CYBG Shares determined through such calculation being converted into Australian dollars at the pounds sterling / Australian dollar spot exchange rate at the close of trading on the LSE as reported by Bloomberg (or in the event Bloomberg rates are not available for that day such rate as is determined by the NAB Board) rounded to the nearest cent. In the event of market disruption, as determined by the NAB Board, for the purposes of determining the Average VWAP the NAB Board may exclude certain daily VWAPs and/or vary the number of trading days required to be used in the calculation of the Average VWAP, however the Average VWAP must still be calculated using the sum of the daily VWAP on each day of trading on each of the ASX and (if trading of CYBG Shares is permitted on the LSE) the LSE over the relevant number of trading days, and then divided by twice the number of trading days (or if trading of CYBG Shares is not permitted on the LSE, divided by the number of trading days).

Business Day means a day that is both a Business Day within the meaning given in the ASX Listing Rules and a day that banks are open for business in Melbourne, London and Glasgow.

Californian Shareholder means a NAB Shareholder whose registered address is in the State of California, United States of America.

Capital Reduction means the reduction in the share capital of NAB by the Capital Reduction Aggregate Amount to be applied equally against each NAB Share on issue as at the Record Date in accordance with the terms of the Capital Reduction Resolution.

Capital Reduction Aggregate Amount means the aggregate amount of the capital of NAB that is to be reduced in accordance with the Capital Reduction Resolution calculated by multiplying the number of NAB Shares on issue at the Record Date by the Average VWAP divided by four.

Capital Reduction Portion means, in relation to a Scheme Participant, the Capital Reduction Pro Rata Amount multiplied by the number of NAB Shares held by the Scheme Participant on the Record Date.

Capital Reduction Pro Rata Amount means the Capital Reduction Aggregate Amount divided by the number of NAB Shares on issue on the Record Date.

Capital Reduction Resolution means the ordinary resolution concerning the Capital Reduction to be considered by NAB Shareholders and NAB Tier 1 Securityholders at the General Meeting in the form set out in the notice of general meeting contained in Annexure D of the Scheme Booklet.

CDI means CHESS Depository Interest.

CDI Election means a valid election for CDIs made by an Eligible Overseas Shareholder pursuant to clause 3.1(b).

CDI Election Form means the form to be completed by an Eligible Overseas Shareholder (other than a Selling Shareholder) who wishes to make a CDI Election.

CDI Elected Shareholder means each of an:

(a) Eligible AUSNZ Shareholder (other than a Selling Shareholder) who has not made a Share Election; and

(b) Eligible Overseas Shareholder (other than a Selling Shareholder) who has made a CDI Election.

CHESS means the clearing house electronic sub-register system of share transfers operated by ASX Settlement.

CMA means the UK Competition and Markets Authority or its relevant successors from time to time.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of Victoria.

CREST means the system of paperless settlement of trades in listed securities, of which Euroclear UK & Ireland Limited is the operator.

CYBG means CYBG PLC (a public limited company incorporated in England and Wales, with company number 9595911 whose registered office is at 20 Merrion Way, Leeds, West Yorkshire, LS2 8NZ).

CYBG Articles means the articles of association of CYBG which have been adopted conditional on, and with effect on and from, the time and date on which the Demerger is implemented in accordance with its terms, as amended or superseded from time to time.

CYBG Capital Reduction means the reduction in the nominal value of the CYBG Shares in accordance with the terms of the CYBG Capital Reduction Resolution.

CYBG Capital Reduction Resolution means the ordinary resolution concerning the CYBG Capital Reduction to be considered by NAB Shareholders at the General Meeting in the form set out in the notice of general meeting contained in Annexure D of the Scheme Booklet.

CYBG CDI means a unit of beneficial ownership in a CYBG Share (in the form of a CDI) that is registered in the name of the Authorised Nominee in accordance with the ASX Settlement Operating Rules, for the purpose of enabling the securities to be recorded and transferred in accordance with those operating rules.

CYBG Group means CYBI and its subsidiaries prior to the Demerger being implemented and, thereafter, CYBG and its subsidiaries from time to time.

CYBI means CYB Investments Limited (a private limited company incorporated in England and Wales, with company number 02108635 whose registered office is at 20 Merrion Way, Leeds, West Yorkshire, LS2 8NZ).

CYBG Register means the register of members of CYBG including any branch register.

CYBG Security means a CYBG CDI or a CYBG Share.

CYBG Share means a fully paid ordinary share in the capital of CYBG.

Deed Poll means the deed poll entered into by CYBG in favour of Scheme Participants and each registered holder of a CYBG CDI from time to time under which CYBG undertakes to take the steps required to be performed by it under the Scheme.

Demerger means the proposed demerger of CYBG and the CYBG Group from NAB pursuant to which all of the issued share capital in CYBI will be transferred to CYBG by NAB in consideration for the issue of CYBG Shares to NAB in accordance with the Sale and Purchase Agreement, in part for the benefit of NAB and in part for the benefit of NAB Shareholders through this Scheme, and the Capital Reduction.

Demerger Date means 8 February 2016, provided the Scheme has become Effective on or before that date, or such other date as determined by the NAB Board prior to the Effective Date as the Demerger Date for the purposes of the Scheme.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under sections 411(4)(b) and 411(6) in relation to this Scheme.

Effective Date means the date on which this Scheme becomes Effective, expected to be 2 February 2016.

Election Date means 3 February 2016.

Election Withdrawal Form means the form to be completed by a person who wishes to withdraw a CDI Election, Share Election, or a Sale Election.

Eligible AUSNZ Shareholder means a Scheme Participant whose registered address on the NAB Register as at the Record Date is in Australia or New Zealand.

Eligible Overseas Shareholder means a Scheme Participant whose registered address on the NAB Register as at the Record Date is in the United Kingdom, the United States of America (other than a Californian Shareholder), Singapore, Hong Kong, Japan, Ireland or Canada.

Eligible Shareholder means an Eligible AUSNZ Shareholder or an Eligible Overseas Shareholder.

End Date means 31 August 2016 or such later date as is agreed by NAB and CYBG.

FCA means the UK Financial Conduct Authority or its relevant successors from time to time.

FSMA means the Financial Services and Markets Act 2000 (UK) (as amended from time to time).

Fraction has the meaning given in clause 3.3(a)(iv).

Fractions Aggregate has the meaning given in clause 3.3(a)(iv).

General Meeting means the general meeting of NAB Shareholders and NAB Tier 1 Securityholders convened to consider the Capital Reduction Resolution and the CYBG Capital Reduction Resolution.

HMRC means Her Majesty's Revenue and Customs.

Independent Expert means Grant Samuel & Associates Pty Limited (ABN 28 050 036 372).

Annexure A: Scheme of Arrangement

Ineligible Shareholder means a Scheme Participant who as at the Record Date is not an Eligible Shareholder.

Licensed Market means the LSE or the ASX.

LSE means London Stock Exchange Plc, together with its relevant successors from time to time or, if the context so requires, its main market for listed securities.

NAB means National Australia Bank Limited (ABN 12 004 044 937) and, where the context requires, its subsidiaries from time to time.

NAB Board means the board of directors of NAB, from time to time.

NAB CPS means a convertible preference share, being a fully paid preference share issued by NAB on 20 March 2013.

NAB CPS II means a convertible preference share, being a fully paid preference share issued by NAB on 17 December 2013.

NAB Constitution means the constitution of NAB, as amended or superseded from time to time.

NAB Employee Equity Plans means an employee equity plan offered by or on behalf of NAB under which NATL holds NAB Shares as trustee or nominee for, or otherwise on account of, employees or directors (or former employees or directors) of the NAB group.

NAB Register means the register of NAB Shareholders maintained by or on behalf of NAB.

NAB Share means a fully paid ordinary share in NAB or a partly paid ordinary share in NAB, and **NAB Shareholding** has a corresponding meaning.

NAB Share Registry means Computershare Investor Services Limited (ABN 48 078 279 277) in its capacity as provider of registry services in respect of the NAB Register.

NAB Shareholder means a person who is registered on the NAB Register as a holder of a NAB Share.

NAB Tier 1 Securityholder means a person who is registered on a NAB Tier 1 Security Register as the holder of a NAB CPS, NAB CPS II or National Income Security.

NAB Tier 1 Security Register means the register of holders of NAB CPS, the register of holders of NAB CPS II and the register of holders of National Income Securities, each maintained by, or on behalf of, NAB.

National Income Security means a security issued by NAB under a prospectus dated 10 May 1999.

NATL means National Australia Trustees Limited (ABN 80 007 350 405).

Nominee Holder has the meaning given in clause 3.1(g).

PRA means the Prudential Regulation Authority of the UK or its relevant successors from time to time.

Record Date means 7:00pm (AEDT) on 5 February 2016.

Regulatory Approvals means such approvals, consents, waivers or other acts from or by any Regulatory Authorities as are necessary or, in the reasonable opinion of NAB, after consulting with CYBG, desirable in connection with or to implement the Demerger.

Regulatory Authority includes:

(a) APRA, the ASX, ASIC, and ATO;

(b) the FCA (including the UKLA), the PRA, the LSE, the UK Pensions Regulator, the Bank of England, the CMA and HMRC;

(c) any other government or governmental, semi-governmental or judicial entity or authority;

(d) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and

(e) any regulatory organisation established under statute.

Sale Agency Deed means the deed to be entered into between NAB, CYBG and the Sale Agent in relation to the Sale Facility.

Sale Agent means the person or persons to be appointed by NAB to sell or facilitate the transfer of the CYBG Securities attributable to Ineligible Shareholders and on behalf of Selling Shareholders and the Fractions Aggregate in accordance with the Sale Facility and clause 4 of this Scheme, and includes any custodian acting on behalf of such person or persons.

Sale and Purchase Agreement means the sale and purchase agreement entered into between NAB and CYBG in relation to the acquisition by CYBG of the entire issued share capital of CYBI.

Sale Election means a valid election made by a Small Shareholder pursuant to clause 3.1(c).

Sale Facility means the facility to be established by NAB and managed by the Sale Agent under which Selling Shareholders' CYBG Securities and the Fractions Aggregate may be sold in accordance with the terms of this Scheme and the Sale Agency Deed.

Sale Facility Form means the form to be completed by a Small Shareholder or NATL (in respect of one or more parcels of NAB Shares it holds as trustee or nominee for, or otherwise on account of, a Small Employee Holder) to elect to participate in the Sale Facility.

Sale Period means the period on and from the Demerger Date to and including the date being 8 weeks after that date (or, subject to obtaining any necessary ASIC exemptions or waivers, such longer period of time which NAB and the Sale Agent determine).

Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between NAB and the NAB Shareholders as set out in this document, subject to any modification made or required by the Court pursuant to section 411 of the Corporations Act.

Scheme Booklet means a document (including any supplementary scheme booklets or documents) which is to be dispatched to NAB Shareholders and NAB Tier 1 Securityholders in relation to this Scheme and the Capital Reduction and which must include explanatory statements complying with the requirements of the Corporations Act and the *Corporations Regulations 2001* (Cth), this Scheme, notices of meeting for the Scheme Meeting and General Meeting, proxy forms and the report of the Independent Expert.

Scheme Meeting means the meeting of NAB Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider this Scheme.

Scheme Participant means, subject to clause 5.1, each person who is entered in the NAB Register as the holder of a NAB Share on the Record Date.

Second Court Date means the date on which the application made to the Court for orders pursuant to sections 411(4)(b) and 411(6) of the Corporations Act approving this Scheme is heard (or, if adjourned to a later date, that date).

Selling Shareholder means:

(a) an Ineligible Shareholder; or

(b) a Small Shareholder who has made a Sale Election,

and includes NATL where (and to the extent that) NATL elects to sell through the Sale Facility all (but not some) of the CYBG Securities to which NATL is entitled under this Scheme on behalf of, and in respect of, a Small Employee Holder.

Selling Small Employee Holder means a Small Employee Holder who instructs NATL to elect to sell through the Sale Facility all (but not some) of the CYBG Securities to which NATL is entitled under this Scheme in respect of NAB Shares that NATL holds on their behalf.

Share Election means a valid election made by an Eligible AUSNZ Shareholder pursuant to clause 3.1(a).

Share Election Form means the form to be completed by an Eligible AUSNZ Shareholder who wishes to make a Share Election.

Share Elected Shareholder means each of:

(a) an Eligible AUSNZ Shareholder (other than a Selling Shareholder) who makes a Share Election; and

(b) an Eligible Overseas Shareholder (other than a Selling Shareholder) who has not made a CDI Election.

ShareGift means ShareGift Australia (registered charity ABN 27 086 590 485).

Small Employee Holder means a participant in one or more NAB Employee Equity Plans who individually has a beneficial interest in 2,000 NAB Shares or less as at the Record Date.

Small Shareholder means an Eligible Shareholder who individually holds 2,000 NAB Shares or less as at the Record Date.

Standards means the "Admission and Disclosure Standards" of the LSE.

Transfer Time means the earlier of:

(a) as soon as reasonably practicable after the time at which UK Admission becomes effective; and

(b) 7:00pm (AEDT) on the second Business Day after the Demerger Date.

UK Admission means the admission of the CYBG Shares to the premium listing segment of the UKLA Official List and to trading on the LSE's main market for listed securities and a reference to UK Admission becoming "effective" is to be construed in accordance with the UK Listing Rules and the Standards published by the LSE (as applicable).

UK Listing Rules means the listing rules and regulations made by the FCA pursuant to Part VI of the FSMA as amended from time to time.

UKLA means the UK Listing Authority, being the FCA acting in its capacity as the competent authority for the purposes of Part VI of the FSMA.

UKLA Official List means the official list maintained by the UKLA.

VWAP means the value of transactions across the course of a trading day divided by the number of securities exchanged in those transactions for either CYBG Shares or CYBG CDIs as traded on the LSE and the ASX, respectively, on a given day (being the relevant day of trading in each of Australia and London). Transactions otherwise than in the ordinary course of trading, including special crossings and crossings outside the "Open Session State" as defined in the ASX Settlement Operating Rules, are excluded from this calculation as determined by the NAB Board.

1.2 Reference to certain general terms

Unless the contrary intention appears, a reference in this Scheme to:

(a) **(variations or replacement)** a document, deed, agreement, scheme (including this Scheme) or instrument is a reference to that document, deed, agreement, scheme or instrument as amended, consolidated, supplemented, novated or replaced;

(b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this Scheme;

(c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);

(e) **(singular includes plural)** the singular includes the plural and vice versa;

(f) **(party)** a party means a party to this Scheme;

(g) **(person)** the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association;

(h) **(executors, administrators, successors)** a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;

(i) **(currency)** a reference to:

(i) Australian dollars, dollars, AUD, A$ or $ is a reference to the lawful currency of Australia; and

(ii) British pounds, pounds sterling, GBP or £ is a reference to the lawful currency of the United Kingdom;

(j) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;

(k) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;

(l) **(meaning not limited)** the words "include", "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;

(m) **(time of day)** unless otherwise provided for in this Scheme, time is a reference to Melbourne, Victoria time; and

(n) **(Business Day)** except where otherwise expressly provided, a day on which any act, matter or thing is to be done where that day is a day other than a Business Day, such act, matter or thing shall be done on the next Business Day.

1.3 Headings

Headings are for convenience only and do not affect the interpretation of this Scheme.

2 Scheme conditions

2.1 Conditions precedent to Scheme

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) between the date of the Scheme Booklet and the Scheme Meeting, a majority of the NAB Board recommending and not changing or withdrawing their recommendation to:

(i) NAB Shareholders to vote in favour of this Scheme; and

(ii) NAB Shareholders and NAB Tier 1 Securityholders to vote in favour of the Capital Reduction;

(b) NAB Shareholders approving this Scheme by the required majorities at the Scheme Meeting;

(c) NAB Shareholders and NAB Tier 1 Securityholders passing the Capital Reduction Resolution by the required majority under the Corporations Act at the General Meeting;

(d) all Regulatory Approvals being obtained and not revoked before 8:00am on the Second Court Date either unconditionally or on conditions reasonably satisfactory to the NAB Board;

(e) no temporary restraining order, preliminary or permanent injunction or other order being issued by any court of competent jurisdiction and no other legal restraint or prohibition preventing the Demerger being in effect as at 8:00am on the Second Court Date; and

(f) the Court approving this Scheme in accordance with section 411(4)(b) of the Corporations Act (including with such modifications made or required by the Court under section 411(6) of the Corporations Act as are acceptable to NAB and CYBG) and the lodgement with ASIC of an office copy of that Court order pursuant to section 411(10) of the Corporations Act.

2.2 Waiver of conditions precedent

Each of the conditions precedent in clause 2.1 of this Scheme are for the benefit of NAB. The conditions precedent in clauses 2.1(d) and 2.1(e) may be waived by written agreement between NAB and CYBG.

2.3 Certificate in relation to conditions precedent

NAB will provide to the Court on the Second Court Date a certificate confirming whether or not all the conditions precedent in this Scheme (other than the condition in clause 2.1(f) of this Scheme) have been satisfied or waived as at 8:00am on the Second Court Date. The certificate referred to in this clause 2.3 will constitute conclusive evidence of whether the conditions precedent referred to in clause 2.1 of this Scheme (other than the condition in clause 2.1(f) of this Scheme) have been satisfied or waived as at 8:00am on the Second Court Date.

2.4 Effective Date

Subject to the satisfaction or waiver of the conditions precedent set out in clause 2.1 and subject to clause 2.5 of this Scheme, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

2.5 End Date

This Scheme will lapse and be of no further force or effect if the conditions precedent set out in clause 2.1 of this Scheme have not been satisfied or waived on or before the End Date.

3 Implementation

3.1 Elections

(a) Subject to clause 3.1(d), a Scheme Participant who is an Eligible AUSNZ Shareholder may make a Share Election to receive one CYBG Share instead of one CYBG CDI for every four NAB Shares that they hold on the Record Date by completing a Share Election Form and returning it to the address specified in the Share Election Form so that it is received by the NAB Share Registry (and not withdrawn) by no later than 5:00 pm on the Election Date.

(b) A Scheme Participant who is an Eligible Overseas Shareholder may make a CDI Election to receive one CYBG CDI instead of one CYBG Share for every four NAB Shares that they hold on the Record Date by completing a CDI Election Form and returning it to the address specified in the CDI Election Form so that it is received by the NAB Share Registry (and not withdrawn) by no later than 5:00pm on the Election Date.

(c) A Scheme Participant who is a Small Shareholder, and NATL (in respect of one or more parcels of NAB Shares it holds as trustee or nominee for, or otherwise on account of, a Small Employee Holder), may elect to participate in the Sale Facility and sell all (but not some of) the CYBG Securities to which the Small Shareholder or NATL (as applicable) would otherwise be entitled by completing a Sale Facility Form and returning it to the address specified in the Sale Facility Form so that it is received by the NAB Share Registry (and not withdrawn) by no later than 5:00pm on the Election Date.

(d) In the event that UK Admission does not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, all Share Elections will be disregarded and the entitlements of all Scheme Participants (including those who made a Share Election) will be satisfied by the distribution of CYBG CDIs in the manner described in clause 3.3(a).

(e) Scheme Participants may withdraw their Share Election under clause 3.1(a), their CDI Election under clause 3.1(b) or a Sale Election by lodging an Election Withdrawal Form provided that it is received by the NAB Share Registry by no later than 5:00pm on the Election Date.

(f) Subject to clause 3.1(g), a Share Election under clause 3.1(a), a CDI Election under clause 3.1(b) or a Sale Election may only be made in respect of all and not part of the NAB Shares held by the relevant Scheme Participant.

(g) Scheme Participants who hold one or more parcels of NAB Shares as trustee or nominee for, or otherwise on account of, another person (**Nominee Holder**):

(i) subject to clause 3.1(g)(ii), may make separate elections in accordance with clauses 3.1(a), 3.1(b) or 3.1(c) in relation to each of those parcels of NAB Shares by lodging a separate election form for each separate holding in accordance with clauses 3.1(a), 3.1(b) or 3.1(c), and in each case in accordance with clause 3.1(f);

(ii) may only make a Sale Election in relation to a parcel of NAB Shares held on behalf of another person where, if that other person was a Scheme Participant, the person would be eligible to make the election; and

(iii) for the purposes of determining entitlements under this Scheme, will be treated as if they were a separate CDI Elected Shareholder, Share Elected Shareholder or Selling Shareholder (as relevant) in respect of each parcel of NAB Shares in respect of which an election has been made.

(h) For the avoidance of doubt, and without limiting clause 3.1(g), NATL may give elections to participate in the Sale Facility and sell the CYBG Securities to which NATL would otherwise be entitled under this Scheme in relation to each separate parcel of NAB Shares held by NATL on behalf of a Small Employee Holder. In this case, where a Sale Election is made:

(i) if the relevant CYBG Securities to which NATL would otherwise be entitled under this Scheme:

(A) are CYBG Shares and UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the relevant CYBG Shares will be issued by CYBG to NAB (as nominee and bare trustee for NATL) on the Demerger Date and the legal title to such CYBG Shares will be transferred by NAB to NATL at the Transfer Time, and immediately following such transfer, such CYBG Shares will be transferred by NATL to the Sale Agent;

(B) are CYBG CDIs, and, where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, CYBG Shares (i) the relevant CYBG Shares, including the CYBG Shares to which the CYBG CDIs relate, will be issued by CYBG to NAB (as nominee and bare trustee for NATL) on the Demerger Date and the legal title to such CYBG Shares will be transferred by NAB to the Authorised Nominee at the Transfer Time (for the purposes of Rule 13.4.1 of the ASX Settlement Operating Rules); (ii) as soon as reasonably practicable thereafter, the Authorised Nominee will issue to NATL one CYBG CDI for each such CYBG Share transferred to the Authorised Nominee; and (iii) such CYBG CDIs will be immediately transferred by NATL to the Sale Agent; and

(ii) any direction to NATL by the Small Employee Holder in respect of the sale of the CYBG Securities under the Sale Facility will only take effect if and when the Small Employee Holder becomes absolutely entitled to the CYBG Securities.

(i) If a Selling Shareholder makes a CDI Election or a Share Election but also elects to participate in the Sale Facility pursuant to clause 3.1(c), the Sale Election will take precedence and the CDI Election or Share Election (as applicable) will be invalid and the Sale Election will prevail.

3.2 Implementation of the CYBI transfer, Capital Reduction and Scheme

On the Demerger Date, without the need for any further act by any Scheme Participant:

(a) NAB will reduce its share capital by the Capital Reduction Aggregate Amount in accordance with the Capital Reduction Resolution;

(b) NAB will transfer the entire issued share capital of CYBI to CYBG in accordance with the terms of the Sale and Purchase Agreement; and

(c) the Capital Reduction Portion of each Scheme Participant will be satisfied in accordance with clause 3.3.

3.3 Entitlements of Scheme Participants

(a) Subject to clauses 3.3(b), 3.3(c), and 3.3(d), NAB will procure that the Capital Reduction Portion of each Scheme Participant be satisfied (without the need for any further act by a Scheme Participant) as follows:

(i) in respect of a Share Elected Shareholder, by the issue by CYBG of one CYBG Share for every four NAB Shares held by that Share Elected Shareholder on the Record Date (rounded down to the nearest whole number of CYBG Shares) to NAB (as nominee and bare trustee for that Share Elected Shareholder) on the Demerger Date, and:

(A) if UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the transfer by NAB of the legal title to the relevant CYBG Shares to the relevant Share Elected Shareholder at the Transfer Time; or

(B) if UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date:

(1) the transfer by NAB of the legal title to the relevant CYBG Shares to the Authorised Nominee at the Transfer Time (for the purposes of Rule 13.4.1 of the ASX Settlement Operating Rules); and

(2) as soon as reasonably practicable thereafter, by the issue by the Authorised Nominee of one CYBG CDI to each Share Elected Shareholder for every one CYBG Share transferred to the Authorised Nominee in respect of that Share Elected Shareholder; or

(ii) in respect of a CDI Elected Shareholder:

(A) by the issue by CYBG of one CYBG Share for every four NAB Shares held by that CDI Elected Shareholder on the Record Date (rounded down to the nearest whole number of CYBG Shares) to NAB (as nominee and bare trustee for that CDI Elected Shareholder) on the Demerger Date, and the transfer by NAB of the legal title to the relevant CYBG Shares to the Authorised Nominee at the Transfer Time (for the purposes of Rule 13.4.1 of the ASX Settlement Operating Rules); and

(B) as soon as reasonably practicable thereafter, by the issue by the Authorised Nominee of one CYBG CDI to each CDI Elected Shareholder for every one CYBG Share transferred to the Authorised Nominee in respect of that CDI Elected Shareholder;

(iii) in respect of a Selling Shareholder:

(A) where the Selling Shareholder is NATL, by the issue by CYBG of one CYBG Share for every four NAB Shares held by NATL on the Record Date (rounded down to the nearest whole number of CYBG Shares) to NAB (as nominee and bare trustee for NATL) on the Demerger Date, and the transfer by NAB of the legal title to the relevant CYBG Shares to:

(1) if the relevant CYBG Securities to which NATL would otherwise be entitled under this Scheme are CYBG Shares, and UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, NATL at the Transfer Time and, immediately thereafter, the transfer by NATL of such CYBG Shares to the Sale Agent; or

(2) if the relevant CYBG Securities to which NATL would otherwise be entitled under this Scheme are CYBG CDIs, and where the relevant CYBG Securities to which NATL would otherwise be entitled under the Scheme are CYBG Shares but UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Authorised Nominee at the Transfer Time (for the purposes of Rule 13.4.1 of the ASX Settlement Operating Rules) and, as soon as reasonably practicable thereafter, the issue by the Authorised Nominee of one CYBG CDI to NATL for every one CYBG Share transferred to the Authorised Nominee in respect of NATL and, immediately thereafter, the transfer by NATL of such CYBG CDIs to the Sale Agent; and

(B) otherwise, by the issue by CYBG of one CYBG Share for every four NAB Shares held by that Selling Shareholder on the Record Date (rounded down to the nearest whole number of CYBG Shares) to NAB (as nominee and bare trustee for the Sale Agent) on the Demerger Date and the transfer by NAB of the legal title to such CYBG Shares to:

(1) if the relevant CYBG Securities to which that Selling Shareholder would otherwise be entitled under this Scheme are CYBG Shares, and UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Sale Agent at the Transfer Time; or

(2) if the relevant CYBG Securities to which that Selling Shareholder would otherwise be entitled under this Scheme are CYBG CDIs, and where the relevant CYBG Securities to which the Selling Shareholder is entitled under the Scheme are CYBG Shares but UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Authorised Nominee at the Transfer Time (for the purposes of Rule 13.4.1 of the ASX Settlement Operating Rules) and, as soon as reasonably practicable thereafter, the issue by the Authorised Nominee of one CYBG CDI to the Sale Agent for every one CYBG Share transferred to the Authorised Nominee in respect of that Selling Shareholder; and

(iv) in respect of all fractions of CYBG Securities to which a CDI Elected Shareholder, Share Elected Shareholder, Selling Shareholder or Small Employee Holder would have otherwise been entitled had their Capital Reduction Portion not been rounded down ("**Fractions**"), the transfer of such number of CYBG Shares as is equal to the aggregate amount of Fractions (rounded down to the nearest whole number of CYBG Shares) ("**Fractions Aggregate**") to the Sale Agent to be sold and the proceeds remitted to NAB.

(b) For the avoidance of doubt, for the purposes of clause 3.3(a) no Scheme Participant has any right or entitlement at any time to:

(i) any cash amount other than in their capacity as a Selling Shareholder; or

(ii) any Fraction.

(c) If a Nominee Holder makes separate elections in relation to parcels of NAB Shares it holds as trustee or nominee for, or otherwise on account of, another person, then for the purposes of this clause 3.3 the Capital Reduction Portion of the Nominee Holder will be calculated and rounded down based on each nominated parcel of NAB Shares held by the Nominee Holder as trustee or nominee for, or otherwise on account of, another person.

(d) If a Nominee Holder does not make separate elections in relation to parcels of NAB Shares it holds as trustee or nominee for, or otherwise on account of, another person, then for the purposes of clause 3.3 the Capital Reduction Portion of the Nominee Holder will be calculated and rounded down based on the aggregate number of NAB Shares held by the Nominee Holder in those parcels as trustee or nominee for, or otherwise on account of, other persons.

3.4 Issue and transfer of CYBG Shares and CYBG CDIs

The obligations of NAB under clause 3.3 will be discharged by NAB procuring:

(a) the issue by CYBG of the relevant CYBG Shares to NAB (as nominee and bare trustee for the relevant Scheme Participant or the Sale Agent (as applicable) as described in clause 3.3) on the Demerger Date and the transfer by NAB at the Transfer Time of the legal title to the relevant CYBG Shares to:

(i) if UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Share Elected Shareholders (in either materialised form, that is in certificated form, or in dematerialised form, that is through CREST);

(ii) the following:

(A) the Authorised Nominee on behalf of CDI Elected Shareholders and, if UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Share Elected Shareholders;

(B) on behalf of Selling Shareholders (other than NATL):

(1) where UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, (i) the Sale Agent where the relevant CYBG Securities to which Selling Shareholders would otherwise be entitled are CYBG Shares and (ii) the Authorised Nominee where the relevant CYBG Securities to which Selling Shareholders are entitled are CYBG CDIs; or

(2) where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Authorised Nominee; and

(C) where the Selling Shareholder is NATL, NATL at the Transfer Time, and subsequently:

(1) where UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the transfer by NATL to (i) the Sale Agent where the relevant CYBG Securities to which NATL would otherwise be entitled are CYBG Shares and (ii) the Authorised Nominee where the relevant CYBG Securities to which NATL would otherwise be entitled are CYBG CDIs; or

(2) where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the transfer by NATL to the Authorised Nominee,

respectively (in either materialised form, that is in certificated form, or in dematerialised form, that is through CREST) in the numbers determined in accordance with clause 3.3; and

(iii) the Sale Agent in respect of the Fractions Aggregate (in dematerialised form, that is through CREST) at the Transfer Time;

(b) the registration of the issues and transfers referred to in clause 3.4(a) by entering in the CYBG Register the name of:

(i) initially NAB (acting in its capacity as nominee and bare trustee) and then the Share Elected Shareholders (where UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date);

(ii) in the case of the CDI Elected Shareholders and, where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Share Elected Shareholders, initially NAB (acting in its capacity as nominee and bare trustee) and then the Authorised Nominee; and

(iii) in the case of Selling Shareholders, initially NAB (acting in its capacity as nominee and bare trustee) and then:

(A) where UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, (i) the Sale Agent (or NATL, as applicable) where the relevant CYBG Securities to which Selling Shareholders (or NATL, as applicable) would otherwise be entitled are CYBG Shares and (ii) the Authorised Nominee where the relevant CYBG Securities to which Selling Shareholders (or NATL, as applicable) would otherwise be entitled are CYBG CDIs; or

(B) where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Authorised Nominee; and

(iv) in respect of the Fractions Aggregate, the Sale Agent,

in respect of the CYBG Shares transferred to the relevant Share Elected Shareholder (or the Authorised Nominee or Sale Agent (and NATL), as applicable) in accordance with this Scheme; and

(c) the issue by the Authorised Nominee of CYBG CDIs to the CDI Elected Shareholders (or, in the case of Selling Shareholders, to the Sale Agent (or NATL, as applicable)), and, where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Share Elected Shareholders in accordance with clause 3.3 of this Scheme and the registration of those CYBG CDIs in the CYBG CDI sub-register.

3.5 Dispatch of share certificates, CREST account statements and holding statements

As soon as practicable after the Transfer Time and in accordance with the UK Listing Rules, NAB will procure that CYBG:

(a) in respect of each Share Elected Shareholder if UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, sends to those shareholders CREST account statements or share certificates (as applicable) for the CYBG Shares transferred to them in accordance with clause 3.3, by pre-paid post to their registered address at the Record Date, unless the relevant shareholder has directed otherwise;

(b) in respect of each CDI Elected Shareholder and, if UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, each Share Elected Shareholder:

(i) sends to the Authorised Nominee a share certificate for the CYBG Shares transferred to it in accordance with clause 3.3, by pre-paid post to the address notified by the Authorised Nominee; and

(ii) sends to those shareholders, a holding statement for the CYBG CDIs for which they are entitled by pre-paid post to their registered address at the Record Date, unless the shareholder has directed otherwise; and

(c) in respect of a Selling Shareholder and in respect of the Fractions Aggregate, sends to the Sale Agent or NATL (as applicable) holding statements for the CYBG CDIs issued or transferred to the Sale Agent (or NATL) (as applicable) in accordance with clause 3.3, by pre-paid post to the address notified by the Sale Agent (or NATL) (as applicable).

3.6 Joint holders

(a) In the case of Scheme Participants who are not Selling Shareholders and who are joint holders of NAB Shares:

(i) entry in the CYBG Register and the CYBG CDI sub-register (as applicable) must take place in the same order as the holders' names appear in the NAB Register;

(ii) CREST account statements and holding statements in relation to the CYBG Shares (in dematerialised form) and CYBG CDIs (as applicable) must be issued in the names of the joint holders and will be forwarded to the holder whose name appears first in the NAB Register on the Record Date; and

(iii) share certificates in relation to the CYBG Shares (in materialised form, that is certificated form) must be issued in the name of the joint holders and will be forwarded to the holder whose name appears first in the NAB Register on the Record Date.

(b) In the case of Scheme Participants who are Selling Shareholders and who are joint holders of NAB Shares, any cheque or funds required to be paid to Selling Shareholders will be payable to the joint holders and will be forwarded to the holder whose name appears first in the NAB Register on the Record Date or in accordance with payment instructions in respect of the relevant holding recorded in the NAB Register on the Record Date.

3.7 Application for admission

NAB will procure that CYBG:

(a) applies through a sponsor to the UKLA and the LSE for UK Admission and for such application to become effective on or around the Demerger Date subject only to this Scheme taking effect and such other conditions as may be acceptable to the NAB Board;

(b) executes and lodges the application to the ASX for Australian Admission and lodges the application with the ASX with effect on or before the Business Day after the Effective Date, subject only to this Scheme taking effect and such other conditions as may be acceptable to the NAB Board; and

(c) if UK Admission does not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, CYBG executes and lodges an application to the ASX for ASX Primary Listing, such ASX Primary Listing to take effect as soon as possible after that application date, subject only to such conditions as may be acceptable to the NAB Board.

4 Sale Facility

(a) Selling Shareholders who are not Ineligible Shareholders may elect for all but not some of the proceeds of sale attributable to them following the sale of the CYBG Securities to which they would otherwise be entitled under this Scheme under the Sale Facility to either be remitted to them or to ShareGift.

(b) NAB will procure in accordance with the terms of the Sale Facility that the Sale Agent and/or NAB (as applicable) as soon as reasonably practicable (and in any event no later than the end of the Sale Period):

(i) sells on a Licensed Market for the benefit of each Selling Shareholder, and NAB in respect of the Fractions Aggregate, all the CYBG Securities transferred to the Sale Agent under clause 3.3;

(ii) accounts to each Selling Shareholder, ShareGift or NAB (as applicable), for the proceeds of sale (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax) and any income attributable to the CYBG Securities to which such Selling Shareholder would otherwise be entitled under this Scheme (or Fractions Aggregate, in respect of NAB) (on a volume weighted average basis so that all Selling Shareholders, and NAB, receive the same price per CYBG Security, subject to rounding down to the nearest whole cent); and

(iii) where the Selling Shareholder is an Ineligible Shareholder or has elected for the proceeds of sale attributable to them to be remitted to them – remits the proceeds of sale (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax) and any income attributable to the CYBG Securities to which such Selling Shareholder would otherwise be entitled under this Scheme due to the Selling Shareholder, under clause 4(b)(ii) to the Selling Shareholder, such amounts to be dispatched:

(A) for Selling Shareholders with a registered address in Australia, New Zealand, the United Kingdom and the United States who have a nominated bank account noted in the NAB Register at the Record Date, by direct credit to that nominated bank account; or

(B) for Selling Shareholders with a registered address in Australia, New Zealand, the United Kingdom and the United States who do not have a nominated bank account noted in the NAB Register at the Record Date, and for Selling Shareholders who do not have a registered address in Australia, New Zealand, the United Kingdom or the United States, by cheque to be mailed to that Selling Shareholder's address as shown in the NAB Register at the Record Date, payable in Australian dollars;

(iv) where the Selling Shareholder is not an Ineligible Shareholder and elects for the proceeds of sale attributable to them to be donated on their behalf to ShareGift – remits the proceeds of sale (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax) and any income attributable to the CYBG Securities to which such Selling Shareholder would otherwise be entitled under this Scheme due to the Selling Shareholder to ShareGift by cheque to be mailed to ShareGift's registered address, payable in Australian dollars; and

(v) in respect of the Fractions Aggregate – remits the proceeds of sale (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax) and any income attributable to the CYBG Securities comprising the Fractions Aggregate to NAB.

(c) NAB, in complying with the terms of clause 4(b) in respect of a Selling Shareholder will be taken to have satisfied and discharged its obligations to the relevant Selling Shareholder under the terms of the Capital Reduction Resolution and this Scheme. A Selling Shareholder will have no claim against NAB for any entitlement they would have had to CYBG Securities but for the terms of this Scheme.

(d) Under this Scheme, each Selling Shareholder agrees and acknowledges that the sale of the CYBG Securities to which that Selling Shareholder would have otherwise been entitled under this Scheme constitutes satisfaction of all that person's entitlements in and under this Scheme.

(e) Each Selling Shareholder appoints NAB as its agent to receive on its behalf any financial services guide or other notices which may be given by the Sale Agent to that Selling Shareholder.

5 Dealings in NAB Shares

5.1 NAB Register

Subject to the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, the establishment of who are Scheme Participants and their respective entitlements, will be determined solely on the basis of the NAB Register.

5.2 Determination of Scheme Participants

For the purpose of establishing who are Scheme Participants and their respective entitlements, subject to the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, dealings in NAB Shares will be recognised only if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the NAB Register as the holder of the relevant NAB Shares on or before the Record Date; and

(b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the NAB Share Registry before the Record Date with sufficient time to allow for registration of the transferee on or before the Record Date (and the transferee remains registered on the Record Date).

NAB will not accept for registration or recognise for the purposes of establishing who are Scheme Participants and their respective entitlements, any transmission application or transfer in respect of NAB Shares received after the Record Date.

6 General Scheme provisions

6.1 Agreement to become a member of CYBG

Under this Scheme, each Scheme Participant (including those Scheme Participants who do not attend the Scheme Meeting, do not vote at that meeting or vote against this Scheme) who will receive CYBG Shares or CYBG CDIs (as applicable):

(a) in the case of a Share Elected Shareholder if UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, agrees to become a member of CYBG, to have their name entered in the CYBG Register, accepts the CYBG Shares transferred to them and from the time and date on which the Demerger is implemented agrees to be bound by the CYBG Articles as a holder of CYBG Shares;

(b) in the case of a CDI Elected Shareholder and, if UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, a Share Elected Shareholder, agrees to have their name entered in the CYBG CDI sub-register and accepts the CYBG CDIs issued to them and from the time and date on which the Demerger is implemented agrees to be bound by the CYBG Articles as a holder of CYBG CDIs; and

(c) agrees and acknowledges that the issue and transfer of the CYBG Securities to which they are entitled under this Scheme in accordance with clause 3.3 constitutes satisfaction of all that person's rights and entitlements in respect of that person's Capital Reduction Portion,

without the need for any further act by a Scheme Participant.

6.2 Appointment of agent and attorney

(a) Each Scheme Participant, without the need for any further act, irrevocably appoints NAB as its agent and attorney for the purpose of executing any document or doing any other act necessary or desirable to give effect to the terms of this Scheme, including without limitation:

(i) the execution and delivery of any form or document required to effect the issue and transfer of CYBG Securities to Share Elected Shareholders (where UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date), the Authorised Nominee, the Sale Agent, NATL or any other person in accordance with the terms of this Scheme, and the delivery of any such form or document to CYBG;

(ii) the execution and delivery of any form or document required to effect the issue of CYBG CDIs to CDI Elected Shareholders and, where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, Share Elected Shareholders, and the delivery of any such form or document to CYBG;

(iii) executing any document or doing any other act necessary to give effect to the terms of this Scheme, including, without limitation, the communication of the Eligible Shareholder's consent, agreement, notification or instructions under clauses 4, 6.1, 6.3 and/or 6.4; and

(iv) the enforcement of the Deed Poll against CYBG (other than in respect of clause 5 of the Deed Poll),

and NAB accepts such appointment.

(b) NAB, as agent of each Scheme Participant, may sub-delegate its functions under clause 6.2(a) to all or any of its directors and secretaries (jointly and severally).

6.3 Instructions to NAB

Except for an Eligible Shareholder's tax file number, binding instructions, directions or notifications between an Eligible Shareholder and NAB relating to NAB Shares or an Eligible Shareholder's status as a NAB Shareholder (including, without limitation, any instructions in relation to payment of dividends or communications from NAB) will (to the extent permitted by law), from the Record Date, be deemed by reason of this Scheme to be similarly binding instructions, directions or notifications to, and accepted by, CYBG in respect of the CYBG Shares or CYBG CDIs (as applicable) issued or transferred to Eligible Shareholders until those instructions, directions or notifications are, in each case, revoked or amended in writing addressed to CYBG at its share registry.

6.4 Scheme Participants' consent

Each Scheme Participant irrevocably consents to NAB doing all things necessary, incidental or expedient to the implementation and performance of this Scheme and acknowledges and agrees that this Scheme binds NAB, all of the Scheme Participants from time to time (including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against this Scheme) and holders of CYBG Shares and CYBG CDIs from time to time.

6.5 Amendments to this Scheme

NAB may, by its counsel and with the consent of CYBG, consent, on behalf of all persons concerned (including a Scheme Participant), to any alterations or conditions to this Scheme as the Court thinks just to impose.

6.6 Costs, stamp duty and withholding tax

(a) NAB will pay any costs, and any stamp duty and any related fines or penalties, which are payable on or in respect of this Scheme or on any document referred to in this Scheme, including, without limitation, all brokerage and stamp duty payable in connection with the transfer of CYBG Shares to Share Elected Shareholders where UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date (or in the case of Selling Shareholders, CDI Elected Shareholders or, where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, Share Elected Shareholders to the Sale Agent or Authorised Nominee (as applicable)) in accordance with this Scheme.

(b) Where NAB is required to withhold any tax in connection with the distribution of CYBG Securities to an Eligible Overseas Shareholder under this Scheme, it reserves the right to sell all of the CYBG Securities to which the relevant Eligible Overseas Shareholder would otherwise have been entitled and to then remit the proceeds of that sale (net of the amount required to satisfy the withholding tax liability and excluding any interest) to the relevant Eligible Overseas Shareholder.

6.7 Further steps

NAB will execute all documents and do all acts and things necessary or desirable for the implementation and performance of its obligations under this Scheme and will, on behalf of Scheme Participants, procure that CYBG executes all documents and does all acts and things necessary or desirable for the implementation and performance of the steps attributed to CYBG under this Scheme.

6.8 Scheme binding

To the extent of any inconsistency between this Scheme and the NAB Constitution, this Scheme overrides the NAB Constitution and binds NAB and all Scheme Participants.

6.9 Enforcement of Deed Poll

NAB undertakes in favour of each Scheme Participant that it will enforce the Deed Poll against CYBG (other than in respect of clause 5 of the Deed Poll) on behalf of and as agent and attorney for Scheme Participants.

6.10 Governing law

This Scheme is governed by the law in force in Victoria, Australia.

6.11 Jurisdiction

Each party irrevocably and unconditionally:

(a) submits to the non-exclusive jurisdiction of the courts of Victoria, Australia; and

(b) waives, without limitation, any claim or objection based on absence of jurisdiction or inconvenient forum.

Annexure B
CYBG Deed Poll

Annexure B: CYBG Deed Poll

This deed poll
is made on 27 November 2015

By
CYBG PLC
Company Number: 9595911
20 Merrion Way
Leeds
West Yorkshire
LS2 8NZ

("**CYBG**")

In favour of
Each registered holder of fully paid ordinary shares in National Australia Bank Limited (ABN 12 004 044 937) ("**NAB**") as at the Record Date

Each registered holder of a CYBG CDI from time to time

Recitals

A On 27 November 2015 NAB and CYBG entered into the Demerger Implementation Deed, pursuant to which, among other things, NAB has agreed to propose the Scheme to the holders of NAB Shares and each of NAB and CYBG have agreed to take all steps required to give effect to the Scheme.

B In accordance with the Demerger Implementation Deed, CYBG is entering into this deed poll for the purpose of covenanting in favour of (i) Scheme Participants to perform the steps attributed to it under the Scheme and (ii) CDI Holders to comply with Chapter 13 of the ASX Settlement Operating Rules in respect of the CYBG CDIs.

1 Definitions and interpretation

1.1 Definitions

In this deed poll:

(a) **CDI Holder** means a person registered in the CYBG CDI sub-register as a holder of a CYBG CDI from time to time;

(b) **Demerger Implementation Deed** means the deed of that name between NAB, Clydesdale Bank PLC, CYBI and CYBG dated on or about the date of this deed poll in relation to the implementation of the Demerger and the Scheme;

(c) **Relevant Resolution Authority** and **Resolution Power** have the meaning given to them in the CYBG Articles;

(d) **Resolution Powers Provisions** means Articles 4 (Shares and CDIs subject to English law and Resolution Powers), 12 (CDIs) and 102 (Registers) of the CYBG Articles and/or any other provision of the CYBG Articles relating to the Resolution Powers;

(e) **Scheme** means the proposed scheme of arrangement under Part 5.1 of the Corporations Act between NAB and NAB Shareholders as set out in the Scheme Booklet, subject to any alterations or conditions made or required by the Supreme Court of Victoria pursuant to section 411(6) of the Corporations Act; and

(f) words and phrases used in the Scheme have the same meaning in this deed poll, unless the context requires otherwise.

1.2 Interpretation

Clauses 1.2 and 1.3 of the Scheme are included in this deed poll as if set out in full in this deed poll, and on the basis that references to "this Scheme" in those clauses are references to "this deed poll".

1.3 Nature of deed poll

CYBG acknowledges that:

(a) this deed poll may be relied on and enforced by any Scheme Participant and any CDI Holder in accordance with its terms even though the Scheme Participants and CDI Holders are not party to it and may not be in existence at the time of execution and delivery of this deed poll;

(b) under the Scheme, each Scheme Participant appoints NAB as its agent and attorney to enforce this deed poll (other than in respect of clause 5) against CYBG; and

(c) NAB may enforce this deed poll against CYBG (other than in respect of clause 5) in its own name even though NAB is not a party to this deed poll.

2 Conditions

2.1 Conditions

CYBG's obligations under this deed poll are subject to:

(a) the satisfaction or waiver of each condition in clause 2.1 of the Scheme in accordance with its terms; and

(b) the Scheme coming into effect, pursuant to section 411(10) of the Corporations Act, on lodgement with ASIC of the order of the Court made under sections 411(4)(b) and 411(6) of the Corporations Act.

2.2 Termination

If:

(a) the conditions in clause 2.1 of the Scheme are not satisfied or waived on or before the End Date; or

(b) the Demerger Implementation Deed is terminated in accordance with its terms,

subject to clause 2.3 below, CYBG's obligations under this deed poll automatically terminate.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, then in addition and without prejudice to any other rights, powers or remedies:

(a) CYBG is released from its obligations to further perform this deed poll except those obligations which by their nature survive termination; and

(b) each Scheme Participant retains any rights, powers or remedies that the Scheme Participant has against CYBG in respect of any breach of its obligations under this deed poll that occurred before termination of this deed poll.

3 CYBG obligations under the Scheme

3.1 Agreement to become members of CYBG

Under clause 6.1 of the Scheme, each Scheme Participant who receives:

(a) CYBG Shares: agrees to become a member of CYBG, to have their name entered in the CYBG Register, to accept the CYBG Shares transferred to them and from the time and date on which the Demerger is implemented to be bound by the CYBG Articles; and

(b) CYBG CDIs: agrees to have their name entered in the CYBG CDI sub-register, to accept the CYBG CDIs issued to them subject to the terms of this deed poll and from the time and date on which the Demerger is implemented to be bound by the CYBG Articles,

without the need for any further act by a Scheme Participant.

3.2 Obligation to issue CYBG Shares and CYBG CDIs

CYBG will:

(a) issue the relevant CYBG Shares to NAB (as nominee and bare trustee for the relevant Scheme Participant or the Sale Agent (as applicable) as described in clause 3.3 of the Scheme) on the Demerger Date, so that NAB can transfer the relevant CYBG Shares to or on behalf of Scheme Participants at the Transfer Time in accordance with the terms of the Scheme; and

(b) subject to NAB complying with its obligations to transfer the relevant CYBG Shares to the Authorised Nominee in accordance with the Scheme, procure the issue of CYBG CDIs in accordance with the Scheme to each CDI Elected Shareholder, NATL, the Sale Agent and (where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date) the Share Elected Shareholders.

3.3 Obligation to update CYBG Register and CYBG CDI sub-register

CYBG must procure the entry into:

(a) the CYBG Register, the name of, initially NAB (acting in its capacity as nominee and bare trustee) on the Demerger Date and then, following transfer of the CYBG Shares in accordance with the Scheme:

(i) the Share Elected Shareholders (where UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date) at the Transfer Time;

(ii) in the case of the CDI Elected Shareholders (and where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date the Share Elected Shareholders), the Authorised Nominee at the Transfer Time;

(iii) in the case of Selling Shareholders:

(A) where UK Admission has become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, (i) the Sale Agent (or NATL, as applicable) at the Transfer Time where the relevant CYBG Securities to which Selling Shareholders (or NATL, as applicable) would otherwise be entitled are CYBG Shares and (ii) the Authorised Nominee where the relevant CYBG Securities to which Selling Shareholders (or NATL, as applicable) would otherwise be entitled are CYBG CDIs; or

(B) where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Authorised Nominee at the Transfer Time; and

(iv) in respect of the Fractions Aggregate, the Sale Agent at the Transfer Time,

in respect of the CYBG Shares transferred to the relevant Share Elected Shareholder (or the Authorised Nominee or Sale Agent (or NATL), as applicable) in accordance with the Scheme; and

(b) the CYBG CDI sub-register, the name of the CDI Elected Shareholders or, in the case of Selling Shareholders, the Sale Agent (or NATL, as applicable) (and, where UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, the Share Elected Shareholders) in accordance with the Scheme.

3.4 Holding statements

In accordance with clause 3.5 of the Scheme, as soon as practicable after the Transfer Time and in accordance with the UK Listing Rules, CYBG must dispatch, or procure the dispatch, to:

(a) each Share Elected Shareholder, CREST account statements or share certificates (as applicable) for the CYBG Shares transferred in accordance with the Scheme, by pre-paid post to their registered address at the Record Date, unless the relevant shareholder has directed otherwise;

(b) in respect of each CDI Elected Shareholder (and, if UK Admission has not become effective by 7:00pm (AEDT) on the second Business Day after the Demerger Date, each Share Elected Shareholder):

(i) the Authorised Nominee, share certificates for the CYBG Shares transferred in accordance with the Scheme, by pre-paid post to the address notified by the Authorised Nominee; and

(ii) those shareholders, a holding statement for the CYBG CDIs for which they are entitled, by pre-paid post to their registered address at the Record Date, unless the relevant shareholder has directed otherwise; and

(c) in respect of a Selling Shareholder and in respect of the Fractions Aggregate, the Sale Agent (or NATL) (as applicable), holding statements for the CYBG CDIs issued or transferred to the Sale Agent (or NATL) (as applicable) in accordance with the Scheme, by pre-paid post to the address notified by the Sale Agent (or NATL) (as applicable).

3.5 Joint holders

(a) In the case of Scheme Participants who are not Selling Shareholders and who are joint holders of NAB Shares:

(i) entry in the CYBG Register or the CYBG CDI sub-register (as applicable) must take place in the same order as the holders' names appear in the NAB Register;

(ii) holding statements and CREST account statements in relation to the CYBG Shares (in dematerialised form) or CYBG CDIs (as applicable) must be issued in the names of the joint holders and will be forwarded to the holder whose name appears first in the NAB Register on the Record Date; and

(iii) share certificates in relation to the CYBG Shares (in materialised form, that is certificated form) must be issued in the names of the joint holders and will be forwarded to the holder whose name appears first in the NAB Register on the Record Date.

(b) In the case of Scheme Participants who are Selling Shareholders and who are joint holders of NAB Shares, any cheque or funds required to be paid to Selling Shareholders will be payable to the joint holders and will be forwarded to the holder whose name appears first in the NAB Register on the Record Date or in accordance with payment instructions in respect of the relevant holding recorded in the NAB Register on the Record Date.

4 Other obligations of CYBG in favour of Scheme Participants

Subject to clause 2, CYBG covenants in favour of Scheme Participants to:

(a) observe and perform the steps attributed to it under, and otherwise to comply with, the Scheme as if named as a party to the Scheme and do all acts and things necessary to give effect to the Scheme; and

(b) observe and perform the steps required of it under, and to otherwise comply with, the Demerger Implementation Deed (as it relates to the Scheme).

5 Other obligations in respect of CYBG CDIs

5.1 Terms of CYBG CDIs

CYBG procures the issue of the CYBG CDIs on and subject to the terms of this deed poll. A person becoming a CDI Holder by so doing agrees to take each CYBG CDI subject to, and be bound by, the terms of this deed poll.

5.2 Covenants

Subject to clause 2:

(a) CYBG covenants in favour of each CDI Holder to comply with Chapter 13 of the ASX Settlement Operating Rules in respect of the CYBG CDIs held by such CDI Holder; and

(b) as a fundamental and inseparable condition of holding each CYBG CDI and obtaining the benefit of this deed poll, each CDI Holder:

(i) acknowledges and agrees that any rights it has in respect of each CYBG Share the subject of each CYBG CDI held by it are subject to the exercise by any Relevant Resolution Authority of a Resolution Power and that it agrees with and is bound by the Resolution Powers Provisions;

(ii) irrevocably directs the Authorised Nominee to dispose of or otherwise deal with, and consent in any disposal of or dealing with, the CYBG Shares in accordance with the Resolution Powers Provisions; and

(iii) acknowledges and agrees that it is not entitled to proceed directly against CYBG in respect of a failure to comply with Chapter 13 of the ASX Settlement Operating Rules unless:

(A) the Authorised Nominee has been directed to do so in accordance with ASX Settlement Operating Rule 13.6.9;

(B) the Authorised Nominee has failed to act as directed; and

(C) such failure is continuing and has not been remedied within a reasonable time.

6 Warranties

CYBG represents and warrants that:

(a) it is a company validly existing under the laws of England and Wales;

(b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;

(c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and

(d) this deed poll is valid and binding on it.

7 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

(a) CYBG has fully performed its obligations under this deed poll; or

(b) the earlier termination of this deed poll under clause 2.

8 Notices

8.1 Form – all communications

Unless expressly stated otherwise in this deed poll, all notices, certificates, consents, approvals, waivers and other communications in connection with this deed poll must be:

(a) in writing and in English;

(b) signed by the sender (if an individual) or an authorised officer of the sender; and

(c) sent to the address set out below marked for the attention of the person identified:

Attention: Company Secretary

Address: 20 Merrion Way
Leeds
West Yorkshire
LS2 8NZ
United Kingdom

8.2 Delivery

Communications must be:

(a) left at the address set out or referred to in clause 8.1;

(b) sent by pre-paid ordinary post (airmail if appropriate) to the address set out or referred to in clause 8.1; or

(c) given in any other way permitted by law.

However, if the intended recipient has notified a changed address, then communications must be to that address.

8.3 When effective

Communications take effect from the time they are received or taken to be received under clause 8.4 (whichever happens first) unless a later time is specified.

8.4 When taken to be received

Communications are taken to be received, if sent by post, three days after posting (or seven days after posting if sent from one country to another).

8.5 Receipt outside business hours

Despite clauses 8.3 and 8.4, if communications are received or taken to be received under clause 8.4 after 5:00pm in the place of receipt or on a non-Business Day, they are taken to be received at 9:00am in the place of receipt on the next Business Day and take effect from that time unless a later time is specified. A communication delivered or received before 9:00am in the place of receipt is taken to be received at 9:00am.

9 General

9.1 Governing law and jurisdiction

This deed poll is governed by the laws of Victoria, Australia. CYBG irrevocably submits to the non-exclusive jurisdiction of the courts of Victoria, Australia. CYBG irrevocably waives any objection to the venue of any legal process in these courts on the basis of an absence of jurisdiction or that the process has been brought in an inconvenient forum.

9.2 Waiver

(a) A right or remedy arising under this deed poll may not be waived except in writing, signed by the party granting the waiver.

(b) A failure to exercise a right or remedy arising under this deed poll fully or at a given time does not result in a waiver of that right or remedy.

(c) A party is not entitled to rely on a delay in the exercise or non-exercise of a right or remedy arising from a breach of this deed poll or on a default under this deed poll as constituting a waiver of that right or remedy.

(d) A party may not rely on any conduct of another party as a defence to the exercise of a right or remedy arising under this deed poll by that other party.

(e) This clause 9.2 may not be waived except in writing.

9.3 Variation

A provision of this deed poll may not be varied unless:

(a) before the Second Court Date, the variation is agreed to in writing by NAB and CYBG; or

(b) on or after the Second Court Date, the variation is agreed to in writing by NAB and CYBG and is approved by the Court,

in which event CYBG will enter into a further deed poll in favour of the Scheme Participants and CDI Holders giving effect to the amendment.

9.4 Severability

If the whole or any part of a provision of this document is void, unenforceable or illegal in a jurisdiction it is severed for that jurisdiction. The remainder of this document has full force and effect and the validity or enforceability of that provision in any other jurisdiction is not affected. This clause 9.4 has no effect if the severance alters the basic nature of this document or is contrary to public policy.

9.5 Cumulative rights

The rights, powers and remedies of CYBG, the Scheme Participants and CDI Holders under this deed poll are cumulative and do not exclude any other rights, powers or remedies given by law independently of this deed poll.

9.6 Assignment

(a) The rights and obligations of CYBG and the rights of each Scheme Participant and CDI Holder under this deed poll are personal and must not be assigned or otherwise dealt with at law or in equity.

(b) Any purported dealing in contravention of clause 9.6(a) is invalid.

9.7 Further steps

CYBG must at its own expense promptly do all things and execute all further documents necessary to give effect to this deed poll and the transactions contemplated by it.

EXECUTED as a deed poll

EXECUTED AS A DEED POLL by **CYBG PLC** by its Attorney under Power of Attorney dated 20 November 2015 in the presence of:

…………………………………………………………….

Signature of witness

…………………………………………………………….

Name of witness (block letters)

…………………………………………………………….

Address of witness

…………………………………………………………….

Signature of Attorney

…………………………………………………………….

Name of Attorney (block letters)

Annexure C

Notice of Scheme Meeting

Annexure C: Notice of Scheme Meeting

Notice of Court ordered meeting of holders of NAB Shares

National Australia Bank Limited (ABN 12 004 044 937)

By order of the Supreme Court of Victoria made on 7 December 2015 pursuant to section 411(1) of the *Corporations Act*, a meeting of holders of ordinary shares in National Australia Bank Limited ("NAB") will be held from 10:00am Australian Eastern Daylight Time (AEDT) on Wednesday 27 January 2016 at the Melbourne Room 2, Melbourne Convention and Exhibition Centre, 1 Convention Centre Place, South Wharf, Victoria, Australia.

The Court has directed that Dr Ken Henry act as Chairman of the meeting, or failing him Mr Daniel Gilbert, and has directed the Chairman to report the result of the meeting to the Court.

Information on the Scheme is set out in the Scheme Booklet of which this notice forms part. The Scheme Booklet includes the explanatory statement required by section 412(1) of the *Corporations Act* in relation to the Scheme. Terms used in this notice have the same meaning as set out in the Glossary to the Scheme Booklet, unless indicated otherwise.

Business of the Scheme Meeting

The purpose of the meeting is to consider and, if thought fit, to agree (with or without modifications or conditions) to a scheme of arrangement proposed to be made between NAB and the holders of its ordinary shares.

Scheme Resolution

"That pursuant to, and in accordance with, section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between NAB and the holders of its ordinary shares as contained in and more particularly described in the Scheme Booklet of which the notice convening this meeting forms part, is agreed to (with or without modifications or conditions as may be approved by the Supreme Court of Victoria)."

Entitlement to attend and vote at the Scheme Meeting

All NAB Shareholders may attend the Scheme Meeting. The NAB Board has determined that for the purposes of voting at the Scheme Meeting, NAB Shareholders will be taken to be those persons recorded on NAB's register of members as at 7:00pm AEDT on 25 January 2016.

In the case of joint NAB Shareholders, all holders may attend the Scheme Meeting but only one holder may vote in respect of the relevant NAB Shares (including by proxy). If more than one joint holder is present, and more than one of the joint holders vote in respect of the relevant NAB Shares, only the vote of the joint holder whose name stands first in the register in respect of the relevant NAB Shares is counted. A corporate NAB Shareholder may appoint one or more persons to act as its representative(s), but only one representative may exercise the corporate NAB Shareholder's powers at any one time. NAB requires appropriate evidence of the appointment.

Proxy votes

You can appoint a proxy to attend and vote for you at the Scheme Meeting in accordance with the directions on the Scheme Meeting Proxy Form. If no directions as to voting are given to the proxy on the Scheme Meeting Proxy Form, the proxy may vote as he or she thinks fit, to the extent permitted by law.

If you are entitled to cast two or more votes, you may appoint no more than two proxies to attend and vote for you at the Scheme Meeting and specify the proportion or number of votes each proxy may exercise.

If you appoint a body corporate as a proxy, that body corporate will need to ensure that it appoints an individual as its corporate representative to exercise its powers at the Scheme Meeting and provide satisfactory evidence of the appointment of its corporate representative prior to the commencement of the Scheme Meeting.

A corporate NAB Shareholder must sign the Scheme Meeting Proxy Form in accordance with the NAB constitution or otherwise in accordance with the *Corporations Act*. Where the Scheme Meeting Proxy Form is signed by a duly authorised person or persons of a corporate shareholder, such authorisation must have been sighted at NAB's Share Registry.

NAB's constitution and the *Corporations Act* require that, to be effective, a Scheme Meeting Proxy Form together with any power of attorney under which it is executed or a certified copy of the relevant authority, must be received by the NAB Share Registry, by post, by facsimile, by delivery in person or by being submitted online (as detailed further below) no later than 2:00pm AEDT on 25 January 2016.

A proxy does not need to be a NAB Shareholder and may be an individual or a body corporate.

A proxy who is not the Chairman of the Scheme Meeting need not vote in that capacity on a poll of the Scheme Resolution. If the proxy's appointment specifies the way to vote on the Scheme Resolution and the proxy decides to vote in that capacity on the Scheme Resolution, the proxy must vote the way specified (subject to the other provisions of this Notice).

If the proxy's appointment specifies the way to vote on the Scheme Resolution, and the proxy does not attend the Scheme Meeting or does not vote on the Scheme Resolution, then such directed proxies will default to the Chairman of the Scheme Meeting who must vote the proxies as directed.

Annexure C: Notice of Scheme Meeting

If the Chairman of the Scheme Meeting is appointed, or taken to be appointed, as proxy, but the appointment does not specify the way to vote on the Scheme Resolution, then the Chairman of the Scheme Meeting intends to exercise the relevant NAB Shareholder's votes in favour of the Scheme Resolution (subject to the other provisions of this Notice).

Online Proxy

You may submit your proxy online by using your smartphone or by visiting the Demerger Website **www.clydesdaledemerger.com.au**.

To use this option, you will need your Securityholder Reference Number ("**SRN**") or Holder Identification Number ("**HIN**"). You will be taken to have signed the Scheme Meeting Proxy Form if you lodge it in accordance with the instructions on the website. To use your smartphone voting service, scan the QR code which appears on the top of your Scheme Meeting Proxy Form and follow the instructions provided. To scan the code you need to have already downloaded a free QR code reader app to your smartphone. When scanned, the QR code will take you directly to the Demerger Website. A proxy cannot be appointed electronically if they are appointed under a Power of Attorney or similar authority. The online proxy facility may not be suitable for NAB Shareholders who wish to appoint two proxies with different voting directions. Please read the instructions for online proxy submissions carefully before you lodge your proxy.

Custodians and other intermediaries may submit their proxy online by visiting **www.intermediaryonline.com** (subscribers only).

To be effective, a Proxy Form submitted online must be received by the NAB Share Registry no later than 2:00pm AEDT on 25 January 2016.

Proxy by post, facsimile or delivery in person

A Scheme Meeting Proxy Form and a pre-addressed envelope are enclosed. Additional information on proxies is included on the form, including how to appoint proxies, specifying the proportion of votes per proxy where two proxies are appointed, and instructions on voting by proxies.

A completed Scheme Meeting Proxy Form must be received by the NAB Share Registry no later than 2:00pm AEDT on 25 January 2016 by fax on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia) or by post or delivery in person at the following addresses:

By post

Share Registry
National Australia Bank Limited
GPO Box 2333
Melbourne Victoria 3001
AUSTRALIA

In person

Share Registry
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
AUSTRALIA

Court approval

In accordance with section 411(4)(b) of the *Corporations Act*, the Scheme (with or without modifications or conditions) must be approved by an order of the Court. If the resolution put to this meeting is passed by the required majorities (a majority in number of NAB Shareholders present and voting, and at least 75% of the total number of votes cast on the resolution) and the other Conditions Precedent to the Scheme are satisfied or waived (including the NAB Capital Reduction Resolution being passed at the General Meeting), NAB intends to apply to the Court on 1 February 2016 for approval of the Scheme.

By order of the Board

Louise Thomson
Company Secretary

7 December 2015

Annexure D
Notice of General Meeting and Explanatory Notes

Annexure D:
Notice of General Meeting and Explanatory Notes

Notice of General Meeting

National Australia Bank Limited
(ABN 12 004 044 937)

Notice is given that a General Meeting of National Australia Bank Limited ("NAB") shareholders and NAB Tier 1 Securityholders will be held at 10:15am Australian Eastern Daylight Time (AEDT) or immediately after the conclusion of the Scheme Meeting (whichever occurs later), on Wednesday 27 January 2016 at the Melbourne Room 2, Melbourne Convention and Exhibition Centre, 1 Convention Centre Place, South Wharf, Victoria, Australia for the purpose of transacting the following business.

Information on the NAB Capital Reduction and the CYBG Capital Reduction is set out in the Scheme Booklet of which this notice forms part. Terms used in this notice have the same meaning as set out in the Glossary to the Scheme Booklet (of which this notice forms part), unless indicated otherwise.

Business of the General Meeting

The purpose of the meeting is to consider the following:

NAB Capital Reduction Resolution

To consider and, if thought fit, to approve the following as an ordinary resolution:

"That, subject to and conditional on the Scheme becoming effective in accordance with section 411(10) of the Corporations Act and for the purpose of section 256C(1) of the Corporations Act and for all other purposes, NAB's Share capital be reduced on the Demerger Date by the Capital Reduction Aggregate Amount, with the reduction to be effected and satisfied by applying the Capital Reduction Aggregate Amount equally against each NAB Share on issue on the Scheme Record Date in accordance with the Scheme."

CYBG Capital Reduction Resolution

To consider and, if thought fit, to approve the following as an ordinary resolution:

"That, subject to and conditional on: (i) the Scheme becoming effective in accordance with section 411(10) of the Corporations Act, and (ii) the ordinary shares of 125 British pence each (or such other nominal value as CYBG PLC (registered number 9595911) shall resolve) in the capital of CYBG PLC (the "CYBG Ordinary Shares") required to be allotted and issued by CYBG PLC pursuant to the terms of the Sale and Purchase Agreement as contemplated by the Scheme having been allotted and issued and registered in the name of NAB in the CYBG Register, the reduction of the nominal value of each CYBG Ordinary Share from 125 British pence (or such other nominal value as CYBG PLC shall resolve) to 10 British pence be approved."

Entitlement to attend and vote at the General Meeting

All NAB Shareholders and NAB Tier 1 Securityholders may attend the General Meeting. NAB Shareholders are entitled to vote on both the NAB Capital Reduction Resolution and the CYBG Capital Reduction Resolution. NAB Tier 1 Securityholders are entitled to vote on the NAB Capital Reduction Resolution only.

The NAB Board has determined that for the purposes of voting at the General Meeting:

- NAB Shareholders will be taken to be those persons recorded on NAB's register of members as at 7:00pm AEDT on 25 January 2016; and
- NAB Tier 1 Securityholders will be taken to be those persons recorded on a NAB Tier 1 Security Register as at 7:00pm AEDT on 25 January 2016.

In the case of joint NAB Shareholders or joint NAB Tier 1 Securityholders, all holders may attend the General Meeting but only one holder may vote in respect of the relevant NAB Shares or NAB Tier 1 Securities (including by proxy). If more than one joint holder is present, and more than one of the joint holders vote in respect of the relevant NAB Shares or NAB Tier 1 Securities, only the vote of the joint holder whose name stands first in the register in respect of the relevant NAB Shares or NAB Tier 1 Securities is counted. A corporate NAB Shareholder or corporate NAB Tier 1 Securityholder may appoint one or more persons to act as its representative(s), but only one representative may exercise the corporate NAB Shareholder's or corporate NAB Tier 1 Securityholder's powers at any one time. NAB requires appropriate evidence of the appointment.

Proxy votes

You can appoint a proxy to attend and vote for you at the General Meeting in accordance with the directions on the General Meeting Proxy Form. If no directions as to voting are given to the proxy on the General Meeting Proxy Form, the proxy may vote as he or she thinks fit, to the extent permitted by law.

If you are entitled to cast two or more votes, you may appoint no more than two proxies to attend and vote for you at the General Meeting and specify the proportion or number of votes each proxy may exercise.

If you appoint a body corporate as a proxy, that body corporate will need to ensure that it appoints an individual as its corporate representative to exercise its powers at the General Meeting and provide satisfactory evidence of the appointment of its corporate representative prior to the commencement of the General Meeting.

A corporate NAB Shareholder or a corporate NAB Tier 1 Securityholder must sign the proxy form in accordance with the NAB constitution or otherwise in accordance with the *Corporations Act*. Where the General Meeting Proxy Form is signed under the hand of a duly authorised person or persons of a corporate securityholder, such authorisation must have been sighted at the NAB Share Registry.

NAB's constitution and the *Corporations Act* require that, to be effective, the General Meeting Proxy Form together with any power of attorney under which it is executed or a certified copy of the relevant authority, must be received by the NAB Share Registry, by post, by facsimile, by delivery in person or by being submitted online (as detailed further below) no later than 2:00pm AEDT on 25 January 2016.

A proxy does not need to be a NAB Shareholder, or a NAB Tier 1 Securityholder, and may be an individual or a body corporate.

A proxy who is not the Chairman of the General Meeting need not vote in that capacity on a poll of the NAB Capital Reduction Resolution or (in the case of a NAB Shareholder) the CYBG Capital Reduction Resolution. If the proxy's appointment specifies the way to vote on the NAB Capital Reduction Resolution or (in the case of a NAB Shareholder) the CYBG Capital Reduction Resolution and the proxy decides to vote in that capacity on the NAB Capital Reduction Resolution or the CYBG Capital Reduction Resolution (as the case may be), the proxy must vote the way specified (subject to the other provisions of this Notice).

If the proxy's appointment specifies the way to vote on the NAB Capital Reduction Resolution or (in the case of a NAB Shareholder) the CYBG Capital Reduction Resolution, and the proxy does not attend the General Meeting or does not vote on the NAB Capital Reduction Resolution or the CYBG Capital Reduction Resolution, then such directed proxies will default to the Chairman of the General Meeting who must vote the proxies as directed.

If the Chairman of the General Meeting is appointed, or taken to be appointed, as proxy, but the appointment does not specify the way to vote on the NAB Capital Reduction Resolution or (in the case of a NAB Shareholder) the CYBG Capital Reduction Resolution, then the Chairman of the General Meeting intends to exercise the relevant NAB Shareholder's votes in favour of the NAB Capital Reduction Resolution and the CYBG Capital Reduction Resolution (subject to the other provisions of this Notice) or NAB Tier 1 Securityholder's votes in favour of the NAB Capital Reduction Resolution.

Online Proxy

You may submit your proxy online by using your smartphone or by visiting the Demerger Website **www.clydesdaledemerger.com.au**.

To use this option, you will need your Securityholder Reference Number ("**SRN**") or Holder Identification Number ("**HIN**"). You will be taken to have signed the General Meeting Proxy Form if you lodge it in accordance with the instructions on the website. To use your smartphone voting service, scan the QR code which appears on the top of your General Meeting Proxy Form and follow the instructions provided. To scan the code you need to have already downloaded a free QR code reader app to your smartphone. When scanned, the QR code will take you directly to the Demerger Website. A proxy cannot be appointed electronically if they are appointed under a Power of Attorney or similar authority. The online proxy facility may not be suitable for NAB Shareholders or NAB Tier 1 Securityholders who wish to appoint two proxies with different voting directions. Please read the instructions for online proxy submissions carefully before you lodge your proxy.

Custodians and other intermediaries may submit their proxy online by visiting **www.intermediaryonline.com** (subscribers only).

To be effective, a Proxy Form submitted online must be received by the NAB Share Registry no later than 2:00pm AEDT on 25 January 2016.

Proxy by post, facsimile or delivery in person

A General Meeting Proxy Form and a pre-addressed envelope are enclosed. Additional information on proxies is included on the form, including how to appoint proxies, specifying the proportion of votes per proxy where two proxies are appointed, and instructions on voting by proxies.

A completed General Meeting Proxy Form must be received by the NAB Share Registry no later than 2:00pm AEDT on 25 January 2016 by fax on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia) or by post or delivery in person at the following addresses:

By post

Share Registry
National Australia Bank Limited
GPO Box 2333
Melbourne Victoria 3001
AUSTRALIA

In person

Share Registry
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
AUSTRALIA

By order of the Board

Louise Thomson
Company Secretary

7 December 2015

Annexure D: Notice of General Meeting and Explanatory Notes

Explanatory Notes

The NAB Capital Reduction Resolution

The NAB Capital Reduction Resolution is being put to NAB Shareholders and NAB Tier 1 Securityholders at the General Meeting to obtain approval under section 256C of the *Corporations Act*, and for all other purposes, of an equal capital reduction in NAB's ordinary share capital under section 256B of the *Corporations Act*. The NAB Capital Reduction is a return of capital on NAB Shares on the Demerger Date by the Capital Reduction Aggregate Amount which, under the Scheme, will be satisfied by the issue of CYBG Shares by CYBG PLC to, or for the benefit of, Scheme Participants.

Under the Scheme, the Capital Reduction Aggregate Amount will be calculated by multiplying the number of NAB Shares on issue at the Record Date by a quarter of the "Average VWAP", being broadly the average trading price of the CYBG Securities respectively on ASX and LSE over the first five days of trading of those securities following the Effective Date. The Capital Reduction Aggregate Amount is determined using a quarter of the Average VWAP to reflect that NAB Shareholders will receive one CYBG Security for every four NAB Shares held at the Record Date. Please refer to the Scheme for the precise terms of how the Average VWAP will be calculated.

The NAB Capital Reduction Resolution is a resolution to approve the NAB Capital Reduction. The NAB Capital Reduction Resolution must be approved by a simple majority of votes cast by NAB Shareholders and NAB Tier 1 Securityholders (either in person or by proxy) on the resolution in order to be passed.

The effects on NAB and members of NAB if the NAB Capital Reduction Resolution is passed, together with all other factors that are material to the making of a decision by NAB Shareholders and NAB Tier 1 Securityholders whether to approve the NAB Capital Reduction Resolution, are set out in the Scheme Booklet, of which this notice forms part, including these Explanatory Notes. The Scheme Booklet includes a statement of all the information known to NAB that is material to NAB Shareholders and NAB Tier 1 Securityholders in deciding how to vote on the NAB Capital Reduction Resolution (other than information that is unreasonable to require NAB to disclose because NAB has previously disclosed the information to NAB Shareholders and NAB Tier 1 Securityholders), as required by section 256C(4) of the *Corporations Act*.

If the NAB Capital Reduction Resolution is passed by the required majority (more than 50% of the total number of votes cast on the resolution), it will take effect on the Demerger Date provided the Scheme is approved by the required majorities of NAB Shareholders and by the Court and all other conditions to the Scheme are satisfied (or waived). The NAB Capital Reduction Resolution is being proposed in connection with the Scheme and is conditional on NAB Shareholders approving the Scheme. The NAB Capital Reduction Resolution is subject to and conditional on the Scheme becoming Effective. This means that NAB will not undertake the NAB Capital Reduction unless the Scheme Resolution is passed and unless the Scheme becomes Effective.

The NAB Directors are of the view that, taking into account all relevant matters, the NAB Capital Reduction is fair and reasonable to members of NAB as a whole and will not materially prejudice the ability of NAB to pay its creditors. **The NAB Directors unanimously recommend that NAB Shareholders and NAB Tier 1 Securityholders vote in favour of the NAB Capital Reduction Resolution, as they intend to do in respect of the NAB Shares and NAB Tier 1 Securities controlled by them.**

CYBG Capital Reduction Resolution

The CYBG Capital Reduction Resolution is being put to NAB Shareholders at the General Meeting to obtain approval for the reduction in the nominal (par) value of the CYBG Shares in accordance with the *Companies Act (UK)* following implementation of the Demerger. NAB (as the current sole shareholder of CYBG PLC) has passed a special resolution approving the CYBG Capital Reduction. As NAB Shareholders will become CYBG Securityholders if the Demerger is implemented, confirmatory approval of the NAB Shareholders in relation to the CYBG Capital Reduction will be sought at the General Meeting.

The CYBG Capital Reduction Resolution must be approved by a simple majority of votes cast by NAB Shareholders (either in person or by proxy) on the resolution in order to be passed. The CYBG Capital Reduction is conditional upon the CYBG Capital Reduction Resolution being passed at the General Meeting, the Demerger being implemented, the UK Court confirming the CYBG Capital Reduction and the Registrar of Companies registering an office copy of the CYBG Court Order and the CYBG Statement of Capital. If the CYBG Capital Reduction Resolution is passed and the other conditions to the CYBG Capital Reduction are satisfied, it is anticipated that the CYBG Capital Reduction will become effective on 11 February 2016.

The NAB Directors unanimously recommend that NAB Shareholders vote in favour of the CYBG Capital Reduction Resolution, as they intend to do in respect of the NAB Shares controlled by them.

Annexure E
NAB (after the Demerger) Pro Forma Historical Financial Information Reconciliations, Key Metrics and Other Financial Information

Annexure E:
NAB (after the Demerger) Pro Forma Historical Financial Information Reconciliations, Key Metrics and Other Financial Information

1. Reconciliations of pro forma historical income statements

The reconciliations of NAB historical consolidated income statements to NAB (after the Demerger) Pro Forma Historical Income Statements for the years ended 30 September 2015 and 30 September 2014 and NAB historical results presented on a Cash Earnings basis to NAB (after the Demerger) Pro Forma Historical Income – Cash Earnings Basis for the years ended 30 September 2015 and 30 September 2014, are set out in Tables 26 – 29 below.

NAB historical consolidated income statements have been adjusted to deconsolidate the historical results of CYBG Group to present a pro forma view of NAB excluding CYBG Group on a continuing basis.

Table 26: Reconciliation of NAB historical income statement to NAB (after the Demerger) Pro Forma Historical Income Statement – Statutory basis for the year ended 30 September 2015

For the year ended 30 September 2015[1] AUD $'m	NAB Group	CYBG HFI 30 September 2015[a]	AASB 9[b]	Reclassification of intercompany balances[c]	Other Demerger adjustments[d]	**NAB Group pro forma**
Interest income	30,419	(2,183)	-	110	-	**28,346**
Interest expense	(16,437)	636	-	(110)	27	**(15,884)**
Net Interest income	**13,982**	**(1,547)**	**-**	**-**	**27**	**12,462**
Net life insurance income	**568**	**-**	**-**	**-**	**-**	**568**
Gains less losses on financial instruments at fair value	1,578	(3)	-	-	(39)	**1,536**
Other operating income	4,048	(470)	-	75	43	**3,696**
Total other income	**5,626**	**(473)**	**-**	**75**	**4**	**5,232**
Personnel expenses	(4,635)	522	-	-	17	**(4,096)**
Occupancy-related expenses	(633)	196	-	-	(49)	**(486)**
General expenses	(4,984)	1,806	-	(37)	1	**(3,214)**
Total operating expenses	**(10,252)**	**2,524**	**-**	**(37)**	**(31)**	**(7,796)**
Charge to provide for doubtful debts	(844)	152	(43)	-	-	**(735)**
Profit before income tax expense	9,080	656	(43)	38	**-**	**9,731**
Income tax expense	(2,717)	(138)	9	-	-	**(2,846)**
Net profit for the period from continuing operations	**6,363**	**518**	**(34)**	**38**	**-**	**6,885**
Profit or loss after tax for the year from discontinued operations	29	-	-	-	-	29
Net profit for the period	**6,392**	**518**	**(34)**	**38**	**-**	**6,914**
Attributable to owners of NAB	6,338	518	(34)	38	-	6,860
Attributable to non-controlling interests	54	-	-	-	-	54

(1) Information is presented on a continuing operations basis including prior period restatements.

(a) Extracted from CYBG HFI Income Statements as disclosed in Section 3 of this Scheme Booklet, translated to AUD.

(b) NAB has elected to early adopt AASB 9 which is applied from 1 October 2014. The full impact and disclosure of the early adoption of AASB 9 on the NAB results is included in NAB results announcement for the year ended 30 September 2015 which is available at **www.nab.com.au** or on ASX (**www.asx.com.au**). This adjustment represents the accounting adjustments required for CYBG Group to report under NAB's accounting policies as the CYBG HFI does not reflect the early adoption of AASB 9.

(c) Adjustment to appropriately reflect the intercompany income and expenses between NAB and CYBG Group that were previously eliminated upon consolidation.

(d) Adjustment to reflect the differences in income statement presentation between CYBG Group and NAB to align statutory reporting with local regulatory reporting where there is flexibility in the accounting presentation under IFRS.

Annexure E: NAB (after the Demerger) Pro Forma Historical Financial Information Reconciliations, Key Metrics and Other Financial Information

Table 27: Reconciliation of NAB historical income statement to NAB (after the Demerger) Pro Forma Historical Income Statement – Statutory basis for the year ended 30 September 2014

For the full year ended 30 September 2014[1] AUD $'m	NAB Group	CYBG HFI 30 September 2014[a]	Reclassification of intercompany balances[b]	Other Demerger adjustments[c]	**NAB Group pro forma**
Interest income	30,419	(2,043)	97	-	**28,473**
Interest expense	(17,004)	630	(97)	24	**(16,447)**
Net interest income	**13,415**	**(1,413)**	**-**	**24**	**12,026**
Net life insurance income	**542**	**-**	**-**	**-**	**542**
Gains less losses on financial instruments at fair value	999	14	-	(34)	**979**
Other operating income	3,900	(369)	40	34	**3,605**
Total other income	**4,899**	**(355)**	**40**	**-**	**4,584**
Personnel expenses	(4,429)	516	-	4	**(3,909)**
Occupancy-related expenses	(628)	140	-	(12)	**(500)**
General expenses	(5,170)	1,399	(37)	(16)	**(3,824)**
Total operating expenses	**(10,227)**	**2,055**	**(37)**	**(24)**	**(8,233)**
Charge to provide for doubtful debts	(847)	133	-	-	**(714)**
Profit before income tax expense	7,782	420	3	-	**8,205**
Income tax expense	(2,598)	(78)	-	-	**(2,676)**
Net profit for the period from continuing operations	**5,184**	**342**	**3**	**-**	**5,529**
Profit or loss after tax for the year from discontinued operations	114	-	-	-	114
Net profit for the period	**5,298**	**342**	**3**	**-**	**5,643**
Attributable to owners of NAB	5,295	342	3	-	5,640
Attributable to non-controlling interests	3	-	-	-	3

(1) Information is presented on a continuing operations basis including prior period restatements.

(a) Extracted from CYBG HFI Income Statements as disclosed in Section 3, translated to AUD.

(b) Adjustment to appropriately reflect the intercompany income and expenses between NAB and CYBG Group that were previously eliminated upon consolidation.

(c) Adjustment to reflect the differences in income statement presentation between CYBG Group and NAB to align statutory reporting with local regulatory reporting where there is flexibility in the accounting presentation under IFRS.

Table 28: Reconciliation of NAB historical results presented on a Cash Earnings basis to NAB (after the Demerger) Pro Forma Historical Income Statement – Cash Earnings basis for the year ended 30 September 2015

For the year ended 30 September 2015[1] AUD $'m	NAB Group	CYBG HFI 30 September 2015[(a)]	AASB 9[(b)]	Reclassification of intercompany balances[(c)]	Other Demerger adjustments[(d)]	**NAB Group pro forma**
Net interest income	14,017	(1,547)	-	-	27	**12,497**
Other operating income	5,262	(387)	-	75	39	**4,989**
Investment earnings on retained earnings (IoRE)	19	-	-	-	-	**19**
Net operating income	19,298	(1,934)	-	75	66	**17,505**
Operating expenses	(9,899)	2,519	-	(37)	(31)	**(7,448)**
Underlying profit	9,399	585	-	38	35	**10,057**
Charge to provide for bad and doubtful debts	(823)	152	(43)	-	(35)	**(749)**
Cash Earnings before tax and distributions	8,576	737	(43)	38	-	**9,308**
Income tax expense	(2,562)	(123)	9	-	-	**(2,676)**
Cash Earnings before distributions	6,014	614	(34)	38	-	**6,632**
Distributions	(175)	-	-	-	-	**(175)**
Cash earnings	5,839	614	(34)	38	-	**6,457**
Non-cash earnings items (after tax)[2]	518	(96)	-	-	-	**422**
Net profit from continuing operations	6,357	518	(34)	38	-	**6,879**
Net profit/(loss) from discontinued operations	(19)	-	-	-	-	**(19)**
Net profit attributable to the owners of NAB	6,338	518	(34)	38	-	**6,860**

(1) Information is presented on a continuing operations basis including prior period restatements.

(2) Non cash earnings items include a loss incurred by NAB (after the Demerger) in FY15 relating to the restructure of capital instruments issued by CYBG Group, with a corresponding gain being recognised in CYBG Group of $116 million or £59 million (nil for NAB prior to Demerger). The capital restructure was undertaken to replace instruments which were non-compliant for CRD IV purposes, with AT1 instruments. The profit or loss impact of the capital restructure was booked in other operating income and was not subject to tax, and has been excluded from cash earnings to better illustrate the underlying performance of NAB (after the Demerger).

(a) Extracted from CYBG HFI Income Statements as disclosed in Section 3, translated to AUD.

(b) NAB has elected to early adopt AASB 9 which is applied from 1 October 2014. The full impact and disclosure of the early adoption of AASB 9 on the NAB results is included in NAB results announcement for the year ended 30 September 2015 which is available at **www.nab.com.au** or on ASX (**www.asx.com.au**). This adjustment represents the accounting adjustments required for CYBG Group to report under NAB's accounting policies as the CYBG HFI does not reflect the early adoption of AASB 9.

(c) Adjustment to appropriately reflect the intercompany income and expenses between NAB and CYBG Group that were previously eliminated upon consolidation.

(d) Adjustment to reflect the differences in income statement presentation between CYBG Group and NAB to align statutory reporting with local regulatory reporting where there is flexibility in the accounting presentation under IFRS.

Annexure E: NAB (after the Demerger) Pro Forma Historical Financial Information Reconciliations, Key Metrics and Other Financial Information

Table 29: Reconciliation of NAB historical results presented on a Cash Earnings basis to NAB (after the Demerger) Pro Forma Historical Income Statement – Cash Earnings basis for the year ended 30 September 2014

For the year ended 30 September 2014[1] AUD $'m	NAB Group	CYBG HFI 30 September 2014[a]	Reclassification of intercompany balances[b]	Other Demerger adjustments[c]	**NAB Group pro forma**
Net interest income	13,451	(1,413)	-	24	**12,062**
Other operating income	5,036	(354)	40	(11)	**4,711**
Investment earnings on retained earnings (IoRE)	34	-	-	-	**34**
Net operating income	18,521	(1,767)	40	13	**16,807**
Operating expenses	(9,987)	2,056	(37)	(24)	**(7,992)**
Underlying profit	8,534	289	3	(11)	**8,815**
Charge to provide for bad and doubtful debts	(869)	133	-	11	**(725)**
Cash Earnings before tax and distributions	7,665	422	3	-	**8,090**
Income tax expense	(2,430)	(79)	-	-	**(2,509)**
Cash Earnings before distributions	5,235	343	3	-	**5,581**
Distributions	(180)	-	-	-	**(180)**
Cash earnings	5,055	343	3	-	**5,401**
Non-cash earnings items (after tax)	126	(1)	-	-	**125**
Net profit from continuing operations	5,181	342	3	-	**5,526**
Net profit/(loss) from discontinued operations	114	-	-	-	**114**
Net profit attributable to the owners of NAB	5,295	342	3	-	**5,640**

(1) Information is presented on a continuing operations basis including prior period restatements.

(a) Extracted from CYBG HFI Income Statements as disclosed in Section 3, translated to AUD.

(b) Adjustment to appropriately reflect the intercompany income and expenses between NAB and CYBG Group that were previously eliminated upon consolidation.

(c) Adjustment to reflect the differences in income statement presentation between CYBG Group and NAB to align statutory reporting with local regulatory reporting where there is flexibility in the accounting presentation under IFRS.

2. Pro forma key performance metrics of NAB (after the Demerger)

On implementation of the Demerger, key metrics for NAB will be impacted. Detailed in Table 30 is a comparison of select key metrics as reported for the year ending 30 September 2015 to the pro forma metrics for NAB which assumes that the Demerger had been implemented at the start of the year ending 30 September 2015 as set out in Section 2.8. All key performance measures and NAB performance indicators are calculated on a Cash Earnings basis unless otherwise stated.

Table 30: Key performance metrics of NAB (after the Demerger) as at 30 September 2015

Key Performance Indicators[1][2]	Year to	
	Sep-15 Reported	Sep-15 Pro Forma
Key Indicators		
Statutory earnings per share (cents) – basic[5]	252.7	274.1
Statutory earnings per share (cents) – diluted[5]	245.4	265.6
Statutory earnings per share from continuing operations (cents) – basic[2][5]	253.5	274.9
Statutory earnings per share from continuing operations (cents) – diluted[2][5]	246.1	266.4
Cash earnings per share (cents) – basic[2]	233.7	258.4
Cash earnings per share (cents) – diluted[2]	227.6	251.0
Statutory return on equity[6]	13.1%	16.1%
Cash return on equity (ROE)[2][6][7]	12.0%	15.0%
Profitability, performance and efficiency measures		
Dividend per share (cents)	198	198
Dividend payout ratio[2]	84.7%	76.6%
Cash earnings on average assets[2]	0.62%	0.73%
Cash earnings on average risk-weighted assets[2][6]	1.51%	1.92%
Cash earnings per average FTE ($'000)[2]	140	187
Banking cost to income (CTI) ratio[2]	50.8%	41.1%
Net interest margin	1.87%	1.82%
Capital		
Common Equity Tier 1 ratio	10.24%	9.83%
Tier 1 ratio	12.44%	12.06%
Total capital ratio	14.15%	13.61%
Risk-weighted assets[3] ($bn)	399.8	350.3
Volumes ($bn)		
Gross loans and acceptances[2][3][4]	584.1	523.8
Average interest earning assets[2]	748.4	687.9
Total average assets[2]	945.0	881.0
Total customers deposits[2][3]	418.9	362.0
Asset Quality		
90+ days past due and gross impaired assets to gross loans and acceptances[2]	0.71%	0.63%
Collective provision to credit risk-weighted assets[2]	1.01%	0.99%
Specific provision to gross impaired assets[2]	32.7%	30.3%
Funding Ratios		
Customer Funding Index	71.5%	68.8%
Term Funding Index	20.8%	21.8%
Stable Funding Index	92.3%	90.6%

(1) All key performance measures and NAB performance indicators are calculated on a cash earnings basis unless otherwise stated.
(2) Information is presented on a continuing operations basis, prior period numbers have been restated.
(3) Spot balance at reporting date.
(4) Including loans and advances at fair value.
(5) Earnings per share is restated for prior periods by adjusting the weighted average number of ordinary shares in order to incorporate the bonus elements in the 2015 rights issue, as per AASB133.
(6) Pro forma adjustments have been made on a spot basis against average balances.
(7) For detail relating to NAB (after the Demerger) Cash return on equity, refer to Section 2.4.

Annexure E:
NAB (after the Demerger) Pro Forma Historical Financial Information Reconciliations, Key Metrics and Other Financial Information

3. Other pro forma historical financial information – NAB (after the Demerger)

The following tables below set out select additional pro forma historical financial information of NAB (after the Demerger) including the changes in composition of NAB's loans and advances, provisions for doubtful debts, asset quality information and deposits and borrowings.

3.1 Loans and advances

Table 31: NAB reported and pro forma historical loans and advances as at 30 September 2015

	NAB Reported as at 30-Sep-15 $m	NAB Pro forma as at 30-Sep-15 $m
Housing loans	341,965	297,608
Other term lending	184,220	173,800
Asset and lease financing	11,764	10,845
Overdrafts	8,912	6,221
Credit card outstandings	8,078	7,265
Other	8,815	7,801
Fair value adjustment	956	794
Gross loans and advances	**564,710**	**504,334**
Acceptances	19,437	19,428
Gross loans and advances including acceptances	**584,147**	**523,762**
Represented by:		
Loans and advances at fair value[1]	27,545	25,183
Loans and advances at amortised cost	537,165	479,151
Acceptances	19,437	19,428
Gross loans and advances including acceptances	**584,147**	**523,762**
Unearned income and deferred net fee income	(861)	(753)
Provision for doubtful debts	(3,520)	(2,943)
Net loans and advances including acceptances	**579,766**	**520,066**
Securitised loans and loans supporting covered bonds[2]	**44,411**	**28,403**

(1) On the balance sheet, this amount is included within other financial assets at fair value.
(2) Loans supporting securitisations and covered bonds are included within the balance of net loans and advances including acceptances.

3.2 Provision for doubtful debts

Table 32: NAB reported and pro forma provision for doubtful debt as at 30 September 2015

	NAB Reported as at 30-Sep-15 $m	NAB Pro forma as at 30-Sep-15 $m
Specific provision for doubtful debts – Lifetime Expected Credit Losses (ECL)	637	438
Collective provision for doubtful debts – Lifetime ECL	2,428	2,119
Collective provision for doubtful debts – 12 months ECL	455	386
Total collective provision for doubtful debts	2,883	2,505
Total provision for doubtful debts	**3,520**	**2,943**
Specific provision on loans at fair value(1)	34	11
Collective provision on loans and derivatives at fair value and other debt instruments(1)	611	549
Total provision for doubtful debts and provisions held on assets at fair value	**4,165**	**3,503**

(1) Included within the carrying value of other financial assets at fair value.

3.3 Asset quality

Impaired assets consist of retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and interest, non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest, and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired loans when they become 180 days past due (if not written off). Table 33 provides an analysis of the asset quality of NAB's loans and advances before and after the Demerger. Gross amounts are shown before taking into account any collateral held or other credit enhancements.

Table 33: NAB reported and pro forma impaired assets and non impaired loans 90+ days past due as at 30 September 2015

Summary of total impaired assets	NAB Reported as at 30-Sep-15 $m	NAB Pro forma as at 30-Sep-15 $m
Impaired assets	1,990	1,446
Restructured loans	60	37
Gross total impaired assets	2,050	1,483
Specific provisions – total impaired assets	(671)	(449)
Net total impaired assets	**1,379**	**1,034**

Summary of non-impaired loans 90+ days past due	NAB Reported as at 30-Sep-15 $m	NAB Pro forma as at 30-Sep-15 $m
Total non-impaired assets past due 90 days or more with adequate security	1,862	1,571
Total non-impaired portfolio managed facilities past due 90 to 180 days	260	241
Total non-impaired 90+ days past due loans	**2,122**	**1,812**

Annexure E:
NAB (after the Demerger) Pro Forma Historical Financial Information Reconciliations, Key Metrics and Other Financial Information

3.4 Deposits and borrowings

Table 34: NAB reported and pro forma deposits and borrowings as at 30 September 2015

	NAB Reported as at 30-Sep-15 $m	NAB Pro forma as at 30-Sep-15 $m
Term deposits	161,020	149,172
On-demand and short-term deposits	216,719	176,006
Certificates of deposit	40,251	40,048
Deposits not bearing interest	41,138	36,842
Total deposits	**459,128**	**402,068**
Borrowings	29,177	31,589
Securities sold under agreements to repurchase	8,917	8,917
Fair value adjustment	16	7
Total deposits and other borrowings	**497,238**	**442,581**
Represented by:		
Total deposits and other borrowings at fair value[1]	8,228	8,086
Total deposits and other borrowings at amortised cost	489,010	434,495
Total deposits and other borrowings	**497,238**	**442,581**

(1) Included within the carrying value of other financial liabilities at fair value.

Annexure F
Reconciliation of the CYBG HFI Balance Sheet to CYBG Group Combined Balance Sheet

Annexure F:
Reconciliation of the CYBG HFI Balance Sheet to CYBG Group Combined Balance Sheet

Set out below are the pro forma adjustments made to CYBG Group historical balance sheet data, presented in a manner consistent with NAB's basis of presentation, to derive the CYBG Group combined balance sheet which is included as part of the NAB (after the Demerger) Pro Forma Historical Balance Sheet in Section 2 of this document.

Table 35: Reconciliation of the CYBG HFI Balance Sheet to CYBG Group combined balance sheet

As at 30 September 2015 AUD $m	CYBG HFI 30 September 2015[(a)]	Settlement and recognition of intercompany balances[(b)]	Accounting Reclassifications and GAAP differences including AASB 9[(c)]	**CYBG Group combined balance sheet**
Assets				
Cash and liquid assets	13,912	-	(11,171)	**2,741**
Due from other banks	277	(52)	11,240	**11,465**
Trading derivatives	394	(1,273)	(32)	**(911)**
Debt instruments at fair value through other comprehensive income	-	-	3,123	**3,123**
Investments – available for sale	3,162	-	(3,162)	**-**
Other financial assets at fair value	2,374	(1,003)	(11)	**1,360**
Hedging derivatives	223	(74)	(51)	**98**
Loans and advances	59,451	(1,880)	(242)	**57,329**
Due from customers on acceptances	9	-	-	**9**
Due from controlled entities/related parties	1,700	(1,700)	-	**-**
Investment in joint ventures and associates	5	-	-	**5**
Current tax assets	8	-	-	**8**
Property, plant and equipment	237	-	-	**237**
Goodwill and other intangible assets	573	-	-	**573**
Deferred tax assets	842	-	(6)	**836**
Other assets	563	-	518	**1,081**
Total assets	**83,730**	**(5,982)**	**206**	**77,954**
Liabilities				
Due to other banks	851	(855)	-	**(4)**
Trading derivatives	627	(1,347)	(31)	**(751)**
Other financial liabilities at fair value	146	-	(4)	**142**
Hedging derivatives	529	-	(67)	**462**
Deposits and other borrowings	57,126	-	(199)	**56,927**
Liability on acceptances	9	-	-	**9**
Deferred tax liabilities	22	-	(22)	**-**
Provisions	2,176	(26)	45	**2,195**
Bonds, notes and subordinated debt	8,148	-	(30)	**8,118**
Defined benefit superannuation plan liabilities	8	-	-	**8**
Total due to controlled entities/related entities	2,158	(2,159)	1	**-**
Other liabilities	4,482	(618)	577	**4,441**
Total liabilities	**76,282**	**(5,005)**	**270**	**71,547**
Net Assets	**7,448**	**(977)**	**(64)**	**6,407**
Total equity	**7,448**	**(977)**	**(64)**	**6,407**

(a) Extracted from CYBG HFI Balance Sheet, translated at an exchange rate AUD/GBP 0.4623.

(b) Represents the post separation cash settlement of certain balances and recognition by NAB of outstanding balances between NAB and CYBG Group assumed to remain at separation as external counterparties, including the AT1 Notes of CYBG Group with a fair value of $1,003 million. Further details of the outstanding intercompany balances as at 30 September 2015 are disclosed in Section 4.10.

(c) Represents accounting presentation and accounting policy differences. The difference in balance sheet presentation between CYBG Group and NAB is to align statutory reporting with local regulatory reporting where there is flexibility in the accounting presentation under IFRS. The difference in accounting policy relates to the effect of AASB 9. NAB has elected to early adopt AASB 9 which is applied from 1 October 2014. The full impact and disclosure of the early adoption of AASB 9 on the NAB results is included in the NAB annual report for the period ended 30 September 2015 which is available at **www.nab.com.au** or ASX (**www.asx.com.au**). This adjustment represents the accounting adjustments required for CYBG Group to report under NAB's accounting policies as CYBG HFI does not reflect the early adoption of AASB 9.

Annexure G
Further detailed information on CYBG Group

Annexure G:
Detailed information on CYBG

This Annexure G contains further information on CYBG Group. The information in this Annexure is intended to be included in the Prospectus and therefore assumes that NAB will elect to proceed with the Institutional Offer and that UK Admission becomes effective.

This Annexure G contains the following Parts:

Certain other information concerning CYBG Group was included in the Clydesdale Bank Business Updates which were released by NAB on ASX on 7 July 2015 and on 16 November 2015. The Clydesdale Bank Business Updates are also available on NAB's website (**http://www.nab.com.au/about-us/shareholder-centre/uk-banking-business-update/**) and on the Demerger Website **www.clydesdaledemerger.com.au**. The Clydesdale Bank Business Updates contain an overview of the UK retail and SME banking market and certain historical financial information relating to CYBG Group including:

- CYBG Group's unaudited consolidated historical financial information for the six months ended 31 March 2015;
- CYBG Group's Audited Annual Report and consolidated financial statements for the four years ended 30 September 2012, 30 September 2013, 30 September 2014 and 30 September 2015; and
- CYBG Group's 2015 Full Year Pillar 3 Report.

Annexure G: Important Information
Presentation of certain financial and other information

Important Information

1. Presentation of certain financial and other information

1.1 CYBG historical financial information ("CYBG HFI")

The CYBG HFI has been derived from the financial reports of CYBG Group for the years ended 30 September 2015, 2014, 2013 and 2012 adjusted to reflect consistent accounting policies for the years ended 30 September 2014, 2013 and 2012.

CYBG's financial reports for the years ended 30 September 2012, 30 September 2013, 30 September 2014 and 30 September 2015 have been subject to audit, in accordance with International Standards on Auditing (UK and Ireland) and the audit opinion issued by Ernst and Young LLP (UK) to the members of CYBG was unqualified ("**Audited Annual Reports**").

The CYBG HFI is consistent with CYBG Group's historical financial information presented in the Clydesdale Bank Business Update.

Except as indicated, none of the financial information relating to CYBG Group or any operating data or key performance indicators relating to CYBG Group have been audited or reviewed (even where such operating data or key performance indicators include certain financial metrics).

1.2 Non-IFRS financial information

CYBG Group presents certain operating data about its operations that do not form part of CYBG Group's accounting records and are not subject to an audit or review process by independent external auditors.

Because of the discretion that CYBG Group and other companies have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other companies.

1.2.1 Key performance indicators and other financial data

Part 4: "*Selected Financial Information on CYBG Group*" and Part 5: "*CYBG Group Operating and Financial Review*" also include certain key performance indicators and other financial data on the Management Basis: net interest margin, return on equity, cost-to-income ratio, return on assets, return on risk-weighted assets and return on tangible equity. The CYBG Directors believe these measures are a useful indicator of CYBG Group's operating performance before items that are believed to be non-recurring or not relevant to an assessment of its actual operating performance. These measures are also presented on an unadjusted basis to allow direct comparison. Underlying results and similar measures may be used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Investors should exercise caution in comparing CYBG Group's results on the Management Basis with data of other companies. CYBG Group's results on the Management Basis are not a substitute for operating profit as a measure of operating results or a substitute for cash flow as a measure of liquidity. CYBG Group's results on the Management Basis are not a measure of performance under IFRS. For the reconciliation of the CYBG HFI to the Management Basis information, see Part 4: "*Selected Financial Information on CYBG Group—Consolidated Income Statement Data–Reconciliation of the CYBG HFI to the Management Basis*".

1.3 Average balance sheet and interest rate data

This Annexure G includes information relating to average balances of interest-earning assets and interest-bearing liabilities of CYBG Group, the amounts of interest income and interest expense of CYBG Group and the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities for the years ended 30 September 2015, 2014, 2013 and 2012. This information is presented and further described in Part 4: "*Selected Financial Information on CYBG Group—Average Balance Sheet and Interest Rate Data*" and elsewhere in this Annexure G. Unless otherwise specified herein, average balances of assets and liabilities for CYBG Group for the years ended 30 September 2015, 2014, 2013 and 2012 were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily (spot) balances. Daily balances for the years ended 30 September 2015, 2014, 2013 and 2012 were extracted from unaudited management information of CYBG Group. The average interest rate for any line item is calculated by dividing interest income or interest expense, as applicable, by the average balance for such line item for the relevant period. Average interest rates in this Annexure G are distinct from the period end effective interest rates discussed in the CYBG HFI.

This Annexure G also includes information on changes in interest income or interest expense, which are attributed to either: (i) changes in average balances (volume change) of interest-earning assets or interest-bearing liabilities; or (ii) changes in average rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities. Such information appears in Part 4: "*Selected Financial Information on CYBG Group—Changes in Interest Income and Interest Expense—Volume and Rate Analysis*" and elsewhere in this Annexure G. Changes in CYBG Group's interest income and expense have been allocated between changes in average volume and changes in the average rates for the years ended 30 September 2015, 2014, 2013 and 2012. CYBG Group calculates volume and rate variances based on the movements of average balances over the period and changes in average interest rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances.

Annexure G: Important Information
Presentation of certain financial and other information

2. Market, Economic and Industry Data

Certain information contained in Part 2: "*Information on CYBG Group*", Part 5: "*CYBG Group Operating and Financial Review*" and elsewhere in this Scheme Booklet relating to the UK banking industry in which CYBG Group operates as well as certain economic and industry data and forecasts used in, and statements regarding CYBG Group's market position made in, this Scheme Booklet were extracted or derived from third party reports, market research, government and other publicly available information and independent industry publications, as the case may be, prepared by, *inter alia* the Bank of England, the British Banking Association, the Office of National Statistics, Eurostat and other governmental and private bodies.

While the CYBG Directors believe the third party information included herein in Part 2: "*Information on CYBG Group*", Part 5: "*CYBG Group Operating and Financial Review*" and elsewhere in this Scheme Booklet to be reliable, it has not independently verified such third party information, and none of CYBG Group or the CYBG Directors make any representation or warranty as to the accuracy or completeness of such information as set forth in this Scheme Booklet. CYBG Group confirms that such third party information has been accurately reproduced, and so far as CYBG Group is aware and is able to ascertain from information available from those publications, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, the accuracy of such third party information is subject to availability and reliability of the data supporting such information and neither the information nor the underlying data has been independently verified. Additionally, the industry publications and other reports referred to above generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed and, in some instances, these reports and publications state expressly that they do not assume liability for such information. CYBG Group cannot therefore assure you of the accuracy and completeness of such information as it has not independently verified such information.

3. Customer Reporting

The reporting of customers by CYBG Group is dependent upon the nature of the relationship of the customers with the Clydesdale Bank and can be segmented between business and personal customers, described below.

Personal customer numbers are reported at an individual level based on unique customer numbers. CYBG Group defines personal customers as customers with Retail, Private, B2B and Business Direct. Joint account customers are counted separately (i.e. if a joint account with two parties will be classed as two customers).

Smaller sized business customers (with turnover less than £120,000) are reported as unique customers based on analysis of customer reference numbers. Larger sized business customers (with turnover in excess of £120,000) are reported at a connection level. The connection level consolidates customer numbers which are common to an account and groups these to report as one.

Annexure G: Part One
CYBG Risk Factors

If the Demerger proceeds, NAB Shareholders, who previously had an indirect interest in the CYBG Group's business, will have a direct interest in the Company and, accordingly, will be directly subject to a number of risks affecting CYBG Group, its business, its results of operations and its financial condition. NAB Shareholders should carefully consider the risks and uncertainties associated with CYBG Securities, CYBG Group's business and the industry in which it operates together with all the other information set out in, or incorporated by reference into this Scheme Booklet including, in particular, the risk factors described below prior to making any decision as to whether or not to vote in favour of the resolutions to be considered at the Meetings.

This section describes the risk factors which the CYBG Directors consider, following the Demerger, to be material in relation to the CYBG Group, its industry and the CYBG Securities. The risks described below are based on information known at the date of this document, but may not be the only risks to which, following the Demerger, the CYBG Group is or might be exposed. The following is not an exhaustive list or explanation of all risks that may be associated with CYBG Securities and should be used as guidance only. Additional risks and uncertainties relating to CYBG Group that are not currently known to CYBG Group, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects and, if any such risk should occur, the price of CYBG Securities may decline and shareholders could lose all or part of their investment. NAB Shareholders should consider carefully whether CYBG Securities are a suitable investment for them in the light of the information in this Scheme Booklet and their personal circumstances. The order in which the following risk factors are presented does not necessarily reflect the likelihood of their occurrence or the relative magnitude of their potential material adverse effect on CYBG Group's business, results of operations, financial condition, prospects or the market price of CYBG Securities.

Risks Relating To The Macro-Economic Environment In Which CYBG Group Operates

1. CYBG Group is subject to risks arising from macro-economic conditions in the UK.

CYBG Group's business is subject to inherent risks arising from macro-economic conditions in the UK. In particular, levels of retail and business borrowing are heavily dependent on consumer confidence, the UK property and mortgage market, employment trends, market interest rates and the broader state of the UK economy.

During the recent global financial crisis, the UK economy experienced turbulence and recession which adversely affected, among other things, the state of the housing market, market interest rates, levels of unemployment, the cost and availability of credit and the liquidity of the financial markets. Although economic indicators in the UK have been improving, the CYBG Directors believe the outlook for the UK economy is subject to a number of risks, including that the recovery falters and the UK economy contracts, unemployment levels increase or property prices fall.

As CYBG Group's customer base is predominantly based in the UK, CYBG Group is significantly exposed to the condition of the UK economy. In particular, factors such as UK house prices, levels of employment, interest rates and the amount of consumers' disposable income can each have a material impact on its business. Should macro-economic conditions in the UK deteriorate or should there be uncertainty and/or volatility in relation to these factors, this could adversely impact CYBG Group's business, results of operations, financial condition and prospects.

CYBG Group's operations are focussed in its core regions in the UK, including Scotland. CYBG Group could be adversely affected by a lack of legal harmonisation across the UK, including through the further devolution of powers to the Scottish Parliament. For example, differences in regulatory regimes or differing tax legislation between Scotland and England may result in additional compliance and other costs for CYBG Group or adversely impact the financial performance and prospects of CYBG Group's customers. The likelihood of another referendum on Scottish independence would create uncertainty on Scotland's position within the UK, which may adversely impact CYBG Group's associated costs, business, results of operations, financial condition and prospects.

The historical results of operations and financial condition of CYBG Group have been, and its future results of operations and financial condition are likely to continue to be, affected by these factors, which should they have an adverse effect on consumer confidence, spending or demand for credit, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

2. CYBG Group faces risks related to volatility in UK house prices.

CYBG Group's primary activity is providing banking services to retail customers and to micro, small, and medium-sized enterprises ("**SMEs**"), including mortgage lending in the UK secured against residential property. The value of that security is influenced by UK house prices. A substantial proportion of CYBG Group's net interest income is derived from interest paid on its mortgage portfolio. As at 30 September 2015, 71.2 per cent. of CYBG Group's customer loans by value were mortgages (both owner-occupied and buy-to-let). Any deterioration in the quality of CYBG Group's mortgage portfolio could have a material adverse effect on its business, financial condition, results of operations and prospects.

Historically, downturns in the UK economy have had a negative effect on the UK housing market. A fall in property prices could result in borrowers having insufficient equity to refinance their mortgage loans or being unable to sell the mortgaged property at a price sufficient to repay the amounts outstanding on the mortgage loan, which could lead to an increase in customer defaults. Increased defaults could lead to higher impairment provisions and losses being incurred by CYBG Group. Higher impairment provisions could reduce CYBG Group's capital and its ability to engage in lending and other income-generating activities. As a result, a decline in house prices could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

In addition, a significant increase in house prices could have a negative impact on CYBG Group by reducing the affordability of homes for first-time buyers or those looking to purchase more expensive properties and, if such increases were to result in a decrease in the number of customers that could afford to purchase houses, a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting CYBG Group's ability to grow its mortgage portfolio.

The UK Government's intervention into the housing market, both directly through its "Help to Buy" programme and indirectly through the provision of liquidity to the banking sector under the "Funding for Lending" Scheme (the "**FLS**"), may contribute to volatility in house prices. This could occur, for example, as a result of the termination of the "Help to Buy" programme (or its Scottish equivalent scheme), which could lead to a decrease in house prices, or due to the continuation of the "Help to Buy" programme, which could lead to increases in house prices and a resultant "bubble" in the housing market. In addition, new rules promulgated by the FCA following the Mortgage Market Review ("**MMR**") that came into force in April 2014, and amended the existing rules on mortgage lending with changes centered on responsible lending, including increased verification of income, assessment of affordability, interest rate stress tests, and assessments of future changes of borrowers' income which together could make it more difficult for customers to borrow and reduce demand for mortgages. Further, the Finance (No. 2) Act 2015, which introduced provisions to limit the income tax relief on mortgage interest expense available on residential property to buy-to-let landlords from 6 April 2017, may also negatively affect mortgage supply and demand. The future impact of these on the UK housing market and other regulatory changes or Government programmes, such as the UK implementation of the European Union Mortgage Credit Directive by March 2016, whether or not CYBG Group participates in them, is difficult to predict and plan for. Volatility in the UK housing market occurring as a result of such changes, such as a decrease in mortgage volumes due to stricter lending criteria, or for any other reason, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

3. CYBG Group is exposed to risks relating to the supply and affordability of property in the UK.

CYBG Group's owner-occupied and buy-to-let mortgage lending is dependent on a number of factors related to the supply and affordability of property in the UK.

In October 2014, the PRA issued rules and the FCA issued guidance to limit the volume of new mortgage lending for owner-occupied housing for loans with a loan to income ratio of over 4.5 times to no more than 15 per cent. of new loans, implementing a recommendation made in June 2014 by the Financial Policy Committee, a Bank of England committee responsible for ensuring financial stability.

For CYBG Group to maintain and grow its mortgage portfolio, the prices of new and existing properties must be at levels, relative to the income of purchasers, to allow them to borrow within the parameters of these regulatory restrictions on lending. If house prices are at too high a multiple of customer income, whether as a result of rising house prices and/or low customer income growth, potential customers will be unable to borrow and the supply of mortgages will decrease.

CYBG Group's owner-occupied mortgage lending requires a supply of newly built or developed property coming to the market that relies on mortgage lending for financing, as well as transaction volumes within the market for existing property being at a sufficiently high level to support a profitable level of owner-occupied mortgage lending and income from mortgage fees. A decrease in housing transaction volumes could lead to a reduction in demand for owner-occupied mortgages and a fall in related mortgage fees, which could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

CYBG Group's buy-to-let lending primarily targets lending to high and medium net worth clients looking to diversify their investments. The buy-to-let market in the UK is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from buy-to-let properties. In addition, the Finance (No. 2) Act 2015, which introduced provisions to limit the income tax relief on mortgage interest expense on residential property available to buy-to-let landlords from 6 April 2017, may result in lower yields on buy-to-let property investments. These factors and the proposed introduction of a 3 per cent. stamp duty surcharge on purchases of buy-to-let and second homes announced in the UK Chancellor's Autumn Statement in November 2015 and any other adverse tax changes for buy-to-let investors could make the purchase of buy-to-let properties a less viable investment opportunity and reduce the demand for buy-to-let mortgages.

4. CYBG Group faces risks associated with interest rate levels and volatility.

Interest rates, which are impacted by factors outside of CYBG Group's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect CYBG Group's results of operations, financial condition and return on capital in three principal areas: cost and availability of funding, impairment levels and net interest income and margins.

First, interest rates affect the cost and availability of the principal sources of CYBG Group's funding, which is largely provided by customer deposits (in the form of personal current accounts ("**PCAs**"), business current accounts ("**BCAs**") and savings accounts) and secured term wholesale funding, in the form of residential mortgage backed securities ("**RMBS**") and covered bonds. The sustained low interest rate environment in recent years has resulted in CYBG Group's cost of funding remaining relatively low by historical standards, by reducing the interest payable on customer deposits. However, it has also reduced incentives for consumers to save and, in doing so, reduced the amount of funding from customer deposits that could be provided to banks, as consumers are incentivised to seek alternative investments offering returns higher than those offered by PCAs, BCAs or savings accounts. The sustained low interest rate environment in recent years has also reduced incentives for consumers to transfer balances to savings accounts. If and when interest rates increase, customers may increasingly transfer PCA and BCA balances, as well as other deposit balances, to higher rate products, which could result in increased interest expense and/or reduced deposit volumes for CYBG Group.

CYBG Group raises funding from a number of wholesale sources, including secured funding through RMBS and covered bond programmes as well as shorter-term wholesale funding. Any significant increase in interest rates could have a material adverse impact on the availability and interest cost of such funding.

Secondly, interest rates impact CYBG Group's impairment levels, particularly because they affect customer affordability of mortgages, as well as the ability of individuals and SMEs to borrow and service loans. An increase in interest rates, without a comparable increase in customer income or SME revenues and profits, could, for example, lead to an increase in default rates among customers who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for CYBG Group. A high interest rate environment may also reduce demand for mortgages and other loans generally, as individuals and SME customers may be less likely or less able to borrow when interest rates are high. A high interest rate environment also may result in other forms of financing, such as equity capital for SMEs, becoming more attractive, thereby reducing CYBG Group's lending and related income. In a low interest rate environment, there is a risk that borrowers at early levels of financial distress will not be identified in a timely manner, as they may continue to be able to service their loans, which may contribute to higher impairment levels in the future.

Thirdly, interest rates affect CYBG Group's net interest income and margins. The Bank of England base rate has remained at 0.5 per cent. since March 2009, having fallen from 5.5 per cent. in December 2007. In the 30 years preceding December 2007, the lowest level of the base rate was 3.5 per cent. This low interest rate environment has put pressure on net interest income and margins throughout the UK banking industry, including at CYBG Group.

During the period under review, the sustained period of low interest rates has resulted in lower returns on low interest bearing and non-interest bearing current account and capital, reducing CYBG Group's net interest income and net interest margin. CYBG Group's business and financial performance and net interest income and margin may continue to be adversely affected by the continued low interest rate environment.

In addition, CYBG Group has a significant book of tracker mortgages, comprising 12.8 per cent. of its mortgage portfolio as at 30 September 2015, that were advanced in line with the mortgage market at the time, which bear interest at the Bank of England base rate plus a margin. The average yield on these tracker mortgages was approximately 1.42 per cent. for the year ended 30 September 2015. In the current interest rate environment, this amount is lower than CYBG Group's funding cost for these tracker mortgages and so the portfolio has a negative interest margin. This negative interest margin will continue until these mortgages run-off or CYBG Group's funding cost falls relative to the interest rate charged.

In the event of sudden, large or frequent increases in interest rates, CYBG Group may not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short term, which may negatively affect its net interest income and net interest margin.

As at 30 September 2015, approximately 29.6 per cent. of CYBG Group's customer deposits were variable rate savings accounts, which together with other floating rate liabilities exposes CYBG Group to the risk of increased costs if interest rates increase. In an increasing interest rate environment, CYBG Group may also be more exposed to re-pricing of its liabilities than competitors with a lower proportion of variable rate deposits or other liabilities.

As at 30 September 2015, CYBG Group's value at risk associated with interest rate risk (calculated in the manner set forth in CYBG Historical Financial Information) was £27 million.

If CYBG Group is unable to manage its exposure to interest rate volatility, whether through hedging, product pricing, monitoring of borrower credit quality or other means, such volatility could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

5. CYBG Group is exposed to risks relating to higher levels of unemployment, principally in the UK.

As a UK bank focused on retail and SME customers, CYBG Group's business performance is impacted by the economic health and employment status of its customers, a principal driver of which is overall employment levels, principally in the UK. Higher levels of unemployment have historically resulted, for example, in a decrease in new mortgage borrowing, lower deposit levels and reduced or deferred levels of consumer spending, which adversely impact fees and commissions received on credit and debit card transactions as well as demand for unsecured lending. Higher unemployment rates and the resulting decrease in aggregate consumer income can also have a negative impact on CYBG Group's results through an increase in customer loan arrears, forbearance, impairment provisions and defaults. Consequently, sustained high levels of unemployment, particularly in geographic areas where CYBG Group's mortgage portfolio is concentrated, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

6. CYBG Group's business and financial performance could be adversely affected by macro-economic conditions in the Eurozone and globally.

Deterioration in economic conditions in the Eurozone, including macro-economic or financial market instability, poses a risk to CYBG Group's business, although CYBG Group has limited direct financial exposure to customers, assets and counterparties in the Eurozone. For example, strengthening of the pound sterling to Euro exchange rate may negatively impact CYBG Group's customers' exports of agricultural and manufacturing outputs to the Eurozone. In recent years, the UK financial markets have been negatively impacted at times by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe. These impacts were felt in the UK economy generally and by UK financial institutions in particular, and placed strains on funding markets at times when many financial institutions had material ongoing funding needs. While CYBG Group is not currently heavily reliant on the Eurozone markets for funding, market volatility has an adverse impact on consumer confidence, spending and demand for credit, which could have an adverse impact on CYBG Group's business, financial condition, results of operations and prospects.

Further, CYBG Group's business and financial performance would likely be materially adversely affected by a break-up of the countries using Euro currency. A number of countries in Europe, such as Greece, Italy, Ireland, Portugal and Spain, have been affected by the difficult financial and economic conditions apparent since 2008 and are struggling with large sovereign debts and/or public budget deficits. The possibility remains that the Euro could be abandoned as a currency by one or more countries that have already adopted its use, in particular Greece, which experienced difficulties in restructuring its debt and accessing European bailout funding. In an extreme scenario, a default by a single country could lead to the abandonment of the Euro and the dissolution of the European Monetary Union ("**EMU**"). This would lead to the re-introduction of individual currencies in one or more EMU member states.

The effects on the UK and European economy of the dissolution of the EMU, the exit of one or more European Union member states from the EMU and/or the redenomination of financial instruments from Euro to a different currency, are impossible to predict fully but would likely result in significant market dislocation, and heightened counterparty risk and adversely affect the ability to manage market risk. CYBG Group anticipates that such an event would be likely to have an adverse impact on the cost and availability of wholesale funding, thereby increasing competition for retail funds and adversely impacting CYBG Group's net interest income and net interest margin.

Changes in global economic conditions or circumstances may have secondary consequences that adversely impact CYBG Group's results of operations and financial condition. For example, falling oil prices caused by excess supply may impact the demand for credit from businesses in, or associated with, the oil industry and employment rates in areas where the industry is based, which in turn may reduce the demand for credit experienced by CYBG Group. The recent slowdown of Chinese economic growth, decline and volatility of the Shanghai Stock Exchange indices and the depreciation of the renminbi have contributed to a worsening economic outlook for the world's second largest economy which could have a significant effect on global economic conditions, including on commodity prices. A decline in global commodity prices could place added pressure on the general UK economy including sectors of the UK economy such as agriculture and oil & gas. Other examples of such changes include, but are not limited to, changes in economic growth rates in countries that are major UK trading partners, changes in interest rates and inflation rates in the Eurozone which could impact exchange rates for customers importing inputs from or exporting outputs into the Eurozone, lower labour costs in other global markets impacting the ability of UK businesses to compete on price, and changes in demand for credit, the cost of finance for businesses and commodity and asset prices (i.e. bonds, equity securities, oil, agricultural outputs and property prices).

Central banks around the world have made efforts to increase liquidity in the financial markets, by taking measures such as increasing the amounts they lend directly to financial institutions and lowering interest rates. However, it is not certain how long or on what terms these central bank schemes will continue. There is some market expectation that certain central banks, including the US Federal Reserve and the Bank of England, may tighten their monetary policy to increase interest rates back to levels closer to historical norms and reduce or eliminate quantitative easing. A prolonged period of low interest rates carries the risk that market participants may take on or have taken on more risk than they expected in a 'search for yield', leaving them exposed to an earlier or more rapid than expected tightening in monetary policy. An earlier than expected increase in interest rates or a divergence in the timing of tightening of monetary policy by the US Federal Reserve and other central banks, including the Bank of England, or the reduction in and/or unwinding of the US Federal Reserve's and/or the Bank of England's quantitative easing programmes may also result in volatility in capital flows, adverse fluctuations in currency markets, a suppression of demand and a reduction in the availability of credit, which may limit economic recovery in the UK or elsewhere.

In addition, volatility in credit, currency and equity markets globally may result in uncertainty that could affect all banks, including CYBG Group. Market volatility during the global financial crisis led to, and may in the future lead to, the following (amongst other factors):

(a) increased cost of funding and/or reduced availability of funding;

(b) deterioration in the value and liquidity of assets (including collateral);

(c) inability to price or difficulty in pricing certain assets;

(d) higher provisions for bad and doubtful debts;

(e) an increased likelihood of customer and counterparty default and credit losses;

(f) mark to market losses in the value of assets and liabilities;

(g) economic exposures from hedging activities;

(h) increased cost of insurance and/or lack of available insurance; and

(i) lower growth, business revenues and earnings.

The financial performance and position of CYBG Group has been, and its future financial performance and position are likely to continue to be, affected by these factors, which could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

7. CYBG Group faces risks relating to a proposed referendum on the UK's continued membership in the EU.

Following the UK general election that took place in May 2015, the UK Government has committed to hold a referendum on whether the UK will stay in the EU by the end of 2017. CYBG Group faces risks associated with the potential uncertainty during the period prior to and regarding the results of the referendum and the consequences that may flow from a vote to exit the EU. For example, because a significant proportion of the regulatory regime in the UK and forthcoming regulatory reform is derived from EU directives and regulations, the referendum could materially change the regulatory regime that would be applicable to CYBG Group's operations in the future. This could increase compliance and operating costs for CYBG Group and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

Uncertainty around the outcome of the referendum could lead to adverse effects for the UK economy which could also adversely impact CYBG Group, for example:

- increased funding costs for CYBG Group and UK banks more generally, due to a lack of clarity over the UK's status within the European single market;
- a reduction of investment and delays in capital expenditure decisions by businesses that would result from a decision to leave the EU and a consequential reduction in demand for business lending; and
- the risk that international businesses choose to invest outside the UK in order to avoid political uncertainty.

A referendum decision to exit the EU may also increase the possibility of another referendum on Scottish independence from the UK, creating further uncertainty on Scotland's position within the UK, which may create additional costs for CYBG Group (including changes to pension arrangements, costs of regulatory compliance and, if deemed necessary, a change of headquarters to England) and adversely affect its business, results of operations, financial condition and prospects.

While CYBG Group is monitoring and assessing the potential impacts on its business of a referendum vote in favour of an EU exit, the situation remains uncertain.

Risks Relating To The Operation Of CYBG Group's Business

8. CYBG Group faces risks associated with compliance with a wide range of laws and regulations.

CYBG Group's operations are heavily regulated and it must comply with numerous laws and regulations and may face enforcement action from regulators and others for any failure to comply. Regulatory compliance risk arises from a potential failure or inability to comply fully with the laws, regulations and codes applicable to the financial services industry. For example, UK financial institutions, including CYBG Group, are subject to a high level of scrutiny by regulatory bodies (including the Bank of England, the FCA, the PRA, the Payment Systems Regulator (the "**PSR**") and the UK Competition and Markets Authority ("**CMA**") regarding the treatment of customers and also by the press and politicians. Financial institutions, including CYBG Group, and their employees, have also been subject to customer complaints and regulatory investigation and/or enforcement action regarding mis-selling of financial products and the mishandling of related complaints, which has resulted in disciplinary action and/or requirements to amend sales processes, withdraw products and/or provide restitution to affected customers, all of which result in costs and may require provisions in addition to those already taken. In particular, and in common with the wider UK retail and SME banking sector, CYBG Group continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance ("**PPI**"), the historic sales of certain interest rate hedging products ("**IRHP**") and fixed rate tailored business loans ("**FRTBLs**") to SMEs and other conduct-related matters. On 14 April 2015, the FCA levied CYBG Group with a fine of approximately £21 million for serious failings in its PPI complaint handling processes between May 2011 and July 2013. CYBG Group agreed to settle at an early stage of the FCA's investigation and therefore qualified for a 30 per cent. discount and, were it not for such discount, the fine levied would have been approximately £29.5 million. See "*CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*" below for further information.

Regulatory enforcement actions pose a number of risks to CYBG Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, CYBG Group and/or its employees may be subject to other penalties and injunctive relief, civil or private litigation arising out of the same subject matters as a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions. For further details of risks arising from regulations applicable to CYBG Group, see "*Regulatory Risks*" below. All of these issues could have a negative effect on CYBG Group's reputation and the confidence of its customers in CYBG Group, as well as taking a significant amount of management time and resources away from the execution of CYBG Group's strategy and the operation of its business.

CYBG Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability, even when the CYBG Directors believe that it has no liability, to avoid the cost, diversion of management time and effort or negative business, regulatory or reputational consequences of continuing to contest liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, CYBG Group may, for similar reasons, reimburse counterparties for their losses even in situations where there are no litigation proceedings and CYBG Group does not believe that it is legally compelled to do so. Failure to manage these risks adequately could have a material adverse affect on CYBG Group's reputation, business, results of operations, financial condition and prospects.

9. CYBG Group faces risks associated with the implementation of its strategy

CYBG Group faces a variety of risks associated with the implementation of its strategy. A failure to achieve its strategic objectives including increasing its retail mortgage, SME lending and unsecured personal lending portfolios, increasing its mortgage and SME lending market shares, growing its retail and SME customer bases, further developing and optimising its omni-channel distribution platform and delivering enhanced returns to shareholders, as described in more detail in Part 2 of this Annexure G: "*Information on CYBG Group*", would have an adverse impact on CYBG Group's ability to attract and retain customers, its reputation and its business, results of operations, financial condition and prospects, which in turn could have an adverse impact on the price of CYBG Securities.

Risks associated with CYBG Group's strategy to increase its loan portfolio and deposit base

In seeking to grow its mortgage, SME lending and unsecured personal lending books, CYBG Group is susceptible to the risk of reduced asset quality and increased impairment losses in its customer loan portfolio due to it broadening its target market or loosening its underwriting or lending criteria in order to attract additional customers, or applying a broader interpretation of existing underwriting or lending criteria. CYBG Group is also subject to the risk of increased competition, including competition based on price, in seeking to grow its customer loan portfolio, which could adversely affect CYBG Group's net interest margin and returns. Furthermore, banks seeking growth through increased lending volumes may also incur higher impairments and increased conduct risks, in particular those relating to the mis-selling of products or lending that is deemed irresponsible and/or services that are either poorly matched with, or superfluous to, customer needs. If CYBG Group fails to manage these risks adequately, it could result in legal or regulatory action against CYBG Group, reputational damage to its brands and adverse impacts on the implementation of its strategy.

CYBG Group's ability to maintain and grow its customer loan portfolio depends on continued access to customer deposits and other sources of funding in quantities sufficient to finance and refinance the portfolio at costs that CYBG Group considers to be acceptable. A key component of CYBG

Group's strategy is to grow its retail and SME deposits, and in particular to increase its market share of PCA and BCA flows, in order to fund the growth of its business and maintain the loan to deposit ratio at its targeted level. Access to customer deposits is subject to competition and market factors that are outside of CYBG Group's control, and accordingly CYBG Group may need to increase the interest rates it offers to customers in order to attract deposits, which may result in increased interest expense, reduced net interest income and reduced net interest margin. No assurance can be given that CYBG Group will be able to obtain and maintain access to sufficient customer deposits, or other sources of funding, to finance CYBG Group's planned growth.

Risks associated with CYBG Group's digital strategy

A core part of CYBG Group's strategy is strengthening its digital platform to support the delivery of a consistent and seamless experience for customers through CYBG Group's omni-channel distribution platform, creating new digital propositions to support new customer acquisition and customer retention, and simplifying its operating platform to improve customer experience and increase efficiency. CYBG Group has identified a number of investments needed to achieve a competitive position in an increasingly competitive digital banking environment and is expecting to make significant investments over the medium term in new products and initiatives. If CYBG Group fails to successfully execute its digital strategy, fails to invest sufficiently, fails to invest to the same extent as its competitors, or fails to invest in the right technologies, CYBG Group's business, results of operations, financial condition and prospects could be materially adversely affected. CYBG Group also may be required to make further expenditure or investments (such as marketing, customer incentives or pricing changes) in order to achieve CYBG Group's strategic targets. Further innovation by competitors, for example through "digital disruption" of existing product or service markets causing changes in consumer demands and behaviours, or other changes in consumer behaviour, may require CYBG Group to adapt its plans and/or revise its strategy, causing delays in its implementation or resulting in additional costs. Any failure to successfully implement its digital strategy, delay in such implementation or failure to keep pace with further changes in the industry could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

Execution and other risks associated with CYBG Group's strategy

CYBG Group's ability to implement its strategy successfully is subject to execution risks, including those relating to the management of its cost base and limitations in its management and operational capacity. The implementation of CYBG Group's strategy will require management to make complex judgments, including anticipating customer needs and customer behaviour across a wide range of retail and SME banking products, and anticipating competitor activity, legal and regulatory changes and the likely direction of a number of macro-economic factors regarding the UK economy and the retail and SME banking sector. In addition, CYBG Group may fail to achieve management's guidance, targets or expectations in respect of CYBG Group's net interest margin, operating and administrative expenses, standalone costs as a listed entity, return on tangible equity, dividends, growth in mortgage lending, total retail lending and/or SME lending, growth in mortgage market share, SME lending market share, PCA market share and/or BCA market share, or in the development of CYBG Group's asset quality, cost-to-income, jaws, CET 1 capital and/or loan to deposit ratios, or other financial or key performance indicators. The risk that some or all of these targets and expectations may fail to be achieved may be a consequence of internal factors such as a failure to effectively manage its cost base, and may also be exacerbated or caused by a number of external factors, including a downturn in the UK, European or global economy, increased competition in the UK retail and SME banking sector and/or significant or unexpected changes in the regulation of the financial services sector in the UK or Europe. A failure to successfully manage the implementation of its strategy for the foregoing, or any other, reason, could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

10. The reputation of CYBG Group and its brands may be damaged by the actions, behaviour or performance of numerous persons.

CYBG Group benefits from its "Clydesdale Bank" and "Yorkshire Bank" brands and any event or circumstance that causes damage to CYBG Group or its brands could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

CYBG Group's brands may be damaged by the actions, behaviour or performance of CYBG Group, its employees, affiliates, suppliers, counterparties, regulators or customers, or the financial services industry generally. A risk event, such as compliance breaches or a significant operational or technology failure, may adversely affect the perceptions of CYBG Group held by the public, Shareholders, investors, customers, employees, regulators or rating agencies. The risk event itself may expose CYBG Group to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impacts on CYBG Group's share price. Reputational damage to CYBG Group or its brands may adversely impact CYBG Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities. It may also result in a higher risk premium being applied to CYBG Group, which could adversely impact the cost of funding its operations and its financial condition.

CYBG Group's trademarks are critical to the ability to protect the "Clydesdale Bank" and "Yorkshire Bank" brands. Third parties may seek to challenge the validity or ownership of CYBG Group's trademarks or other intellectual property rights in its brands. CYBG Group's trademarks may be found to be invalid (for example for non-use) or otherwise unenforceable against third parties. There is also a risk that third parties may infringe CYBG Group's intellectual property rights. A failure to protect and enforce CYBG Group's intellectual property rights in its brands against third parties could adversely impact CYBG Group's competitive position, expose it to reputational risk or other harm to its business and adversely affect its relationships with its customers.

CYBG Group may also become subject to claims of infringement of third party intellectual property rights. Such claims could lead to litigation which may require significant management time, cost and other resources. If a third party claim is successful, it could result in CYBG Group having to cease the use of certain intellectual property rights, pay damages or enter into licensing arrangements. These types of claims could have a material adverse effect on CYBG Group's reputation, business, results of operations, financial condition and prospects.

Any damage to the reputation of CYBG Group or its "Clydesdale Bank" or "Yorkshire Bank" brands may adversely affect CYBG Group's ability to execute its strategy. An inability to manage risks to its reputation or brands could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

11. CYBG Group's business is subject to risks relating to the cost and availability of liquidity and funding.

Funding risk is the risk that CYBG Group is unable to raise short and/or long-term funding in the retail and wholesale markets to support its ongoing operations, strategic plans and objectives. CYBG Group accesses domestic and global capital markets to help fund its businesses. Any dislocation in these funding markets or a reduction in investor appetite for holding CYBG Group's securities or other credit exposures to CYBG Group may adversely affect CYBG Group's ability to access funds or require CYBG Group to access funds at a higher cost, or on unfavourable terms, or result in obtaining funding that does not efficiently match the maturity profile of its assets.

CYBG Group has a diversified funding base, with the majority of CYBG Group's funding for its loan portfolio generated through customer liabilities in the form of current accounts and savings accounts, funding obtained through RMBS securitisation programmes and covered bond programme, as well as short-term wholesale funding, with securitised and covered bond funding being dependant on the availability of a sufficient supply of mortgages of adequate quality for the purposes of supporting further issuance. As part of its funding plan, CYBG Group intends to continue to access the secured wholesale funding markets. If during periods of acute economic or market disruption the wholesale funding markets were to be fully or partially closed, it is likely that wholesale funding would prove more difficult to obtain on commercial terms. Under such circumstances, CYBG Group may incur additional costs and may be unable to successfully deliver its growth strategy. Profound curtailments of central bank liquidity to the financial markets in connection with other market stresses, though unlikely, might have a material adverse effect on CYBG Group's business, financial position and results of operations, depending on CYBG Group's funding position at that time.

Any downgrade in the credit rating of the Company, Clydesdale Bank, CYBG Group's RMBS issuance vehicles or their respective securities, or a downgrade in the sovereign rating of the UK, may increase CYBG Group's borrowing costs or limit its access to the capital markets and, consequently, have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects. See *"A downgrade in the credit rating of the Company or Clydesdale Bank, the UK banking sector or the UK Government may have an adverse effect on CYBG Group's business, results of operations, financial condition and prospects"* below.

CYBG Group aims to maintain a prudent loan-to-deposit ratio, which means that the majority of its lending is funded by retail and business deposits. As at 30 September 2015, CYBG Group's loan-to-deposit ratio (defined as customer loans as a percentage of customer deposits) was 109 per cent. Medium-term growth in CYBG Group's lending activities will depend, in part, on the availability of retail and business deposit funding on acceptable terms, for which there may be increased competition and which is dependent on a variety of factors outside CYBG Group's control. These factors include general macro-economic conditions and market volatility, the confidence of retail and business depositors in the economy, in the financial services industry, in new market entrants and in CYBG Group, as well as the availability and extent of deposit guarantees. Availability of deposit funding may also be impacted by increased competition from other deposit takers as a result of their strategies or factors that constrain the volume of liquidity in the market, including, for example, the end of the UK Government's FLS or the impact of the UK Government's "pensioner bonds" scheme. Increases in the cost of deposit funding would impact CYBG Group's net interest margin and affect its results of operations, and a lack of availability of deposit funding could have a material adverse effect on CYBG Group's future growth.

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

Any initiative to raise additional deposits through price leadership could have an adverse impact on CYBG Group's net interest income and margin through the cost of both paying higher interest rates to new customers and existing customers switching to these higher-rate products.

Liquidity risk is typically defined as the risk that a company is unable to meet its financial obligations as they fall due. For CYBG Group such obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and capital instruments as they mature, the payment of interest on borrowings and deposits and the payment of operating expenses and taxes. Any significant deterioration in CYBG Group's liquidity position may lead to an increase in the cost of CYBG Group's borrowings or constrain the volume of new lending. This may adversely impact CYBG Group's profitability, financial performance and position.

Failure to manage these or any other risks relating to the cost and availability of liquidity and funding may compromise CYBG Group's ability to deliver its growth strategy and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

12. The amount and quality of CYBG Group's capital is subject to regulatory requirements and market influence.

Capital risk is the risk that CYBG Group does not have sufficient capital and reserves of sufficient quality to meet prudential regulatory requirements, achieve its strategic plans and objectives, cover the risks to which it is exposed or protect against unexpected losses. CYBG Group is required to maintain minimum levels of capital and reserves relative to the balance sheet size and risk profile of its operations.

The Company plans to satisfy incremental increases in capital required to support balance sheet growth by way of retained earnings whereas CYBG Group plans to access the wholesale markets to refinance various existing capital instruments from time to time. If during periods of acute economic or market disruption the wholesale markets were to be fully or partially closed, it is likely that such refinancing would prove more difficult to obtain on commercially acceptable terms. Under such circumstances, CYBG Group may be required to take other appropriate management actions and incur additional costs.

An actual or perceived shortage of capital could have a material adverse effect on CYBG Group's business, which could, in turn, affect the Company's capacity to pay future dividends or implement its business strategy, impacting future growth potential. If, in response to any such shortage, the Company raises additional capital through the issuance of share capital or capital instruments, existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

The Company may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section. CYBG Group may also experience an increased demand for capital as a result of regulatory requirements. For further information, see "*CYBG Group is subject to substantial and changing prudential regulation*" below. Additional capital may also be required to redress issues from historical sales of financial products. Further information is provided in "*CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*" below.

CYBG Group expects to be impacted by the implementation of IFRS 9 "Financial Instruments", which is currently expected in 2018. IFRS 9 requires CYBG Group to move from an incurred loss model to an expected loss model requiring CYBG Group to recognise not only credit losses that have already occurred but also losses that are expected to occur in the future. IFRS 9 may lead to a one-off increase in impairment allowances for certain financial assets in CYBG Group's balance sheet at the time of adoption, and, depending on its interpretation by the relevant regulators, could lead to a negative impact on CYBG Group's regulatory capital position. In addition, following adoption, impairment under IFRS 9 is expected to increase the complexity of CYBG Group's impairment modelling and result in earlier recognition of credit losses than under IAS 39 which is likely to lead to an increase in total provisions.

CYBG Group may also be impacted by certain revisions for calculating regulatory capital, including revisions to the regulatory capital treatment of interest rate risk in the banking book and the standardised approaches for credit risk and operational risk, as described further under "*CYBG Group is subject to substantial and changing prudential regulation*" on which the Basel Committee on Banking Supervision (the "**Basel Committee**") is consulting.

CYBG Group sets its internal target amount of capital by taking account of its own assessment of the risk profile of the business, market expectations and regulatory requirements. If market expectations as to capital levels increase, driven by, for example, the capital levels or targets amongst peer banks or if new regulatory requirements are introduced, then CYBG Group may be required to increase its capital ratios. If it is unable to do so, its business, financial condition, results of operations and prospects may be materially adversely affected.

13. CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses.

CYBG Group faces both financial and reputational risks as a result of legal and regulatory proceedings, and complaints made to it directly or to the Financial Ombudsman Service or other relevant regulatory bodies, both against CYBG Group and against members of the UK banking industry more generally.

Capped Indemnity

As part of the Demerger, NAB and the Company have entered into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide the Company with an indemnity (the "**Capped Indemnity**") in respect of certain historic liabilities relating to conduct in the period prior to the Demerger Date. The conduct issues covered by the Capped Indemnity are referred to as "**Relevant Conduct Matters**". Claims may be made by the Company under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter.

At the Demerger Date, the maximum amount of cover provided to the Company by the Capped Indemnity (the "**Capped Indemnity Amount**") is expected to be £1.115 billion. This figure is determined as follows:

- To achieve the Demerger, the PRA required there to be a capital support package amounting to £1.7 billion for potential losses of CYBG Group related to legacy conduct costs not covered by existing provisions raised by CYBG Group as at 31 March 2015.
- Of this £1.7 billion, the Company will be responsible for £120 million of the aggregate liability for Relevant Conduct Matters under the Loss Sharing Arrangement (described below), with NAB being responsible for the remainder (being £1.58 billion).
- Of this £1.58 billion for which NAB is responsible, £465 million was provided to CYBG Group by NAB on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters in its accounts for the year ended 30 September 2015.

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is expected to be £1.115 billion assuming that no further provisions in respect of Relevant Conduct Matters are raised or increased by CYBG Group and funded by way of capital support from NAB prior to the Demerger Date.

The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities (the amount of such provisions, "**Pre-Demerger Provision Amounts**") (being £986 million as at 30 September 2015) providing total cover for conduct costs of £2.1 billion (without taking account of the Loss Sharing Arrangement (defined below)).

In order to align the interests of NAB and the Company with respect to any such claim, the Company will be responsible for a fixed percentage, expected to be 9.7 per cent., of the relevant conduct liabilities forming part of the relevant provision or increase (the "**Loss Share**" and such arrangement being the "**Loss Sharing Arrangement**"), with NAB being responsible for the remainder. The Company's Loss Share reflects the proportion of any liability in respect of a Relevant Conduct Matter that £120 million bears to the Capped Indemnity Amount plus £120 million as at the Demerger Date.

Any amount paid to the Company pursuant to the Capped Indemnity will be deposited in a separately designated account at Clydesdale Bank in the name of the Company.

Although the Capped Indemnity provides significant economic protection with respect to the historical conduct issues discussed below, it is subject to the following principal risks:

- Claims relating to Relevant Conduct Matters may exceed the Capped Indemnity Amount.
- The Capped Indemnity is subject to the Loss Sharing Arrangement and therefore the Company is only able to claim for the proportion of the relevant provision or increase for conduct costs that falls within the scope of the Capped Indemnity after deduction of the Loss Share and the Company will bear the costs of such Loss Share.
- Claims relating to historical conduct matters, other than those in connection with existing known conduct issues relating: (a) to payment protection insurance ("**PPI**"); (b) interest rate hedging products ("**IRHP**") which comprises standalone interest rate hedging products ("**Standalone IRHP**") and certain tailored business loans, with additional features such as interest rate protection functionality, structured collars, collars or caps ("**Voluntary Scope TBLs**"); and (c) certain fixed rate tailored business loans ("**FRTBLs**"), must satisfy (or be expected by CYBG Group in good faith to satisfy) the following materiality thresholds (when aggregated with claims of a similar nature) in order to be covered under the Capped Indemnity:
  - for claims relating to an industry wide customer redress programme entered into as part of a settlement with a regulator, claims must exceed £2.5 million, in aggregate, and
  - for all other claims, claims must exceed £5 million, in aggregate, and must also affect more than 50 customers.

It is possible, therefore, that the Company is subject to a number of claims relating to future conduct matters which do not meet the required thresholds under the Capped Indemnity but which, in aggregate, amount to a material capital exposure for the Company.

Further, if a matter for which payment has been made by NAB under the Capped Indemnity was expected to satisfy the relevant materiality thresholds but does not in fact satisfy the thresholds at the time the relevant cost is incurred, the Company will not be entitled to make a withdrawal of the amounts paid by NAB under the Capped Indemnity (which will be held in a separately designated account in the name of a member of CYBG Group (a "**Designated Account**")) in respect of such matter unless and until it does satisfy such thresholds.

- Whilst the Capped Indemnity covers claims resulting from changes in the generally accepted applications or interpretation of laws or regulations, it does not cover claims arising from the retrospective application of new laws or regulations. Were any new laws or regulations to be applied retrospectively, CYBG Group would bear the costs that may arise, which may have a material effect on CYBG Group's business, reputation, financial condition, results of operations and prospects.
- In the event that a duly appointed expert determines that there is a continuing material non-compliance by the Company with its obligations under the Conduct Indemnity Deed, being principally to cooperate in relation to the assessment by the PRA of CYBG Group's potential remaining exposure to claims within the scope of the Capped Indemnity and provide information to NAB to enable it to review the validity of claims under the Capped Indemnity and withdrawals from the Designated Account(s) in respect of payments that have been made to settle customer claims, NAB may suspend or withhold certain payments to the Company and the Company will be restricted from withdrawing certain amounts from the Designated Account(s). In that event, the Company may either not receive, or experience a delay in receiving, payments under the Capped Indemnity or may not withdraw or experience a delay in withdrawing amounts from the Designated Account(s), in each case which relate to the Relevant Conduct Matter in relation to which the Company is in material non-compliance.
- The Capped Indemnity Amount as reduced or utilised from time to time in accordance with the Conduct Indemnity Deed (the "**Unutilised Indemnity Amount**") may be permanently reduced following any reassessment by the PRA (in its sole discretion) that the remaining exposure of CYBG Group to Relevant Conduct Matters is less than the sum of the outstanding Unutilised Indemnity Amount from time to time plus any unutilised Pre-Demerger Provision Amounts and the Company's outstanding liability under the Loss Sharing Arrangement (being any unused portion of the Company's £120 million share under such arrangement). Such a reduction of the Unutilised Indemnity Amount would be permanent, and should CYBG Group's exposure to Relevant Conduct Matters increase following such a reduction, that increase will not be reflected in any increase in the Capped Indemnity.

The above factors may result in the Company being required to fund the costs of claims relating to certain historical conduct matters (certain of which are described in detail below) from its own capital resources which may not be sufficient to settle or discharge some or all of any such claims. Further, while the Capped Indemnity provides CYBG Group with economic protection relating to certain conduct matters, it does not cover all possible impacts of historic conduct issues and CYBG Group may be materially adversely impacted by other risks such as reputational damage to its brand names.

In certain circumstances contemplated by the Conduct Indemnity Deed, the Company may be required to repay to NAB certain amounts received by it under the Capped Indemnity. The Company will need to ensure that there are funds available at the Company to make such repayments to NAB (or that another member of CYBG Group is able to make such a repayment on behalf of the Company) and will need to use all reasonable endeavours to ensure that the Company itself is in a position to make such a repayment. There is no certainty that the Company will have such funds available nor that it will be in a position to make such a repayment, for example, because members of CYBG Group are unable to upstream sufficient funds to the Company, and if NAB seeks to enforce its right to such a repayment, any failure by the Company to meet its repayment obligations could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

It is not expected that payments to the Company under the Capped Indemnity (or subsequent subscriptions for equity in other members of CYBG Group using the proceeds of such payments) will be taxable in the hands of CYBG Group but if tax were to be payable, then the Conduct Indemnity Deed contains provisions pursuant to which NAB has agreed to compensate the Company for any actual tax incurred that would not have been incurred but for receipt of amounts by the Company under the Capped Indemnity or by members of CYBG Group pursuant to subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments. In certain circumstances, CYBG Group may be liable to a tax charge in respect of payments to customers for Relevant Conduct Matters and NAB has also agreed, subject to certain limitations, to compensate the Company for those tax costs net of deductible expenses if they arise in respect of NAB's share of liability under the Loss Sharing Arrangement for Relevant Conduct Matters (together with the matters referred to in the preceding sentence, the "**Tax Indemnity Provisions**"). It is not expected that the Tax Indemnity Provisions will give rise to any net payment to the Company. It is not possible to determine the amount of tax that may be payable should any amounts paid to the Company under the Capped Indemnity (or subsequent subscriptions for equity in members of CYBG Group in consequence of receipt of such payments) be subject to tax, as this will depend on tax legislation at the time the relevant payments (or subscriptions) become subject to tax. As it is not expected that payments under the Capped Indemnity will be taxable in the hands of the Company and the amount of any tax, if it became payable, is uncertain, NAB's obligations under the Tax Indemnity Provisions will not be collateralised by any deposit maintained with the Bank of England (as they will be in respect of its obligations under the Capped Indemnity). Therefore, if tax were to be payable, the Company would be reliant on its contractual rights under the Tax Indemnity Provisions in order to obtain compensation from NAB. If the Company were to be unsuccessful in recovering such amounts from NAB, this could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

For a summary of the Conduct Indemnity Deed see Part 2 of this Annexure G: "*Information on CYBG Group – Conduct*".

Conduct-Related Risks

PPI redress, which is primarily redress in respect of mis-sold payment protection insurance, is one of the most significant conduct-related factors that has adversely affected profitability for UK retail banks, including CYBG Group, in recent years. In 2013, following an initial review of sample PPI complaint files by the Financial Services Authority ("**FSA**"), CYBG Group became subject to an FCA s166 review into complaints handling policies and procedures and an FCA enforcement process. On 14 April 2015, the FCA fined Clydesdale Bank £21 million in relation to failures in its PPI complaints handling processes between May 2011 and July 2013.

In August 2014, CYBG Group introduced revised PPI complaint handling policies and procedures to address issues highlighted by the FCA s166 review. As a result, all PPI complaints processed prior to this date are to be reviewed by the Company, and remediated where appropriate, to ensure customer outcomes were not restricted by the previous issues in CYBG Group's policies and procedures. In addition, in August 2015, CYBG Group concluded a past business review of PPI sales from January 2005, which comprised an examination of sales practices and other evidence to provide an assessment as to whether sales to customers were suitable in light of the customer's circumstances (the "**Past Business Review**"). As a result of this review, CYBG Group will be undertaking a proactive customer engagement programme which involves contacting customers identified as having experienced actual or potential detriment under its historical PPI sales practices.

As at 30 September 2015, CYBG Group had recorded total provisions of £1,196 million for PPI matters, of which £774 million was unutilised (including amounts set aside as costs to do).

The key measures for calculating amounts set aside to settle PPI claims used by CYBG Group are: (i) the volume of customer initiated complaints; (ii) expected customer response rate to the proactive engagement programme; (iii) the rate of complaints upheld for which redress payments are provided; (iv) the average amount of each redress payment; and (v) the costs of administration of the claims and redress handling process. CYBG Group's estimates are based on a number of assumptions derived from a combination of past experience, historical data analysis, estimated future outcome, industry comparison and the exercise of judgement by CYBG Group. Consequently, provision levels remain under review in response to changing circumstances and the position remains fundamentally uncertain. There is a risk that the number of future complaints received by CYBG Group could materially exceed its assumptions on volume and the actual future uphold rates and average redress could materially exceed the levels anticipated by CYBG Group. There is also a risk that the resourcing for the administration of the claims and redress handling process is inadequate to meet regulatory timeframes and additional claims management costs may be incurred in attempting to meet such timeframes. The increasing proportion of claims made where there is no evidence of a PPI sale presents a further challenge in calculating provision amounts. As such there is a risk that existing provisions for PPI customer redress may not cover all potential losses and further provisions will need to be made which, if in excess of the amount of the Capped Indemnity, could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

In November 2014, the Supreme Court ruled in *Plevin v Paragon Finance Limited* [2014] UKSC 61 that failure to disclose to a customer a "high" commission payment on a single premium PPI policy sold with a consumer credit agreement created an unfair relationship between the lender and the borrower under s140 of the Consumer Credit Act 1974. It did not define a tipping point above which commission was deemed "high". The disclosure of commission was not a requirement of the FSA's (now FCA's) ICOBS rules for the sale of general insurance (including PPI). The industry, the FCA and the FOS are considering the broader impacts of this decision but there is no current definitive view. The Plevin case has been refused an appeal hearing on the redress outcome and a further appeal has been lodged which is scheduled to be heard on 18 November 2015.

On 2 October 2015, the FCA announced a decision to consult on the introduction of a deadline by which consumers would need to make their PPI complaints or lose their right to have them assessed. The deadline would fall two years from the date the proposed rules come into force, which is not anticipated to be before spring 2016. The FCA's announcement also includes a decision to consult on rules and guidance about how firms should handle PPI complaints fairly in light of the Plevin judgement concerning a claim under the Consumer Credit Act 1974 about the non disclosure by a lender of the level of commission on a PPI contract. The proposed deadline would also apply to the handling of these complaints. It is anticipated that if the proposed introduction of a deadline takes place, it could encourage eligible consumers to bring their claims early and result in a greater number of potential complaints presented to CYBG Group than would have otherwise been expected during such period in the absence of a deadline for having complaints assessed, which could result in increased remediation and administrative costs in relation to such claims. The deadline proposed by the FCA and the outcome of its consultation on the impact of the Plevin case on the handling of PPI complaints and remediation could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

Regulatory review of PPI redress is an on-going matter for CYBG Group and across the UK retail banking industry. Any further fines or enforcement actions, whether for PPI or other conduct issues including those detailed below, could be material in amount and, notwithstanding the terms of the Capped Indemnity (described above), have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

CYBG Group has raised provisions for other conduct-related matters, including the sale of IRHP (which includes Standalone IRHP and Voluntary Scope TBLs) and certain FRTBLs.

In June 2012, the FSA announced that it had found serious failings in the sale of certain interest rate hedging products to some small and medium sized businesses. In July 2012, Clydesdale Bank (as well as several other UK banks) agreed to enter into a voluntary regulated redress exercise in relation to their sales of Standalone IRHP.

In addition to the regulated review of Standalone IRHP, Clydesdale Bank is voluntarily reviewing past sales of the Voluntary Scope TBLs. Clydesdale Bank is also engaged in a complaints led review of FRTBLs, which are not within the scope of the regulated Standalone IRHP review and the Voluntary Scope TBLs review. In February 2015, the FCA announced that the Standalone IRHP review would be closing on 31 March 2015 to new entrants. By 31 October 2015, all redress offers had been delivered to all customers to be offered redress pursuant to the Standalone IRHP review. The review of Voluntary Scope TBLs closed on the same date. The UK Treasury Select Committee (the "**Select Committee**"), in its report on conduct and competition in SME lending published in March 2015, noted some concerns regarding the industry wide FCA review of IRHP sales and the scope of CYBG Group's Voluntary Scope TBLs redress exercise. The Select Committee has made specific critical observations in respect of Clydesdale Bank, including that the Select Committee could not be confident that Clydesdale Bank's internal review of unregulated products would deliver outcomes equivalent to the FCA regulated review upon which it was intended to be based. While Clydesdale Bank is not required to respond to the Select Committee's report, it has confirmed to the UK Government that its review of FRTBLs will be subject to independent reviews to provide assurance that the outcomes from this review are consistent with those in respect of the Standalone IRHP review and consistent with the outcomes from FOS when considering similar complaints. On 13 October 2015, it was reported that in correspondence with the Select Committee, the FCA stated that, noting that it was confident that most people had received a fair outcome, it recognised the potential merit in conducting a review of the effectiveness of its scheme and that it was willing to investigate whether there had been systemic failures in how redress was given to small and medium-sized companies that had been mis-sold interest rate hedging products. The full impact and consequences of the Select Committee report remain uncertain. There is a risk that if the FCA or another regulator were to amend the scope of the industry wide redress process and/or institute a different redress regime or additional redress measures, notwithstanding the terms of the Capped Indemnity (described above), such events could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

As at 30 September 2015, CYBG Group had raised total provisions of £506 million for IRHP and FRTBL matters. Estimates of future redress payments are calculated based on costs from cases to date and there is a risk that the costs incurred in connection with these cases to date are not representative of, and are lower, than the costs eventually incurred in connection with future cases and that the existing provisions for IRHP and FRTBL matters, together with amounts recoverable under the Capped Indemnity (taking into account the Loss Sharing Arrangement), may not cover all potential losses.

UK retail banks have been recently experiencing an increase in the number of complaints in relation to sale of packaged bank accounts, being bank accounts that were sold packaged alongside another product such as travel insurance or vehicle breakdown cover. In the period between 1 January 2015 and 30 June 2015 the FOS received 880 new complaint cases against CYBG Group under the banking and credit product complaint category (an increase from 398 complaint cases in the period from 1 July to 31 December 2014), which amongst other products includes packaged bank accounts. Conduct costs relating to packaged bank accounts were below the minimum threshold for cover under the Capped Indemnity as at 30 September 2015 however, they are likely to exceed the minimum threshold over time. There is a risk that the number of complaints in connection with the historical sales of banking and credit products, including packaged bank accounts may continue to increase which could result in redress costs and provisions, diversion of management time and effort and/or negative reputational consequences which could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

Separately, the UK financial institutions sector has also experienced increased attention in relation to the sale of investment products. CYBG Group historically provided investment advice and may be subject to future conduct risk in that respect. There is a risk that the number of complaints in connection with this advice may increase which could result in redress costs and provisions, diversion of management time and effort and/or negative reputational consequences which could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

Other conduct provisions include provisions in respect of legal proceedings and claims arising in the ordinary course of CYBG Group's business. These provisions cover a number of historic matters, including CYBG Group's contribution to the banking industry response to the scheme of arrangement of Card Protection Plan ("**CPP**") and Affinion International, both providers of card and identity protection products. No assurances can be given that CYBG Group will not incur liability and/or fines in connection with any non-compliance with legislation, further conduct related legal proceedings and claims from customers. CYBG Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability, even when the CYBG Directors believe that it has no liability, to avoid the cost, diversion of management time and effort or negative business, regulatory or reputational consequences of continuing to contest liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, CYBG Group may, for similar reasons, reimburse counterparties for their losses even in situations where CYBG Group does not believe that it is legally compelled to do so and, notwithstanding that such action may be covered by the terms of the Capped Indemnity (taking into account the Loss Sharing Arrangement) (described above), such litigation or regulatory proceedings could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

CYBG Group has invested in identifying any further potential conduct issues and made significant cultural and process changes to seek to ensure that its business model and supporting practices ensure the fair treatment of customers. For further information see Part 2 of this Annexure G: "*Information on CYBG Group – Conduct*".

14. CYBG Group faces risks from the highly competitive environment in which it operates.

The market for financial services in the UK faces many competitive pressures and the CYBG Directors expect these pressures to increase in response to competitor behaviour, consumer expectations, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. In combination, these forces are placing increasing pressure on CYBG Group's results of operations, margins and returns through price pressure, reductions in fees and charges, increased marketing and other related expenses, investment demands, regulatory requirements and increased capital requirements.

The four largest banks in the UK have lost less than 5 per cent. market share in UK PCAs over the last 10 years (*Source: CMA – Retail Banking Market Investigation*), and in 2015 still accounted for more than 70 per cent. of UK active PCAs. (*Source: Mintel*).

The four largest banks had a combined UK market share of active BCAs of approximately 80 per cent. in 2014, remaining relatively stable since 2010. There is, however, some variation between each of the four largest banks with some increasing and others decreasing their market shares. In addition, the four largest banks had a combined share of over 80 per cent. of the number of outstanding general purpose business loans in the UK in 2014. (*Source: CMA – Retail Banking Market Investigation*).

As the financial services markets in which CYBG Group operates are generally mature, growth by any bank typically requires winning market share from competitors.

CYBG Group faces competition from established financial services providers as well as new market entrants, including "challenger banks" with specific areas of market focus, and non-bank competitors which, in some cases, have lower cost operating models. Competition in the UK mortgage market including from challenger banks seeking scale and growth over a short period of time, may create downward price pressure on mortgage and other lending rates.

Further intervention in the UK banking industry is anticipated from regulators and authorities who are increasingly focusing on competition and market effectiveness. Low levels of switching in the UK current account market have been seen as a major barrier to competition between banks and an impediment to customers receiving a potentially better service from a new supplier. In order to address this issue, the Payments Council implemented the 7-Day Current Account Switching Service ("**CASS**") in the second half of 2013. This scheme is designed to ensure that a change in current account provider is completed within seven days and customers are fully protected against any financial loss in the event of problems occurring during the switch. An increase in customers switching, while potentially providing an opportunity for CYBG Group, could make it more difficult to retain existing customers. If a sustained increase in marketing and incentives is required to maintain a stable customer base, CYBG Group may be faced with increased costs or a declining customer base, which may have a material adverse affect on its business, results of operations, financial condition and prospects.

In April 2014, the CMA assumed functions previously undertaken by the Competition Commission and the Office of Fair Trading. The CMA has a wide range of responsibilities aimed at improving the effective operation of markets as well as preventing anti-competitive behaviour. Following recent market studies and market investigations into PCAs and SME banking services, the CMA concluded that there were reasonable grounds for suspecting that certain market features relating to the provision of these services restricted or distorted competition. On 6 November 2014, the CMA announced that it would conduct a comprehensive review into PCA and SME banking services. See "*CYBG Group is subject to substantial and changing conduct regulations*" below for further details on this, as well as additional market reviews being conducted by the FCA.As technology evolves and customer needs and preferences change, there is an increased risk of disruptive innovation or a failure by CYBG Group to introduce new products and services to keep pace with industry developments and meet customer expectations. CYBG Group is also subject to the risk of not appropriately responding to increased threats of cyber crime associated with digital expansion and the industry-wide risk of traditional banking information technology ("**IT**") infrastructure and digital technologies becoming obsolete. For example, in response to these risks CYBG Group is currently creating new products and digital banking services to address changes in consumer behaviour and to develop a more comprehensive digital offering. CYBG Group's financial and operational performance may be materially adversely affected by an inability to keep pace with industry trends and customer expectations.

In seeking to price products competitively for the purpose of attracting and retaining new customers, CYBG Group must consider the capital required in making loans and advances. The amount of capital required is based on the risk weighting of the asset in question. The methodology to determine the amount of capital required to be held by UK banks is based on the PRA's interpretation of the Basel capital framework. There are two approaches of calculating the risk weighting attributed to a bank's assets. The approach adopted by CYBG Group is known as the "standardised approach", which requires relatively specific amounts of capital to be held for certain types of assets based on set criteria. Banks that develop their own empirical models to quantify required capital for risk and have such models approved by the PRA are permitted to use the "Internal Ratings Based" ("**IRB**") approach. The IRB approach can be either under the "Foundation" or "Advanced" approach, each of which provides more flexibility in assessing the risk weighting of particular types of assets. Although there are Basel Committee proposals which may, amongst other things, narrow the gap between the standardised approach and the IRB approach to calculating risk weighted assets, currently, banks that have adopted the IRB approach would have a lower capital requirement for certain products, in particular, certain types of mortgages. This makes it more difficult for CYBG Group to compete with those banks on pricing for some of these products, which could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

15. CYBG Group is exposed to risks relating to its relationships with mortgage intermediaries.

In maintaining and growing its mortgage portfolio, CYBG Group relies on a number of intermediaries in the mortgage lending market, which exposes it to the risk of deterioration of the commercial, financial or operational soundness of those organisations. CYBG Group is also exposed to the risk that its relationships with one or more intermediaries may deteriorate for a variety of reasons, including competitive factors. As CYBG Group seeks to actively grow the volume of mortgages introduced by intermediaries, its exposure to those risks increases.

CYBG Group employs an "invitation only" approach to establishing new intermediary relationships, and has relationships with a network of approximately 331 intermediaries who actively submitted business to CYBG Group in the year ended 30 September 2015. In the year ended 30 September 2015, £3,658 million of CYBG Group's gross new mortgage lending was originated through intermediaries, which represented 74.1 per cent. of total gross new mortgage lending. If a major intermediary were to cease operations or switch allegiance to other lenders in the market, there could be a negative effect on CYBG Group's mortgage lending volumes. CYBG Group pays intermediaries structured fees and commissions for introducing new customers to it at rates that the CYBG Directors believe are consistent with the wider mortgage market. Were competitors to increase incentive or other payments to intermediaries with whom CYBG Group does business, CYBG Group could be forced to increase its fees and commissions to compete with those incentives or risk a reduction in the amount of new business referred which, in either case, could have an adverse impact on demand for its mortgages.

In addition, CYBG Group is exposed to many of the risks inherent in intermediaries dealing with its prospective customers. For example, CYBG Group has limited oversight of the intermediaries' interactions with prospective customers and, consequently, CYBG Group faces risks related to the conduct of the intermediaries with which it does business. If intermediaries are found to have violated applicable conduct regulations or standards in the sale of CYBG Group's mortgage products, CYBG Group's brand and/or reputation could be harmed as a result. In addition, the structure of the intermediary mortgage market is also subject to change. For example, there may be a change in customer sentiment or regulation that results in customers dealing with financial institutions directly, which would reduce the flow of business from intermediaries and thus could have a material adverse effect on CYBG Group if this business was not replaced through other channels. Also, there could be consolidation in the intermediary mortgage market which may change the behaviour of intermediaries in ways which may have a material adverse effect on CYBG Group. Any of these factors could have a material adverse effect on CYBG Group's ability to meet its strategic objectives for mortgage asset growth and, consequently, its business, financial condition, results of operations and prospects.

16. CYBG Group is a supplier of credit to the buy-to-let sector in the UK. Many borrowers in the sector have yet to operate through an entire economic cycle, and any weakness in their credit quality may impact the financial and operational performance of CYBG Group.

The buy-to-let market in the UK has expanded rapidly in recent years and CYBG Group is a supplier of credit to this market. As at 30 September 2015, 31.3 per cent., or £6,418 million of CYBG Group's outstanding mortgage balances were buy-to-let loans and 88.2 per cent. or £5,663 million of such buy-to-let loans were on an interest-only basis. Borrowers of buy-to-let mortgages have benefitted in recent years from a combination of low interest rates, rising house prices and increasing rents, as first time buyers have struggled to raise the required deposit to allow them to purchase their own homes. The Finance (No. 2) Act 2015, introduced provisions to limit the income tax relief on mortgage interest expense available on residential property to buy-to-let landlords from 6 April 2017. If rental rates were to decrease or remain stagnant, interest rates were to increase, further tax changes were to reduce the post tax return on buy-to-let investments and/or the economy were to weaken and place pressure on employment, consumer incomes and/or house prices, the credit performance of CYBG Group's buy-to-let mortgage book could deteriorate, which in turn could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

17. CYBG Group is exposed to the risk of customers who have interest-only owner-occupied mortgage loans being unable to repay their loans in full at maturity.

CYBG Group provides mortgages to customers to enable them to purchase property for owner occupation. Such mortgages may be provided on a capital repayment basis, where the loan is repaid during its life, or on an interest-only basis, in which case the customer pays interest during the term of the mortgage loan with the principal balance being required to be repaid in full at maturity. As at 30 September 2015, capital repayment mortgages comprised 70.4 per cent. or £9,919 million of CYBG Group's owner-occupied mortgage loan portfolio and interest-only loans comprised 29.6 per cent., or £4,167 million.

In respect of CYBG Group's owner occupied interest-only mortgage customers, assessments of capital repayment plans may be incomplete or out-of-date and consequently, CYBG Group may lack information to accurately evaluate the related repayment risk. As a result, CYBG Group may have reduced visibility of future repayment issues in respect of its interest-only residential mortgages, which could limit CYBG Group's ability to estimate and establish provisions to cover exposures resulting from these mortgages.

While property sale is an acceptable method of repayment for buy-to-let mortgages, owner-occupied mortgage customers taking out interest-only mortgages are required by regulation to have a capital repayment plan. Where such repayment plans are inadequate or have not been executed as planned, CYBG Group is exposed to the risk that the outstanding principal balance on interest-only loans for owner-occupied mortgages is not repaid in full at the contractual maturity date. CYBG Group provides a variety of solutions to support customers in such instances, but these solutions may not always result in customers being able to repay their loans or to continue to service the interest payments where the capital sum remains outstanding. Where the solutions are unsuccessful there may be increased impairment charges on CYBG Group's owner-occupied mortgage portfolio which could have a material adverse effect on its profitability. The risk increases if, at the maturity of the loan, the customer is no longer in paid employment and is relying on reduced sources of income, such as pension income or unemployment benefits, to continue to meet the loan interest payments and agreed capital repayments.

18. CYBG Group is subject to risks associated with customer and counterparty non-performance.

Credit risk is the risk that a counterparty or customer will fail to meet its obligations to CYBG Group in accordance with agreed terms. CYBG Group has exposures to many different products, counterparties and obligors whose credit quality can have a significant adverse impact on CYBG Group's business, results of operations, financial condition and prospects. Retail and business lending activities account for most of CYBG Group's credit risk. As at 30 September 2015, mortgage lending comprised 71.2 per cent. of CYBG Group's customer loan portfolio of £28,783 million, business loans comprised 24.5 per cent. and unsecured personal lending (including personal loans, credit cards and overdrafts) comprised the balance. Other sources of credit risk include but are not limited to the extension of credit commitments and guarantees, the holding of investments for liquidity purposes (including UK gilts), inter-bank transactions, letters of credit and trade financing, derivative transactions entered into for hedging purposes, foreign exchange transactions, placing of deposits, acceptances and the settlement of transactions. As at 30 September 2015, CYBG Group's maximum exposure to credit risk was £45,585 million. For further information see *CYBG Historical Financial Information* for further information on credit risk exposure.

Less favourable business or economic conditions, whether generally or in a specific industry sector or geographic region, could cause, and have caused, counterparties and customers (especially those concentrated in areas experiencing less favourable business or economic conditions) to experience an adverse financial situation. This exposes CYBG Group to the increased risk that those customers will fail to meet their obligations in accordance with agreed terms. A deterioration in the economic conditions currently being experienced in the UK could have an adverse impact on CYBG Group's financial performance and position. Other factors that could have an adverse impact include declines in the UK economy which would impact CYBG Group's SME customer base or further financial market dislocation which could lead to falling confidence, increasing refinancing risk and contagion risk amongst market participants, counterparties and customers.

In the ordinary course of its operations, CYBG Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to CYBG Group's results and financial condition, requires complex judgements, including forecasts of how changing macro-economic conditions might impair the ability of customers to repay their loans. CYBG Group may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could materially adversely affect CYBG Group's business, results of operations, financial condition and prospects.

Further, there is a risk that, despite CYBG Group's belief that it conducts an accurate assessment of customer credit quality, customers are unable to meet their commitments as they fall due as a result of customer-specific circumstances, macro-economic factors or other external factors. The failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative impact on fair value in CYBG Group's lending portfolio. A deterioration in customer credit quality and the consequent increase in impairments could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

19. Concentration of credit risk could increase CYBG Group's potential for significant losses.

As at 30 September 2015, substantially all of CYBG Group's assets and business is related to customers in the UK, and in the case of mortgages, there are concentrations in Greater London, the rest of the South of England, the North of England and Scotland. The South of England (including Greater London) accounted for approximately 37 per cent. of CYBG Group's mortgages as at 30 September 2012, 39 per cent as at 30 September 2013, 43 per cent. as at 30 September 2014 and 48 per cent. as at 30 September 2015. Each geographic region within the United Kingdom has different economic features and prospects. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of borrowers in respect of mortgage or other loans in a region that relies to a greater extent on that industry. In the event of adverse economic conditions, including interest rates and levels of unemployment, in regions within the UK where CYBG Group has significant business or assets, concentrations of credit risk could cause CYBG Group to experience greater losses than some competitors.

In addition, CYBG Group faces concentration risks relating to its agricultural lending, which as at 30 September 2015 amounted to approximately 24.0 per cent. of CYBG Group's total business lending and 5.9 per cent. of CYBG Group's total customer loans. CYBG Group could be disproportionately impacted compared to some competitors by a deterioration of market conditions in the agricultural sector due to, for example, adverse seasonal weather patterns, falling land prices, global oversupply and volatility in commodity markets, changes in government policy such as reductions to farming subsidies (including those provided by the Common Agricultural Policy in the EU), dairy price pressure reducing the profitability of dairy producers or an outbreak of livestock disease such as foot and mouth disease. While CYBG Group regularly monitors its credit portfolios to assess potential concentration risk, efforts to divest, diversify or manage CYBG Group's credit portfolio against concentration risks may not be successful. Concentration of credit risk could result in a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

20. CYBG Group faces risks associated with its dependence on third-party service providers for certain functions.

CYBG Group depends on a number of third-party providers for a variety of functions including for IT software and platforms, ATM services, payment system services, mobile application services, credit card production services and cheque processing services. CYBG Group relies on the continued availability and reliability of these service providers. If CYBG Group's contractual arrangements with any of these providers are terminated for any reason or any third-party service provider becomes otherwise unavailable or unreliable in providing the service to the required standard, CYBG Group will be required to identify and implement alternative arrangements. CYBG Group may not find an alternative third-party provider or supplier for the services, on a timely basis, on equivalent terms or without incurring a significant amount of additional costs or at all. These factors could cause a material disruption in CYBG Group's operations and could have a material adverse financial or reputational impact on CYBG Group. It may result in a higher risk premium being applied to CYBG Group, and adversely impact the cost of funding its operations, or its financial condition. Reputational damage to CYBG Group's brands caused by the failure of a third-party supplier may also adversely impact CYBG Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities.

CYBG Group will also depend on transitional services arrangements with NAB that are discussed below in "*Risks related to CYBG Group's relationship with NAB*".

21. CYBG Group is exposed to risks associated with cyber crime and fraud.

CYBG Group is subject to the risk of actual or attempted IT security breaches from parties with criminal or malicious intent. Should CYBG Group's intrusion detection and anti-penetration software not anticipate, prevent or mitigate a network failure or disruption, or should an incident occur in a system for which there is no duplication, there may be a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

CYBG Group continues to invest in its information security controls in response to emerging threats, such as cyber crime and fraud, and to seek to ensure that controls for known threats remain robust. The risks associated with cyber attacks, where an individual or group seeks to exploit vulnerabilities in IT systems for financial gain or to disrupt services, are a material risk to CYBG Group and the UK financial system, which has a high degree of interconnectedness between market participants, centralised market infrastructure and in some cases complex legacy IT systems. CYBG Group cannot be certain that its infrastructure and controls will prove effective in all circumstances and any failure of the controls could result in significant financial losses and a material adverse effect on CYBG Group's operational performance and reputation.

Any breach in security of CYBG Group's systems, for example from increasingly sophisticated attacks by cyber crime groups or fraudulent activity in connection with customer accounts, could disrupt its business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage CYBG Group's reputation and/or brands.

22. CYBG Group is subject to risks associated with its hedging and treasury operations, including potential negative fair value adjustments.

CYBG Group faces risks related to its hedging and treasury operations. CYBG Group engages in hedging activities, for example in relation to interest rate risk, to limit the potential adverse effect of interest rate fluctuations on its results of operations. CYBG Group's treasury operation has responsibility for managing the interest rate risk that arises through its customer facing business, management of its liquid asset buffer and investment of free reserves and interest rate insensitive deposit balances. Interest rate hedges for both customer assets and liabilities are calculated using a behavioural model. However, CYBG Group does not hedge all of its interest rate, foreign exchange and other risk exposures and cannot guarantee that its hedging strategies will be successful because of factors such as behavioural risk, unforeseen volatility in interest rates or other market prices or, in times of market dislocation, the decreasing credit quality, or unavailability, of hedge counterparties. CYBG Group also has cross currency hedging instruments in place for cross currency funding. If its hedging strategies are not effective, CYBG Group may be required to record negative fair value adjustments. Material losses from the fair value of financial assets would also have an adverse impact on CYBG Group's capital ratios.

Through its treasury operations, CYBG Group holds liquid assets portfolios potentially exposing CYBG Group to interest rate risk, basis risk and credit spread risk. To the extent that volatile market conditions occur, the fair value of CYBG Group's liquid assets portfolios could fall more than estimated and cause CYBG Group to record mark to market losses. In a distressed economic or market environment, the fair value of certain of CYBG Group's exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods, reflecting then-prevailing market conditions, may result in significant negative changes in the fair value of CYBG Group's exposures, which could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

Interest-rate insensitive PCA balances form a significant part of CYBG Group's funding. The CYBG Directors believe that the current, historically low, level of five-year swap interest rates, coupled with the probability of these rates increasing in advance of any increase in the Bank of England base rate, means that these balances may generate a higher level of income in the future than they do currently. However, if customer behaviours were to change significantly, PCA balances may become more volatile and may no longer be suitable for swaps of the current duration, which could have a material adverse effect on the income generated by these balances.

23. CYBG Group could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties.

Given the high level of interdependence between financial institutions, CYBG Group is and will continue to be subject to the risk of actual or perceived deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions. This was the case after the bankruptcy of Lehman Brothers in 2008, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by CYBG Group or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, industry payment systems, clearing houses, banks, securities firms and exchanges with whom CYBG Group interacts on a daily basis. Systemic risk could have a material adverse effect on CYBG Group's ability to raise new funding and on its business, financial condition, results of operations and prospects.

CYBG Group routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, insurance companies and other institutional clients, resulting in large daily settlement amounts that may give rise to significant credit exposure. In particular, CYBG Group interacts with these financial institutions through a variety of interbank electronic payments systems that underpin clearing and settlement amongst financial institutions. As a result, CYBG Group faces concentration risk with respect to specific counterparties including payment system participants and operators. In addition, CYBG Group will have a significant volume of counterparty and operational risk with NAB due to NAB acting as Clydesdale Bank's sole clearing provider, on an arm's-length basis, for central clearing of a high volume of derivative transactions through LCH.Clearnet Limited, in preparation for compliance with clearing requirements under the European market infrastructure regulation (Regulation 648/2012) ("**EMIR**") which have yet to come into force. See "*CYBG Group is subject to the potential impacts of UK and European banking and financial services reform initiatives*" below for more information on this. A default by, or concerns about, the creditworthiness of NAB or one or more other financial services institutions could therefore adversely impact CYBG Group.

24. A downgrade in the credit rating of the Company or Clydesdale Bank, the UK banking sector or the UK Government may have an adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

Credit ratings are an important reference for market participants in evaluating CYBG Group and its products, services and securities. Credit rating agencies conduct ongoing review activity which can result in changes to credit rating settings and outlooks for CYBG Group and/or the UK banking sector, or for the UK Government. Review activity is based on a number of factors including CYBG Group's financial strength and outlook, the assumed level of UK Government support for CYBG Group in a crisis and the strength of the UK Government, and the condition of the financial services industry and of the markets generally.

Credit ratings may also be affected by changes in the rating methodologies used by the credit rating agencies. Recent methodology changes and the ongoing Eurozone crisis have resulted in the review of sovereign and global bank ratings and securitisation and covered bond ratings. There is the potential for this ongoing review activity to continue, particularly in periods of increased market volatility.

The Company has only recently been rated by credit rating agencies as a standalone bank holding company and, whilst Clydesdale Bank has been rated for a longer period, such rating was previously premised on support from NAB. Consequently the ratings for the Company and Clydesdale Bank may be more likely to be reviewed or placed on negative watch than institutions with a longer track record as publicly listed financial institutions. Any downgrade in the credit rating of the Company or Clydesdale Bank or their securities, or the UK banking sector generally, or a downgrade in the sovereign rating of the UK could:

- adversely affect CYBG Group's liquidity and competitive position;
- undermine confidence in CYBG Group;
- increase CYBG Group's borrowing costs; or
- limit CYBG Group's access to the capital markets or limit the range of counterparties willing to enter into transactions with CYBG Group, as many institutions require their counterparties to satisfy minimum ratings requirements,

and consequently, have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

In February and April 2013, both Moody's and Fitch reduced the UK's long-term sovereign credit ratings, from Aaa to Aa1 (in the case of Moody's) and from AAA to AA+ (in the case of Fitch). Although these actions have not directly impacted the respective agencies' ratings of the Company or Clydesdale Bank, any further downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilise the markets, impact the Company's or Clydesdale Bank's own ratings, borrowing costs and ability to fund themselves and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

A further UK sovereign credit rating downgrade or the perception that such a downgrade may occur could depress consumer confidence, restrict the availability and increase the cost of funding for individuals and companies, further depress economic activity, increase unemployment and reduce asset prices.

Annexure G: Part One
CYBG Risk Factors

25. Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS, covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes.

CYBG Group currently raises funding through secured funding issuances from the Lanark RMBS programme, the Lannraig buy-to-let RMBS programme and the Clydesdale Bank regulated covered bond programme. These secured funding programmes require that minimum credit ratings are maintained in respect of various counterparties appointed to such programmes, including Clydesdale Bank. If such ratings are not maintained, the relevant counterparty may be replaced or other action may be required to be taken.

Any rating agency that is rating any of the secured funding programmes may at any time revise its relevant rating methodology or revise its current ratings criteria. An adverse change to any relevant rating methodology or current ratings criteria or any downgrade of the rating of Clydesdale Bank or other counterparties may result in breaches of minimum ratings requirements in the transaction documents of the secured funding programmes, including where Clydesdale Bank acts as a relevant counterparty, for example, as seller of mortgage loans, collection account bank, servicer and cash manager. Actions required to be taken following a downgrade of Clydesdale Bank's ratings below certain minimum rating requirements may include, amongst other things, borrowers under mortgage loans being notified that Clydesdale Bank has assigned its beneficial interest in their mortgage loans and the role of collection account bank being moved away from Clydesdale Bank and borrowers being instructed to amend their payment instructions and direct debits and the appointment of third party back up servicers and cash managers to the secured funding programmes. Such action by Clydesdale Bank may lead to negative publicity in respect of Clydesdale Bank and uncertainty amongst borrowers as to how they are required to discharge their obligations under their mortgage loans which may, in turn, result in payments being made by borrowers to incorrect accounts or payments being missed. In addition, the requirement to comply with any revised rating methodology or criteria or any breach of minimum ratings requirements may result in certain actions being required to be taken pursuant to the contractual documentation and/or amendments needing to be made to the programme documentation, which may require the consent of the relevant note trustee, security trustee and/or noteholders in respect of the relevant programme. In the event that such actions are not taken and/or such amendments are not able to be made, including as a result of noteholders not agreeing to such proposed amendments, the credit ratings of the notes issued pursuant to the relevant secured funding programme may be adversely affected and an event of default under such secured funding programme may occur. In such circumstances, CYBG Group may incur significant expense and operational risk and the ability of CYBG Group to raise further funding pursuant to the relevant secured funding programme may be adversely affected, which could require it to raise more expensive forms of funding, which in turn, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects. See Part 8 of this Annexure G: "*Additional Information on CYBG–Funding Programmes*" for more information on the terms of CYBG Group's secured funding programmes.

26. Since August 2012 the UK Government has provided significant support to UK financial institutions pursuant to the FLS. Any significant reduction or withdrawal of the FLS or other funding schemes could increase competition for other sources of funding which could adversely impact CYBG Group.

Since August 2012 the UK Government has provided significant support to UK financial institutions, including through liquidity schemes and credit guarantee schemes. FLS, which became operational on 1 August 2012, was designed to reduce funding costs for participating institutions so that they could make loans to customers more readily available and at lower interest rates. The FLS scheme has been extended a number of times since its introduction with drawings with a maturity of up to four years currently permitted until 29 January 2016.

Clydesdale Bank received permission to participate in FLS on its introduction but did not borrow any funds under the scheme and withdrew from the scheme on 31 January 2015. However, financial institutions that have relied significantly on FLS and other government schemes to meet their funding needs will need to find alternative sources of funding when that support is reduced or withdrawn. In such a scenario, CYBG Group will face increased competition for funding, particularly retail funding on which it relies to a significant extent. This competition could increase CYBG Group's funding costs and have a material adverse effect on its business, results of operations, financial condition and prospects.

27. CYBG Group's risk management policies and procedures may not be effective in protecting it against all the risks faced by its business, and any failure to manage properly the risks that it faces could harm CYBG Group and its prospects.

The management of credit, operational, regulatory, compliance, balance sheet and liquidity, market, foreign exchange, interest rate, pension, strategic, reputational and other risks requires, among other things, robust policies and procedures for the accurate identification and control of a large number of transactions and events. Such policies and procedures may not always prove to be adequate in practice against the wide range of risks that CYBG Group faces in its business activities, including, in particular:

- credit risk, being the potential that a customer or counterparty will fail to meet its obligations to CYBG Group in accordance with agreed terms, which arises from both CYBG Group's lending activities and markets and trading activities. See "*CYBG Group is subject to risks associated with customer and counterparty non-performance*" above;
- operational risk, being the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. See "*CYBG Group is exposed to risks associated with its IT systems*" below and "*CYBG Group is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events*" below;
- regulatory risk, consisting of regulatory strategy and change risk and regulatory relationship risk. See "*Regulatory Risks*" below;
- compliance risk, being the risk of failing to properly interpret and comply with relevant laws, rules, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives, as well as internal policies, standards, procedures and frameworks and incorporating financial crime risk, which includes risks relating to money laundering, terrorism financing, bribery and corruption and sanctions and embargoes;
- balance sheet and liquidity risk, being the risk that CYBG Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. See "*CYBG Group's business is subject to risks relating to the cost and availability of liquidity and funding*" above;
- market risk, being the risk associated with adverse changes in the fair value of positions held by CYBG Group as a result of movement in market factors such as interest rates, foreign exchange rates, volatility and credit spreads;
- defined benefit pension risk, being the risk that, at any point in time, the available assets to meet pension liabilities are at a value below current or future scheme obligations. See "*Risks relating to pension schemes*" below;
- strategic risk, being the risk of significant loss or damage arising from business decisions that impact the long-term interests of CYBG Group's stakeholders or from an inability to adapt to external developments;
- other risks, including but not limited to funding and funding diversification risk, which is the risk of loss resulting from the inability to raise and maintain sufficient funding or the insufficient diversification of funding to spread risk, and model risk, which is the risk of loss resulting from inappropriate models and outputs that can lead to poor business decisions being taken. More information on each of these risks, together with the risks above, is provided in Part 6 of this Annexure G: "*Risk Management*".

CYBG Group has a range of systems designed to measure and manage the various risks which it faces, as described further in see Part 6 of this Annexure G: "*Risk Management*". Some of these methods are based on historic market behaviour and may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience. Historical data may also not adequately allow prediction of circumstances arising due to UK Government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to CYBG Group. Such information may not always be correct, updated or correctly evaluated. In addition, even though CYBG Group constantly measures and monitors its exposures, there can be no assurance that its risk management methods will be effective, including in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on CYBG Group's business, financial condition, results of operations and prospects.

28. CYBG Group is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events.

CYBG Group's business is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events. Operational risks arise from the day-to-day operational activities of CYBG Group, which may result in direct or indirect losses and could adversely impact CYBG Group's business, financial condition, results of operations and prospects. These losses may result from both internal and external events, and risks. Internal risks include, but are not limited to, process error or failure, inadequate process design, poor product development and maintenance, poor change management, ageing infrastructure and systems, system failure, failure of security and physical protection, fraud, deficiencies in employees' skills and performance or human error, or other idiosyncratic components of operational risk that are related to CYBG

Group's particular size, nature and complexity. External events include, but are not limited to, operational failures by third-party providers (including offshored and outsourced providers), actual or attempted external IT security breaches from parties with criminal or malicious intent, natural disasters, extreme weather events, political, security and social events and failings in the financial services industry.

CYBG Group is dependent on its information systems and technology from a system stability, data quality and information security perspective. CYBG Group is also dependent on payments systems and technology that interface with wider industry infrastructure; for example, CYBG Group, in common with other banks, is dependent on the CHAPS payment system provided by the Bank of England for making payments between different financial institutions on behalf of customers. Internal or external failure of these systems and technology (including if such systems cannot be restored or recovered in acceptable timeframes, or be adequately protected) could adversely impact CYBG Group's ability to conduct its daily operations and CYBG Group's business, financial condition, results of operations and prospects.

In addition, financial models are used extensively in the conduct of CYBG Group's business; for example, in calculating capital requirements and measuring and stressing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions and judgements, this may adversely affect CYBG Group's business, financial condition, results of operations and prospects.

CYBG Group may look to implement new operational processes and systems to assist in responding to market developments, such as moves to mobile banking, or to reflect changes in regulations, such as those that require faster electronic payment processing and cheque clearing times and shorter current account switching timelines. Due to the scale and complexity of such projects, CYBG Group may be required to invest significant management attention and resources, which may divert attention away from normal business activities and other ongoing projects. Additionally, where changes are undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are magnified, which may impact the reputation and financial condition of CYBG Group. There is also a risk that implementation may not be completed within expected timeframes or budget, or that such changes do not deliver some or all of their anticipated benefits.

While CYBG Group does have operational resilience, IT disaster recovery and business continuity contingency plans in place, these are not, and are not intended to be, a full duplication of CYBG Group's operational systems and premises. The occurrence of a serious disaster resulting in interruptions, delays, the loss or corruption of data or the cessation of the availability of systems or premises could have a material adverse effect on CYBG Group's business.

Any actual or perceived inadequacies, weaknesses or failures in CYBG Group systems or processes could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

29. CYBG Group is exposed to risks associated with its IT systems.

CYBG Group's IT systems are critical to the operation of its business and the delivery of products and services to its customers. Any disruption in a customer's access to account information, delays in making payments, an inability to make cash withdrawals at CYBG Group's ATMs or a failure of online or mobile banking platforms could have a significant negative effect on CYBG Group's reputation and could also lead to potentially large costs both to rectify the issue and to reimburse losses incurred by customers. For example, in September 2014 an overnight batch processing delay occurred, which affected the processing of standing orders totalling £3.2 million and led to customers being unable to access payment services for over an hour. Process improvements have since been implemented and enhancements made to CYBG Group's batch processing which has shortened run time and improved performance significantly. Whilst no re-occurrence of this issue has since been experienced, there can be no assurance that the process improvements made will prove sufficient in preventing similar delays from occurring in the future.

Technological efficiency and automation, including a range of standard form documentation and automatic banking systems across CYBG Group's mainframe, are widely used in CYBG Group's business to process high volumes of transactions. As a result, any defect in CYBG Group's standard documentation or defect in its electronic banking applications or mainframe can be replicated across a large number of transactions before the defect is discovered and corrected. This could significantly increase the cost of remediating the defect, and could expose CYBG Group to regulatory sanction, unenforceability of contracts and reputational damage.

While the CYBG Directors believe that CYBG Group's IT systems are scalable and sufficient to meet expected demand, there can be no assurance that its IT systems would support a significant, unexpected or extraordinary increase in online or mobile traffic or volumes of its operations which are dependent on IT in the short term. In such circumstances, CYBG Group may need to upgrade its IT systems and staffing to meet such demand, which is likely to result in a time lag before CYBG Group is able to satisfy such increased demand, which may cause delays to customers and adversely affect its customer service.

Because CYBG Group depends on a number of third-party providers for a variety of functions, including payment service provider systems, any disruption in such systems could have a disruptive effect on CYBG Group's operations. See "*CYBG Group faces risks associated with its dependence on third-party service providers for certain functions*" above.

Further, CYBG Group is currently in the process of implementing a number of IT system upgrades. Should these upgrades not be completed as planned, or become subject to significant delays or suffer from cost overruns, operational performance may suffer. Delays or cost overruns could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

30. CYBG Group faces risks relating to its exposure to UK Government debt.

Like many other UK banks, CYBG Group invests in debt securities of the UK Government, largely for liquidity purposes. As at 30 September 2015, CYBG Group held £1.34 billion of debt securities issued by the UK Government, representing approximately 3.5 per cent. of its total assets. A significant decrease in the market value of these securities, for example, due to political uncertainty or deteriorating economic conditions, would have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

31. CYBG Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate.

The preparation of CYBG Group's financial statements requires management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with international financial reporting standards ("**IFRS**"). Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the level of impairment provisions for loans and advances, the level of provisions for PPI redress and other conduct related matters, retirement benefit obligations, deferred tax assets, and the fair value of financial instruments. For information on CYBG Group's critical accounting policies, see CYBG Historical Financial Information.

If the judgements, estimates and assumptions used by CYBG Group in preparing its consolidated financial statements are subsequently found to be incorrect there could be a significant loss to CYBG Group beyond that anticipated or provided for, which could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

32. CYBG Group's financial performance as set out in its historical financial information may not in all respects be indicative of its future performance as an independent, publicly listed company.

CYBG Group's Historical Financial Information has been prepared based on the accounts of CYBG Group while it was part of the NAB Group. CYBG Group does not have an operating history as an independent, publicly listed company and the historical financial information does not necessarily reflect the results of operations, cash flows and financial condition that CYBG Group would have achieved as an independent, publicly listed company during the periods presented or those that it will achieve in the future. Relevant factors include (without limitation):

- NAB has historically provided CYBG Group with capital and funding for general corporate purposes, including capital to support regulatory capital requirements and shortfalls, acquisitions and capital expenditure, and managed and retained cash generated by CYBG Group's business. After the Demerger, NAB will not be providing CYBG Group with funds to finance its working capital or other cash requirements. Without the opportunity to obtain capital or funding from NAB, CYBG Group will need to obtain external capital or funding and there is no guarantee that such capital and funding will be available to CYBG Group on terms that are as favourable as those it could have obtained as part of the NAB Group.
- CYBG Group's business has been operated as part of NAB's broader corporate organisation and has been supported by NAB's corporate infrastructure including centralised support for certain functions such as group risk, treasury, insurance administration, investor relations and human resources. CYBG Group's historical financial information reflects certain allocations of corporate expenses from NAB for these functions but may not reflect the full cost of operating these functions as a standalone business. These standalone costs may have a material adverse effect on the future financial performance of CYBG Group.
- Clydesdale Bank has acquired CYB Intermediaries Holdings Limited ("**CYBIHL**") and its subsidiary CYB Intermediaries Limited ("**CYBIL**") (together the "**Insurance Intermediary**" business) on 30 September 2015. The financial performance of the Insurance Intermediary business is currently not reflected in the CYBG *Historical Financial Information*. See Part 5 of this Annexure G: "*CYBG Operating and Financial Review-Recent Developments*" for further details.

33. CYBG Group may fail to attract or retain executives, senior managers or other key employees.

CYBG Group's success depends on the continued service and performance of its key employees, particularly its executives and senior managers, and its ability to attract, retain and develop high-calibre talent. CYBG Group may not succeed in attracting new talent and retaining key personnel for a variety of reasons, including if they do not identify or engage with CYBG Group's brand and values, which represents a major component of CYBG Group's overall strategy, or they do not wish to be located or relocate to CYBG Group's key locations. CYBG Group competes for talented people with skills that are in relatively short supply and CYBG Group may not have sufficient scale to offer employees rates of compensation or opportunities to advance within the organisation comparable to its larger competitors, particularly at more senior levels. CYBG Group may also allocate resources improperly within its newly developed standalone functions or otherwise which could create operational inefficiencies and risks and/or lead to de-motivated senior employees. Each of these factors could have an adverse effect on CYBG Group's ability to recruit new personnel and retain key employees, which could, in turn, adversely affect CYBG Group's business. In addition, external factors such as macro-economic conditions, the regulatory environment developing to increase direct liabilities for bank employees, regulatory restrictions on incentivisation and/or continued negative media attention on the financial services industry may adversely affect employee retention, sentiment and engagement. Any failure to attract and retain key employees, including executives and senior managers, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

34. CYBG Group could be exposed to industrial action and increased labour costs resulting from employee trade union membership.

All of CYBG Group employees are currently covered by one collective bargaining agreement with "Unite" the trade union. If CYBG Group sought to change any of the contractual terms with its employees, it would have to undertake a consultation and negotiation process with trade union representatives. Consultations with trade unions may not always be successful, potentially leading to increased labour costs. In the unlikely event that negotiations are unsuccessful and result in industrial action (which may, for example, include actions that could lead to losses in operational efficiency and/or actions that are detrimental to CYBG Group's customer service), such action could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

35. CYBG Group faces risks associated with a failure to manage changes in taxation rates or applicable tax laws, or from a misinterpretation of such tax laws.

CYBG Group faces risks associated with changes in taxation rates or applicable tax laws, or misinterpretation of such tax laws, any of which could result in increased charges, financial loss, including penalties, and reputational damage. Any misinterpretation of tax laws that creates the perception that CYBG Group is avoiding or evading tax, or if it is associated with customers that do so, could adversely affect its reputation. Future actions by the UK Government to adjust tax rates or to impose additional taxes (including particular taxes and levies targeted at the banking industry) could reduce CYBG Group's profitability. Revisions to tax legislation or to its interpretation might also affect CYBG Group's results of operations and financial condition in the future. In addition, the UK has a predominantly self assessment system for filing of tax returns. All tax returns have been filed by CYBG Group within statutory deadlines, but HM Revenue & Customs has the right to enquire into those returns post filing. Generally an enquiry must be started within 12 months of filing. It is possible that an enquiry may result in a further liability to tax, which, if material, could have a material adverse effect on CYBG Group's business, financial condition, results of operation and prospects.

The UK Government introduced provisions in the Finance (No. 2) Act 2015, enacted on 18 November 2015 to charge an 8 per cent. surcharge on profits of banks to the extent that they exceed £25 million per year (the "**banking surcharge**"). The provisions will apply to accounting periods beginning on or after 1 January 2016 with transitional provisions for accounting periods that straddle that date will apply to accounting periods beginning on or after 1 January 2016 with transitional provisions for accounting periods that straddle that date.

The Finance (No. 2) Act 2015 also reduces the main rates of corporation tax to 19 per cent. from 1 April 2017 and 18 per cent. from 1 April 2020. The reductions will be taken into account in financial statements prepared after the enactment of the Finance (No. 2) Act 2015. The impact of the change will be to reduce the value of deferred tax assets, which CYBG Group estimates will result in a charge to the income statement.

36. CYBG Group has carried forward tax losses that may not be available to set off against profits.

CYBG Group had £1.4 billion of unutilised carried forward trading losses as at 30 September 2015 which gave rise to the recognition of a deferred tax asset that is expected to be utilised against future profits. As at 30 September 2015, CYBG Group recognised £389 million of total deferred tax assets on its balance sheet, of which £273 million was in respect of tax losses carried forward, and a deferred tax liability of £10 million in respect of the benefit pension scheme asset. The value of these assets is subject to changes in taxation rates or applicable tax laws. For example, a measure was enacted in the Finance Act 2015, restricting the proportion of banks' taxable profit that can be offset by certain carried-forward losses. This measure will only apply to legacy losses incurred prior to 1 April 2015. The effect of this measure is that the rate at which losses can be offset against taxable profits will be restricted; accordingly, actual tax payments may become due earlier than previously anticipated and the period over which deferred tax assets are utilised is consequently extended. Similarly the Finance (No.2) Act 2015 enacted on 18 November 2015 introduced measures to make certain types of compensation payments for mis-selling non-deductible for corporation tax purposes. The impact of that legislation is likely to increase taxable profits (and taxes) and therefore it may reduce risk associated with deferred tax asset recognition.

The recognition and utilisation of deferred tax assets is subject to the availability of sufficient future taxable profits. See CYBG Historical Financial Information for further information. The inability to utilise deferred tax assets, or the failure to manage these risks adequately, could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

Risks Relating to CYBG Group's Relationship with NAB

NAB is undertaking a demerger to separate CYBG Group's operations from the remaining NAB businesses, to form two separate corporate groups. For further details see Section 4 "*Details of the Demerger*" of this Scheme Booklet.

Notwithstanding the timing of the completion of any such demerger, there are risks that might impact CYBG Group as long as NAB and CYBG Group have an ongoing contractual relationship, including through the TSA and arm's length arrangements for central clearing of derivative transactions, as described in "*CYBG Group could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties*" above. Highlighted below are certain of the key risks that apply to CYBG Group's relationship with NAB that, should they arise, may have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

37. CYBG Group's reliance on transitional services arrangements with NAB exposes CYBG Group to a range of potential operational and regulatory risks.

In connection with CYBG Group's demerger from NAB, CYBG Group has entered into an arm's-length TSA with NAB for the continued provision of a range of certain key services to CYBG Group on a transitional basis.

Whilst Clydesdale Bank is largely standalone, CYBG Group will be reliant on NAB under the TSA for the provision of certain key services supporting elements of the risk, treasury, human resources and finance functional areas. These will require ongoing support from NAB to allow CYBG Group time to develop its own replacement systems and supporting processes. While a number of business functions and processes within these categories have been created and implemented for CYBG Group as part of its operational separation from NAB, these business functions and processes will continue to be dependent upon the various operational services under the TSA. In addition, while data migration efforts will be prioritised to comply with regulatory requirements, access to other data, particularly historical data, will likely be required from NAB to support operations. For further information on CYBG Group's transitional services arrangements with NAB see Part 2 of this Annexure G: "*Information on CYBG Group – Relationship with NAB*".

The systems and infrastructure that NAB will use to provide services to CYBG Group may not operate as expected, may suffer periods of reduced compatibility, may not fulfil their intended purpose or may be damaged or interrupted by unanticipated increases in usage, human error, misaligned software updates, unauthorised access, natural hazards or disasters or similarly disruptive events. While NAB will be bound by arm's-length contractual obligations under the TSA (including with respect to service performance, recovery of service, change management, confidentiality/data security and disaster recovery), events impacting NAB's ability to honour its contractual commitments to CYBG Group under the TSA, such as human error, unauthorised access, events of force majeure, insolvency or other triggers for intervention by prudential authorities or any failure by NAB to procure continued service performance from any of NAB's subcontractors, or any failure of the underlying systems or infrastructure used by NAB or its subcontractors, could result in significant disruptions (including in the delivery of services to CYBG Group) and costs that adversely affect the overall operational performance, financial performance, financial position or prospects of CYBG Group's business, as well as harm CYBG Group's reputation and/or attract increased regulatory scrutiny.

Any interruption to the services provided under the TSA could materially adversely affect CYBG Group's business and reputation, and could cause CYBG Group to incur higher administrative and other costs both for the processing of business and the potential remediation of disputes. If NAB fails to provide or procure the services envisaged or fails to provide them in a timely manner, under the TSA, such failure could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

For more information on the terms of the TSA see Section 4.8.6 of this Scheme Booklet.

38. CYBG Group faces potential risks associated with its separation from NAB.

As part of its separation from NAB, CYBG Group has developed and restructured its own functions and processes in a range of areas, including making its risk systems independent from NAB's, enhancing or streamlining certain of its back office processes, separating knowledge and education management systems, separating human resource processes as well as introducing shareholder services and investor relations platforms. Some of these functions and processes will in some respects continue to be supported by various services under the TSA and others have been developed as standalone functions. In addition to the TSA,

Annexure G: Part One
CYBG Risk Factors

CYBG Group's ongoing contractual relationship with NAB will include NAB acting as CYBG Group's sole clearing provider for central clearing of derivative transactions and CYBG Group providing certain operational support services to NAB's London branch. For more information on clearing arrangements see Part 2 of this Annexure G: "*Information on CYBG Group – Relationship with NAB – Swaps*".

There is a possibility that these functions and processes may not operate as intended or the execution of the separation process and the creation of new processes may not have been properly completed. Consequently, there is a risk that CYBG Group could suffer operational difficulties which, either directly or as a result of the need for further financial investment or through the depletion of management resources in developing, monitoring and/or rectifying these new services and functions, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

39. CYBG Group faces potential risks associated with migration from the arrangements under the TSA to new standalone arrangements.

Each of the transitional arrangements made between CYBG Group and NAB under the TSA will be accompanied by a plan to migrate from the transitional arrangement to a CYBG Group standalone arrangement within a certain timeframe. For example, in relation to the credit risk engine it is proposed that CYBG Group will develop its own solution to support the calculation of credit risk weighted assets and related risk models within 24 months of separation and it is expected to have full standalone arrangements for all of its functional areas in place in approximately 34 months from separation. Although this and other migrated services and processes will be subject to testing before implementation into the ordinary operational processes of CYBG Group, these new functions may not operate as intended, or may not be transferred within expected timeframes or may cost more than budgeted to develop. As a result, there is a risk that CYBG Group could suffer operational difficulties in the future which, either directly or as a result of the need for further investment in these new services and functions or a need to make additional payments or incur other costs under the TSA to NAB, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

Risks Relating To Pension Schemes

Clydesdale Bank is the sponsoring employer of the Yorkshire and Clydesdale Bank Pension Scheme (the "**DB Scheme**"). The DB Scheme is a defined benefit pension scheme and assets of the DB Scheme are held in a trustee administered fund. Risk arises from the DB Scheme because from time to time there may be insufficient assets to cover the defined benefit liabilities of the scheme (i.e. there is a deficit in the scheme) and Clydesdale Bank and any other employers from time to time in the CYBG Group are obliged by legislation and the governing documents of the scheme to fund the liabilities.

40. CYBG Group may be required to increase its contributions to the DB Scheme to fund deficits.

The ongoing financial commitment of Clydesdale Bank to the DB Scheme may increase over time either because the cost of providing benefits in the future will increase or because the actuarial funding deficit increases. The actuarial funding deficit of the DB Scheme and the financial commitments of Clydesdale Bank to the DB Scheme are assessed at regular actuarial valuations. The actuarial funding deficit in the DB Scheme can increase because of many factors outside the control of CYBG Group (for example, changes in market conditions or member longevity). If the actuarial funding deficit increases, Clydesdale Bank could be obliged to make additional contributions to the scheme, and/or pay in lump sums and/or set aside additional capital in respect of pensions risk. This could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

The most recent valuation of the DB Scheme as at 30 September 2013 indicated an actuarial funding deficit of £450 million and the deficit will be reassessed at the next valuation. CYBG Group agreed to make the following contributions to eliminate the deficit: £65 million on 1 October 2013; £150 million by 30 June 2014; £50 million on 1 October 2017; thereafter £50 million annually until 1 October 2021; and £55 million on 1 October 2022. Deficit reduction payments of £215 million have been made since the valuation date of 30 September 2013, and the next payment of £50 million is scheduled on 1 October 2017. The next regular valuation of the DB Scheme would take place with an effective date of 30 September 2016 but it is open to the trustees of the DB Scheme to call for valuations at an earlier date. The assumptions used for the statutory valuation would generally need to be agreed between CYBG Group and the trustees of the DB Scheme although the Pensions Regulator has the power to set these in certain circumstances.

41. CYBG Group may be required to make contributions to the DB Scheme based on a more onerous "buy out" funding basis.

While the actuarial funding deficit will usually set the cash funding demands placed on Clydesdale Bank, in some cases the cash demands can be based on the deficit in the DB Scheme calculated by reference to the cost of buying out the scheme's liabilities in the insurance market i.e. the buy-out basis deficit. The buy-out deficit at the last estimate, as at 30 September 2013 was estimated to be £2.07 billion. Cash demands on this basis can be made in the circumstances set out in legislation including in the event of the wind up of the DB Scheme; insolvency of an employer; or an employer leaving the scheme; none of which CYBG Group considers likely to occur. The Pensions Regulator also has the power to require an employer of a defined benefit scheme or a person connected or associated with it to make a contribution to or provide financial support for that scheme in certain circumstances.

42. CYBG Group is subject to additional regulatory capital requirements associated with defined benefit pension scheme risk.

Under Pillar 2A of the Basel III framework, additional minimum capital requirements are set by the PRA through the issuance of bank specific individual capital guidance ("**ICG**"), which reflects a point in time estimate by the PRA, which may change over time, of the total amount of capital that is needed by the bank. The ICG includes an assessment of risks that are not fully covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered by Pillar 1, such as pensions and interest rate risk. The PRA requires each bank and banking group to maintain adequate capital resources to meet their total capital requirements (Pillar 1 and Pillar 2) under the Basel III Framework. This includes any additional capital requirements identified through the firm's or group's ICG.

In order to satisfy the requirements of Pillar 2, CYBG Group is required to perform an internal capital adequacy assessment process ("**ICAAP**"). One of the key risks associated with the ICAAP is the defined benefit pension scheme obligation risk. This risk involves the potential for additional unplanned costs that CYBG Group would incur in the event of a significant deterioration in the funding position of CYBG Group's defined benefit pension scheme.

As at 30 September 2015, the fair value of CYBG Group's defined benefit pension scheme assets was £3,565 million and the balance for accounting purposes of CYBG Group's defined benefit pension obligations was £3,513 million. The volume of defined benefit pension assets and liabilities held, in conjunction with the series of complex and interdependent actuarial assumptions used to assess the pension scheme, can be highly volatile, which can have an adverse impact on CYBG Group's other comprehensive income or loss and regulatory capital requirement.

CYBG Group's defined benefit pension scheme had an accounting deficit of £301 million as at 30 September 2012, an accounting deficit of £197 million as at 30 September 2013, an accounting surplus of £49 million as at 30 September 2014 and an accounting surplus of £52 million as at 30 September 2015. As part of the ICAAP process, CYBG Group must allocate capital to cover the risk associated with its defined benefit pension scheme obligations under Pillar 2A. The pension scheme obligations include cash contributions. The cash contribution requirement is based on the actuarial assessment of the pension scheme obligations which differs from the accounting basis and may increase due to factors outside of CYBG Group's control. See "*CYBG Group may be required to increase its contributions to the DB Scheme to fund deficits*" above for further information. CYBG Group may need to hold additional regulatory capital to cover an increase in net pension scheme obligations, and such additional capital requirement could be material.

43. CYBG Group's reported accounts may be adversely impacted.

CYBG Group makes an assessment of the financial position of the DB Scheme (including assessing the deficit for accounting reporting purposes – the "accounting deficit") for the purposes of its year end accounts and associated disclosures, in accordance with accounting requirements. Many of the factors that influence the accounting deficit are outside the control of CYBG Group and may lead to increased liabilities being shown in the accounts.

Regulatory Risks

CYBG Group's business is subject to ongoing regulation and associated regulatory risks, including the effects of new and changing laws, rules, regulations, policies, voluntary codes of practice and interpretations of such in the UK and the European Union. These laws, rules, and regulations include: (i) prudential regulatory developments; (ii) increased regulatory oversight in respect of conduct issues; and (iii) industry-wide initiatives. Each of these has costs associated with it, may significantly affect the way that CYBG Group does business and may restrict the scope of its existing businesses, limit its ability to expand its product offerings or make its products and services more expensive for clients and customers. Developments across any of these three regulatory areas, discussed in greater detail below, could materially adversely affect CYBG Group's access to liquidity, increase its funding costs, increase its compliance cost, delay, limit or restrict its strategic development and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

44. CYBG Group is subject to substantial and changing prudential regulation.

CYBG Group faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. CYBG Group's borrowing costs and capital requirements could be affected by these prudential regulatory developments, which include: (i) the legislative package ("**CRD IV**") implementing the proposals of the Basel Committee (known as Basel III) in the European Union and amending and supplementing the existing Capital Requirements Directive and other regulatory developments impacting capital, leverage and liquidity positions, including a requirement for an Individual Liquidity Adequacy Assessment ("**ILAA**") the purpose of which is to help ensure CYBG Group complies with the overall liquidity risks; and (ii) the Bank Recovery and Resolution Directive

(*2014/59/EU)* which establishes an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**"). Any future prudential regulatory developments could have a material adverse effect on CYBG Group's business, results of operations and financial condition.

CRD IV

CRD IV introduced significant changes in the prudential regulatory regime applicable to banks and bank holding companies with effect from 1 January 2014, including: increased minimum levels of capital and additional minimum capital buffers; enhanced quality standards for qualifying capital; increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and the introduction of a minimum Leverage Ratio. CRD IV provides for some of these measures to be phased in over a transitional period to 2018.

CRD IV requirements adopted in the UK 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, changes to the way in which the PRA interprets and applies these requirements to UK banks and bank holding companies or otherwise. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to CYBG Group's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

A market perception or actual shortage of capital issued by CYBG Group could result in regulatory actions, including requiring the Company to issue additional Common Equity Tier 1 securities, requiring the Company to retain earnings or suspend dividends or issuing a public censure or the imposition of sanctions. This may affect CYBG Group's capacity to continue its business operations, generate a return on capital, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential. If, in response to any such shortage, CYBG Group raises additional capital through the issuance of share capital or capital instruments, existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

Recovery and Resolution Directive

The BRRD, which contains requirements relating to recovery and resolution plans and early supervisory interventions and the resolution of firms (including the introduction of a bail-in tool) entered into force on 2 July 2014. As an exception to this, Article 124 (which deleted Article 74(4) of CRD IV on requirements on firms concerning recovery and resolution plans and was superseded by the more detailed provisions of the BRRD) came into force on 1 January 2015. While Member States were required to apply such implementing legislation and regulation from 1 January 2015, as an exception, the BRRD permits Member States to apply the provisions on the bail-in tool from 1 January 2016 at the latest.

The BRRD (including the bail-in tool), together with the majority of associated FCA and PRA rules, was implemented in the UK in January 2015. PRA rules requiring contractual clauses in certain debt instruments and unsecured liabilities came into force on 19 February 2015, and PRA rules on contractual recognition of bail-in will come into force on 1 January 2016.

The powers referred to in the BRRD include certain powers which overlapped in part with those that were already available in the UK under the Banking Act 2009 (the "**UK Banking Act**"). The BRRD provides, among other things, for resolution authorities to have stabilisation powers 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. In addition, it provides for preferential ranking on insolvency for certain deposits that are eligible for protection by deposit guarantee schemes (including the uninsured element of such deposits and, in certain circumstances, deposits made in non-EEA branches of EEA credit institutions) in priority to deposits that are not similarly eligible, and introduces a bank funded resolution fund. It also provides write-down powers to resolution authorities for such authorities to ensure that relevant capital instruments absorb losses upon, amongst other events, the occurrence of the non-viability of the relevant institution or its parent company, as well as a bail-in tool comprising a more general power for resolution authorities to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. If CYBG Group becomes subject to such bail-in or resolution powers, existing shareholders may experience a dilution or cancellation of their holdings and may not receive any compensation for their losses.

Minimum requirement for own funds and eligible liabilities

The UK Government also intends to implement the BRRD requirement for firms to meet the minimum requirement for own funds and eligible liabilities ("**MREL**"), calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution, designed to ensure sufficient loss absorbing capacity and ensuring continuity of critical functions without recourse to public funds. In July 2015, the European Banking Authority ("**EBA**") published final draft regulatory technical standards on criteria to be considered by resolution authorities when setting MREL on a firm-by-firm basis. As it is difficult to predict the effect MREL may have on CYBG Group until MREL has been fully implemented, there is a risk that the requirements of MREL could require CYBG Group to hold additional funds and/or eligible liabilities in order to satisfy the MREL requirements set for CYBG Group, which may increase its compliance costs, delay, limit or restrict the execution of its strategy and may have a material adverse effect on CYBG Group's capital structure, business, financial condition and results of operations. MREL will have an impact across the market including potentially affecting the credit rating of the securities issued by CYBG Group and its competitors and there is a risk that the relative impact may give rise to a reduction in competitiveness of CYBG Group.

Operational risk capital

In a consultation paper issued in October 2014, the Basel Committee proposed certain revisions to the standardised approach for measuring operational risk capital which is used by the CYBG Group. The Basel Committee proposed that a statistically superior measure of operational risk, termed the 'Business Indicator', should replace gross income as a key input for determining operational risk capital. In addition, the proposal removes the differentiation by business-line, which was found not to be a significant risk-driver. Instead, the size of the relevant bank is found to be a significant risk-driver and is incorporated into the new methodology.

Once the committee has reviewed responses to this consultative document it intends to publish the final standard with an appropriate timeframe for implementation and provide sufficient time for the necessary changes to be effected.

Any changes, including regulatory changes arising from the Basel capital adequacy reforms, may require CYBG Group to hold additional operational risk capital which could materially adversely affect CYBG Group's access to liquidity, increase its funding costs, increase its compliance cost, delay, limit or restrict the execution of its strategy and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

Credit risk and risk-weighting of assets

The Basel Committee has set out the measures the Committee is taking to improve consistency and comparability in bank capital ratios, and thereby to restore confidence in risk-weighted capital ratios. These measures include: policy proposals to revise the standardised (non-modelled) approaches for calculating regulatory capital ratios that will also provide the basis for a capital floor; and reducing the modelling choices in the capital framework when determining internal-model based estimates of credit, market and operational risk-weighted assets.

On 22 December 2014, the Basel Committee published a consultative document proposing revisions to the standardised approach for credit risk and requested feedback from market participants by 27 March 2015. The proposals form part of the Basel Committee broader work on reducing variability in risk weighted assets ("**RWAs**") and aim to reduce reliance on external credit ratings; increase risk sensitivity; reduce national discretions; strengthen the link between the standardised approach and the IRB approach; enhance comparability of capital requirements across banks; and overall ensure the standardised approach continues to be suitable for calculating the capital requirements for credit risk exposures.

The consultation proposes alternative risk drivers to determine risk weights on a number of exposure classes including corporate exposures, retail exposures and exposures secured by residential real estate and commercial real estate.

To allow the Basel Committee to develop the detail of the proposals, it is undertaking a quantitative impact study ("**QIS**"), which Clydesdale Bank participated in and submitted a completed return to the PRA on 14 April 2015, based on data as at 31 December 2014. The return was completed on an exposure category basis and compared the RWA's on the current and proposed approach. This showed that if the proposals were implemented without any mitigation action, as would be expected to be the case for other banks, it would significantly increase CYBG Group's RWAs and subsequently capital held. At this stage the proposals remain a consultation only and the final implementation form and date remains unknown.

Concurrently the Basel Committee published a consultative document on revisions to capital floors, designing a capital floor framework based on standardised approaches. The aim of the proposals being to enhance comparability of capital outcomes, mitigate model risk from banks internal model approaches and to ensure there is a minimum level of capital across the banking system.

The Basel Committee intends to consult on revised policy proposals by the end of 2015 and will conduct a further QIS study in early 2016. Any resulting changes introduced in the final standards may increase CYBG Group's capital requirements which may have a material adverse effect on CYBG Group's capital structure, business, financial condition and results of operations.

Interest rate risk in the banking book

The Basel Committee is consulting on supervisory approaches to interest rate risk in the banking book. This includes consideration of applying formal regulation to the calculation of this risk class and not relying on firms' own assessments, any such regulation may increase compliance costs which may have a material adverse effect on CYBG Group's business, financial condition and results of operations.

Firms' assessment of Pillar 2 risks

Following a consultation process in which the PRA investigated firms' approaches to the assessment of risks covered by the Pillar 2 capital regime, the PRA has published a policy statement with feedback, final rules, a supervisory statement and statement of policy in July 2015, as updated in August 2015. The supervisory statement contains requirements in relation to Pillar 2A methodologies, including the new approaches the PRA will use for assessing Pillar 2A capital for credit risk, operational risk, credit concentration risk and pension obligation risk, alongside the existing approaches for market risk, counterparty credit risk and interest rate risk in the non-trading book. It also details the associated data requirements. As at the date of this Scheme Booklet the principal consequence of the new rules could be an increase in compliance costs for CYBG Group which may have a material adverse effect on CYBG Group's capital structure, business, financial condition and results of operations.

45. Clydesdale Bank is subject to substantial and changing conduct regulations.

Clydesdale Bank is exposed to many forms of conduct risk, which may arise in a number of ways. In particular:

- certain aspects of Clydesdale Bank's current or past business may be determined by its regulators, including the FCA, the PRA, the PSR, HM Treasury, the FOS, the CMA, the UK Information Commissioner's Office or the courts, as not being conducted in accordance with applicable local or, potentially, overseas laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion. If Clydesdale Bank fails to comply with any relevant regulations, there is a risk of an adverse impact on its business and reputation due to sanctions, fines or other actions imposed by the regulatory authorities. In particular, regulatory and/or other developments in respect of PPI and interest rate hedging products have had, and are likely to continue to have, a material impact on Clydesdale Bank's business;
- Clydesdale Bank may be subject to further allegations of mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate, which may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in significant costs, which may require provisions to be recorded in Clydesdale Bank's financial statements and could adversely impact future revenues from affected products – See Part 5 of this Annexure G: "*CYBG Operating and Financial Review – Significant Factors Affecting Results of Operations and Financial Position – Legacy conduct-related redress*" for further information in relation to complaints and redress from historical sales of financial products; and
- Clydesdale Bank may be liable for damages to third parties harmed by the manner in which Clydesdale Bank has conducted one or more aspects of its business.

The Banking Reform Act, which received Royal Assent on 18 December 2013 (on its provisions coming into force on a day or days to be appointed in commencement orders), enacts a number of reforms primarily related to the UK's banking sector. These reforms adopt recommendations of the Parliamentary Commission on Banking Standards on 19 June 2013, in its report "Changing Banking for Good", including among other things, proposals for a new banking standards regime governing the conduct of bank staff, the introduction of a criminal offence for reckless misconduct by senior bank staff and steps to improve competition and conduct in the banking sector. Depending on the manner in which these reforms are enforced, they could have a significant impact on Clydesdale Bank's operations, structure, costs and/or capital requirements.

Mortgage Market Review

The FCA introduced new rules following the publication of its MMR, which require, among other things, an assessment of customer affordability in connection with mortgage lending. The MMR permits interest-only loans solely where there is a clearly understood and credible strategy for repaying the principal of the relevant loan (evidence of which the lender must obtain before making the loan and must check at least once during the term of the loan) and the cost of the repayment strategy must be included in the affordability assessment. Clydesdale Bank has created a dedicated team to support customers holding Clydesdale Bank interest-only mortgages with any issues that may arise. Clydesdale Bank expects to incur costs related to its compliance efforts and if the measures are not deemed to be sufficient by the FCA, CYBG Group may face penalties or other sanctions associated with such non-compliance, including as a result of any potential retrospective review.

Mortgage loan-to-income ratio

The PRA has issued rules and the FCA has issued guidance to implement the Financial Policy Committee (the "**FPC**") recommendations on loan-to-income ratios in the UK owner-occupied mortgage market, which has resulted in the introduction of a cap on the number of mortgage loans that lenders can make at or greater than 4.5 times loan-to-income to no more than 15 per cent. of their total number of new mortgage loans and the introduction of an interest rate affordability stress test that assesses whether borrowers could still afford their mortgages if, at any point over the first five years of the loan, the Bank of England base rate were to increase to a level three percentage points higher than the prevailing rate at origination. In addition, following discussion at the FPC's meeting on 26 September 2014, the FPC recommended that HM Treasury exercise its statutory power to enable the FPC to direct, if necessary to protect and enhance financial stability, the PRA and the FCA to require regulated lenders to place limits on mortgage lending, both owner-occupied and buy-to-let, by reference to: (a) loan to value ratios; and (b) debt to income ratios, including interest coverage ratios in respect of buy-to-let lending. The UK Government confirmed that the FPC would be granted these recommended powers of direction over the UK housing market, and the secondary legislation (The Bank of England Act 1998 (Macro-prudential Measures) Order 2015) containing the recommended powers of direction over loan to value limits and debt to income limits in respect of regulated lenders came into force on 6 April 2015. The level of the loan to value and debt to income ratios is not currently known. In addition, any further recommendations proposed by the FPC may have a material impact on Clydesdale Bank's mortgage business and may have a material adverse impact on Clydesdale Bank's ability to meet its strategic lending targets.

The UK Government announced, on 2 February 2015, that following the general election it intends to consult separately on the FPC's recommendations for it to be granted new powers over the buy-to-let market. This consultation will be carried out with a view to building an in-depth evidence base on how the operation of the UK buy-to-let housing market may carry risks to financial stability. As of the date of this Scheme Booklet, the consultation has not commenced.

It is possible that these changes, or any of the further recommendations which the FPC may issue, may affect the UK mortgage market and reduce the demand for Clydesdale Bank's mortgage products.

Mortgage Credit Directive

The MCD came into effect on 20 March 2014. Member States are required to transpose it into national legislation and regulation by 21 March 2016. The MCD requires, among other things, standardised pre-contractual information, adherence to business conduct rules, calculation of the annual percentage rate of charge in accordance with a prescribed formula, a ban on certain bundling practices (i.e. offering or selling a credit agreement in a package of products) and a right of the borrower to make early repayment. The MCD is broader in scope than current UK mortgage regulation and applies a standard approach to certain niche mortgage markets that the FCA does not currently regulate, including certain buy-to-let mortgages. This could result in certain activities becoming subject to additional regulation. The Financial Services and Markets (Mortgage Credit Directive) Order 2015 ("**MCDO**"), which implements the MCD in the UK, was published in March 2015, with the provisions coming into force in stages between April 2015 and March 2016. Firms may elect to comply with the new rules from September 2015, with CYBG Group planning to comply by March 2016.

The MCD contains an exemption permitting the non-application of the MCD's requirements to buy-to-let mortgages by Member States provided that such Member States have in place an appropriate framework for buy-to-let mortgage activity from 21 March 2016. The UK Government has chosen to rely on this exemption. HM Treasury has amended the definition of regulated activities under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ("**RAO**"), so that second charge mortgages which are currently regulated under the UK consumer credit regime will move into the regulatory regime for residential mortgages from March 2016. The final rules in respect of second charge mortgages have been published in the Mortgage Credit Directive Instrument 2015 (FCA 2015/18) ("**MCDI**"). MCDI will make certain changes to the Mortgage and Home Finance Firms, and Insurance Intermediaries sourcebook ("**MIPRU**") and the Mortgages and Home Finance Conduct of Business sourcebook ("**MCOB**"); ensure that most MCOB requirements apply to second charge mortgages; and apply the MCD's requirements to second charge mortgages in full. Parts of the MCDI will apply from 21 September 2015 and 21 December 2015 respectively, whilst it will come into force on 21 March 2016.

The FCA, pursuant to its consultation paper published in February 2015, published its Policy Statement PS15/11 on 5 June 2015, confirming their approach to implementing the MCDO, including changes to the Handbook to reflect its powers to register, supervise and enforce against firms in relation to the framework. In addition, the FCA will be collecting aggregated data from firms every quarter allowing them to monitor the volume of consumer buy-to-let transactions, the performance of consumer buy-to-let loans and individual firm's treatment of customers in financial difficulty, and the extent of customer detriment. The FCA has also extended the majority of its complaint handling rules (set out in the Dispute Resolution section of the Handbook) to consumer buy-to-let activities.

A project has been established by the FCA for the implementation of the MCD and the MCDO final rules, however, until the final design has been confirmed, it will be difficult to assess the cost implications for CYBG Group. As at the date of this Scheme Booklet, the principal consequence of the implementation of the MCD and the MCDO for CYBG Group could be an increase in CYBG Group's compliance costs associated with CYBG Group's mortgage business, including an increase in CYBG Group's compliance costs associated with the reporting requirements and implementing relevant amendments to the FCA Handbook. However, until the relevant provisions are in force, the full impact of the MCD and the MCDO on CYBG Group cannot be ascertained but the provisions may have a material adverse effect on CYBG Group's business, financial condition and results of operations.

Retail and wholesale banking reviews

The FCA has commenced thematic work as part of a wider review of the retail banking market. The FCA's thematic work includes a review of cash savings, mobile money, sales management practices, the impact of cost-cutting initiatives on different consumer groups, packaged bank accounts, credit cards, complaints handling and mortgage responsible lending. The FCA also indicated in its Business Plan 2015/16 that it will look at various competition issues in the mortgage market including barriers to competition and consumers' ability to switch provider or access credit.

In addition, following the publication of market studies conducted by the CMA which identified aspects of the retail banking market (including evidence of a lack of transparency) which, the CMA concluded, could prevent, restrict or distort competition in the UK, on 6 November 2014, the CMA announced that it had decided to commence an in-depth investigation into the supply of PCAs and other banking services to SMEs in the UK. The CMA published their updated issues statement on 21 May 2015, which highlighted three areas of harm that are expected to be at the focus of the investigation: (i) the extent to which consumers switch between providers; (ii) the level of concentration in the market; and (iii) barriers to entry and expansion. On 22 October 2015, the CMA published its provisional findings and list of proposed remedies identifying competition issues in both the PCA and SME banking markets. The CMA stated that low levels of customer engagement (which includes customers' understanding of the products they hold, engagement in the market by searching and comparing offers and switching providers) decrease banks' incentives to compete for customers through better products, lower prices or innovation. According to their market investigation, the lack of customer engagement is caused primarily by customers' difficulties in obtaining comparative data on the prices and services offered by different banks, and the perception by customers that the switching process is time-consuming or risky, particularly in the PCA market. To address concerns such as these, the CMA has proposed a requirement for banks to prompt retail and SME customers to review their banking services. For example, banks could be forced to send messages to their customers at specific 'trigger points', such as unarranged charges or changes in terms and conditions. The CMA could also require banks to increase their funding for an advertising campaign promoting CASS, to help raise public confidence in switching bank accounts. There remains significant uncertainty over how the CMA will implement its proposals. Any proposal may not impact all banks equally, for example, it may define markets within the UK in a manner that is disproportionately adverse to the CYBG Group. Increased costs and/or a significant loss of customers as a result of any such changes could have a material adverse affect on CYBG Group's business, financial condition, results of operations and prospects. Responses to the CMA's proposals have been requested by 20 November 2015. In June 2014, the Chancellor of the Exchequer announced the Fair and Effective Markets Review ("**FEMR**"), a joint review and consultation by the Bank of England, HM Treasury and the FCA into the effectiveness of the wholesale financial markets. FEMR's final report was published on 10 June 2015 its three main purposes were to analyse the root causes of recent misconduct and other sources of perceived unfairness in the wholesale funding markets, to evaluate the impact of existing reform measures to address these causes and to make recommendations to plug any gaps. The report sets out 21 key recommendations consisting of a mix of near-term actions to improve conduct in the wholesale markets and principles to guide a more forward-looking approach to these markets. The recommendations made in the FEMR report include extending UK criminal sanctions for market abuse for individuals and firms to a wider range of wholesale market instruments, which may include instruments that CYBG Group issues or sells as part of its funding plans, lengthening the maximum sentence for criminal market abuse from seven to 10 years' imprisonment and mandating detailed regulatory references to help firms prevent the 'recycling' of individuals with poor conduct records between firms.

Following a review of competition in the wholesale sector which revealed issues including a concern over a lack of pricing and quality transparency and the effect of bundling together services on new or less established participants in the market, on 19 February 2015, the FCA announced plans to launch its first wholesale market study into investment and corporate banking to assess whether competition in the sector is working properly. The FCA published the terms of reference for the study in May 2015, and has sought the views of market participants, trade bodies and clients. The deadline for providing feedback was in June 2015. The terms of reference state that the review will be focused on (i) the choice of banks and advisers, (ii) the transparency and adequacy of information available to clients and (iii) the issue of bundling and cross-subsidisation of banking services. The FCA intends to publish its interim findings and proposed remedies (if required) by the end of 2015 and a final report in spring 2016.

As at the date of this Scheme Booklet, the principal consequence of the FEMR for CYBG Group could be an increase in CYBG Group's compliance costs associated with CYBG Group's compliance infrastructure in respect of its fixed income business.

The outcome of the FCA's thematic reviews, the CMA's investigation and the FCA's wholesale competition market study could have an impact on CYBG Group's operations, including its deposits and overdraft business, credit card business and the features of the banking products that it offers to customers. Should the outcome of the reviews or investigation lead to restrictions on CYBG Group's product offering, CYBG Group's strategic position may be adversely affected. In addition, CYBG Group could become subject to higher costs of compliance in respect of its retail and wholesale banking activities. However, until the findings of the CMA's market investigation and FCA thematic review are known, the impact on CYBG Group cannot be ascertained.

Consumer credit regime

Clydesdale Bank is subject to the consumer credit regime under FSMA, which regulates a wide range of credit agreements. The regulation of consumer credit pursuant to the Consumer Credit Act 1974 and its related secondary legislation (the "**CCA**") was transferred from the Office of Fair Trading (the "**OFT**") to the FCA in April 2014. Certain secondary legislation, made pursuant to the CCA, as well as OFT guidance, has been replaced by FCA rules and guidance set out within the FCA Handbook, although some secondary legislation remains. The FCA has greater powers of enforcement than the OFT had and is anticipated to take a more proactive and intrusive approach to the regulation of consumer credit. Along with other credit providers that will need to comply with the FCA requirements applicable to the provision of consumer credit, Clydesdale Bank may come under a greater degree of scrutiny from the FCA, incur additional compliance costs and be subject to potential penalties and other sanctions for non-compliance. In addition, the courts have wide powers to look again at a credit agreement, when the borrower alleges an aspect of it was "unfair", and render such arrangement unenforceable. As at 30 September 2015, CYBG Group's conduct costs relating to CCA were below the minimum threshold for cover under the Capped Indemnity.

Clydesdale Bank may be materially impacted by any change in the regulatory and/or judicial approach in respect of the interpretation of "unfairness" in the context of PPI which has been sold in conjunction with a CCA regulated credit agreement resulting from the Supreme Court's decision in *Plevin v Paragon Finance Limited [2014] UKSC 61*. Please see "*CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*" above for additional information on the impact of the *Plevin* case.

Failure to manage these risks adequately could lead to significant liabilities or reputational damage and damage to Clydesdale Bank's brand, which could have a material adverse effect on its business, financial condition, results of operations and relations with customers.

Unfair terms in consumer contracts

Clydesdale Bank's regulated consumer agreements may not in all circumstances comply in all respects with the CCA or other related or similar legislation (such as UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) (the "**UTCCR**") (in respect of which, please see below) and the Financial Services (Distance Marketing) Regulations 2004). In such circumstances, as a result, these agreements may only be enforceable at the discretion of the courts (and in relation to pre-6 April 2007 agreements may be entirely unenforceable) or in certain circumstances customers may have the right to cancel their agreement. CYBG Group gives no guarantee that a court order could be obtained if required. If a regulated consumer agreement was found not to comply with such legislation it would still constitute legal, valid and binding obligations of the relevant customer and it would still be possible to collect payments from customers willing to pay their debt, notify relevant credit agencies and in many cases demand arrears from customers who are falling behind with their payments. Further, it is unlikely that Clydesdale Bank will have an obligation to repay or account to a customer for any payments received by Clydesdale Bank notwithstanding any such non-compliance with the CCA or other legislation, except in certain circumstances of credit card agreements cancelled under the CCA or other legislation. Notwithstanding this, the UK regulators and the FOS have shown themselves willing, in certain circumstances, to require reimbursement to customers in situations of undercharging and overcharging.

In addition, it is possible, in certain circumstances, that Clydesdale Bank's mortgage contracts may also be subject to the requirements of the CCA and therefore wholly or partly regulated as credit agreements under the CCA. As a result, it is possible that these agreements may also be unenforceable for any period where Clydesdale Bank has failed to comply with the requirements of the CCA. This could adversely affect Clydesdale Bank's financial position and performance.

Unfair Terms in Consumer Contracts Regulations and the Consumer Rights Act

Prior to the entering into force of the UK Consumer Rights Act 2015, the UTCCR applied to consumer contracts entered into on or after 1 July 1995. The main effect of these regulations was to render a contract term which was "unfair" enforceable against a consumer. The Consumer Rights Act, which came into effect replaces the UTCCR with a consolidated regime in respect of unfair contract terms which will also extend to individually negotiated contracts and to consumer notices, for contracts entered into on or after 1 October 2015. Contracts entered into before that date will continue to subject to the UTCCR. The Consumer Rights Act also contains clarificatory provisions in relation to consumer rights in respect of goods, services and digital content and provisions which are intended to provide easier access to customers to compensation arising from breaches of consumer or competition law.

Banking Standards Review Council

On 19 May 2014, Sir Richard Lambert published a report (the "**Lambert Report**") which contained recommendations for a new Banking Standards Review Council ("**BSRC**"). The BSRC is an organisation funded by participating banks, intended to promote high standards of behaviour and competence across the UK banking industry.

Key recommendations of the Lambert Report include that the BSRC should:

- develop a single, principles-based code of practice that will provide a template for the whole banking industry;
- identify areas of banking activity where statutory regulation is either not appropriate or not possible and develop voluntary standards of good practice for these areas;
- conduct regular assessments on each bank's performance under the headings of culture, the competence and development of the workforce, and outcomes for customers; and
- publish an annual report intended to measure the progress of banks and building societies in winning public trust.

Participation in the BSRC is optional for banks operating in the UK, and Clydesdale Bank is not a participating bank as at the date of this Scheme Booklet. However, if Clydesdale Bank were to become a member in the future, it may incur costs in order to conform to any applicable codes of practice set out by the BSRC. It may also be subject to negative publicity if it were to fail to meet any of the voluntary standards imposed by the BSRC.

Annexure G: Part One
CYBG Risk Factors

Banking Lending Practices Review

On 25 November 2013, Dr Lawrence Tomlinson, Entrepreneur in Residence at the Department for Business, Innovation and Skills ("**BIS**"), published his independent report into banks' lending practices: treatment of businesses in distress (the "**Tomlinson Report**"). The Tomlinson Report was commissioned by BIS to look into the behaviour of banks in the period following the financial crisis and related bail-outs, to downsize their portfolios and reduce their exposure to bad and higher risk debts. Although acknowledging that this practice is not unreasonable in itself, the Tomlinson Report has identified concerns regarding the strategy of some banks for improving their financial performance where this appears to be having an adverse impact on good and viable businesses. In particular, the Tomlinson Report noted that there was evidence to suggest that there are circumstances in which RBS "is engineering a business into default in order to move the business out of local management and into its turnaround division Global Restructuring Group (GRG)". This practice would generate revenue for RBS through fees, increased margins and the purchase of devalued assets by its property division, West Register. The Tomlinson Report notes that this practice is "not an open and transparent process, nor is it a proportionate response".

On 17 January 2014, the FCA indicated that it was conducting an independent skilled persons report under section 166 of FSMA to examine RBS' treatment of business customers in financial difficulty and consider the allegations set out in the Tomlinson Report. The first stage of the review will consider whether any poor practices identified are widespread and systematic. If this is the case, the second stage of the review will identify the root cause of these issues and make recommendations to address any shortcomings identified. The FCA expects to publish the outcomes from the review by the end of 2015. Although commercial lending is not a regulated activity under FSMA, if the findings reveal issues that come within the FCA's remit, the FCA will consider further regulatory measures. The potential impact of implementing any such measures on CYBG Group's business is currently unclear and will depend on the findings of the independent review, but could result in future costs for the CYBG Group.

Senior Managers Regime, Certification Regime and Conduct Rules

On 7 July 2015, the FCA and PRA published the final rules confirming their approach to the new individual accountability regime under the Banking Reform Act, which replaces the existing approved person's regime. The final rules cover three areas: the new Senior Managers Regime, the Certification Regime and the Conduct Rules. The new Senior Managers Regime applies to individuals who hold key roles and responsibilities within firms, including executive management, directors and non-executive directors (other than standard non-executive directors who do not act as chairman, senior independent director or chair any committee). The Senior Managers Regime requires such individuals to be pre-approved by regulators, and firms will be required to maintain procedures for the assessment of the fitness and propriety of such individuals before applying for approval and at least annually thereafter.

The Certification Regime applies to staff, other than senior managers, whose decisions could cause significant harm to the firm or its customers (for example, individuals providing mortgage advice). Staff subject to the Certification Regime will not be subject to regulatory pre-approval. However, firms will be required to identify staff subject to the Certification Regime and implement procedures for assessing the fitness and propriety of such staff.

The Conduct Rules set out standards of behaviour that a firm's staff is expected to meet. These rules will replace the existing statements of principle and related codes of practice for approved persons. The Conduct Rules will apply to all non-executive directors, staff falling within the Senior Managers Regime and the Certification Regime from 7 March 2016, the commencement date of the Senior Managers Regime and the Certification Regime, and will expand to apply to other staff from March 2017.

On 15 October 2015, HM Treasury announced that the Bank of England and Financial Services Bill will extend and reform the Senior Managers Regime and the Certification Regime introduced by the Banking Reform Act. The changes will introduce a statutory duty of responsibility that will apply to all senior managers, and will replace the current "reverse burden of proof" with a burden of proof that must be met by the regulator seeking to take action in relation to an individual under to the Senior Managers Regime or the Certification Regime.

As at the date of this Scheme Booklet, the principal consequences of the new rules on the individual accountability regime could result in an increase in CYBG Group's compliance costs, and could have an adverse effect on CYBG Group's ability to recruit new personnel and retain key employees.

46. CYBG Group is subject to the potential impacts of UK and European banking and financial services reform initiatives.

In recent years, the relevant regulatory authorities in the UK and Europe have proposed (and in some cases have commenced implementation of) reforms to a number of aspects of the banking sector, including, among others, institutional structure, resolution procedures, payment services and deposit guarantees. While the impact of these regulatory developments remains uncertain (and indeed some of the specific written proposals are not in final form), CYBG Group expects that the evolution of these and future initiatives could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

Banking Reform Act

The Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**"), which implements the measures recommended by Sir John Vickers' Independent Commission on Banking (the "**ICB**"), received Royal Assent on 18 December 2013. The UK Government has completed some of the secondary legislation required under the Banking Reform Act, including The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 and The Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014, in July 2014. The remaining secondary legislation and the PRA/FCA rules required in connection with the Banking Reform Act are expected to be finalised by the first half of 2016. Banks will be expected to have implemented reforms by 1 January 2019 at the latest.

The Banking Reform Act introduces a number of measures which could adversely impact CYBG Group's business, including: (i) a new bail-in option through an amendment to the UK Banking Act (which has since been further amended to align with the bail-in tool as set out in the BRRD) for resolving failing banks (in addition to the other stabilisation options provided for pursuant to the UK Banking Act) pursuant to which the Bank of England is given the power, in a resolution scenario, to cancel, reduce or defer the equity liabilities of a bank (including divesting shareholders of a bank of their shares), convert an instrument issued by a bank from one form or class to another (for example, a debt instrument into equity), transfer some or all of the securities of a bank to an appointed bail-in administrator and/or cancel, modify or change the form of any other liabilities owed by the bank (other than specific excluded liabilities); (ii) a ring fence around certain deposits held by UK banks with the aim of separating certain core banking services critical to individuals and SMEs from wholesale and investment banking services. The ring-fencing regime will be established primarily through amendments to FSMA (and, in particular, the addition of a new Part 9B (Ring-fencing) to FSMA) and further detailed rules made by HM Treasury, the PRA and the FCA to give effect to the recommendations of the ICB on ring-fencing requirements for the banking sector (it is anticipated that CYBG Group will not be impacted by certain requirements under the ring-fencing regime since the entire CYBG Group is within one "ring-fenced"); (iii) powers for the PRA and the FCA to require non-regulated qualifying parent undertakings of regulated entities to take actions to facilitate resolution; and (iv) an amendment to the Insolvency Act 1986 to provide for preferential ranking of insured depositors on a winding-up, such that those deposits rank ahead of all other unsecured creditors. The Insolvency Act 1986 has since been further amended by The Banks and Building Societies (Depositor Preference and Priorities) Order 2014, which provides for preferential ranking (behind insured depositors but ahead of other creditors) on a winding-up of: (a) eligible deposits in excess of the FSCS-insured amount; and (b) deposits made through non-EEA branches of EEA credit institutions (but only if such deposits would have been insured deposits if made through an EEA branch of the relevant credit institution).

In October 2015, the PRA published a consultation paper on the implementation of ring fencing rules in the UK which covered prudential requirements, intra-group arrangements and the use of financial market infrastructures. The PRA proposes rules requiring a ring-fenced bank and entities in its ring-fenced sub-group not to make distributions to group entities that are not in the ring-fenced sub-group unless reasonable notice has been given to the PRA of the intention to make the distribution. The proposed rules would enable the PRA to monitor intended distributions from a ring-fenced bank or entity in its ring-fenced sub-group, evaluate the impact of these payments on the ring-fenced bank's ability to continue to meet regulatory capital requirements on an individual and sub-consolidated basis and, as appropriate, prevent such distributions by imposing a requirement that adequate capital resources are maintained. However, provided these regulatory requirements are satisfied, the PRA does not intend to require changes to a ring-fenced bank's dividend policy, or that of its ring-fenced bank sub-group.

At the European level, following the report of the Liikanen Group, which was published in October 2012, a proposed regulation on structural reform in the banking sector, which covers similar areas to some of those contained in the Banking Reform Act was published by the European Commission. There are ongoing discussions within the European Council and Parliament about the proposals for structural reform, and the regulation may be subject to further amendments. In addition to the bail-in tools described above, see "*CYBG Group is subject to substantial and changing prudential regulation*" above in respect of the BRRD.

MiFID II

On 15 May 2014, the European Parliament and European Council adopted a directive (Directive 2014/65/EU) and associated regulation (Regulation 600/2014) on markets in financial instruments (together "**MiFID II**"), which will repeal and recast the existing Directive 2004/39/EC on markets in financial instruments. MiFID II introduces a number of new measures which are designed to overhaul existing rules for market infrastructures (including the application of regulatory requirements to a new category of multilateral, discretionary trading venues for non-equities, the Organised Trading Facility), increase transparency and transaction reporting requirements, enhance existing conduct of business requirements and supervisory enforcement powers, increase regulation of commodities business and introduce new rules for third country firms accessing EU markets. The new requirements introduce a number of changes to the banking sector's market infrastructure and conduct rules (including enhanced suitability requirements) and introduces new investor protection measures including product governance requirements. MiFID II entered into force on July 2014, however the majority of the provisions will only apply from January 2017. Final regulatory and implementing technical standards and guidelines regarding the implementation of various provisions are expected to be published by ESMA and the Commission during the course of 2016. Member states are also expected to transpose national implementation measures by July 2016.

These new requirements could increase the cost of distributing financial products to both retail and wholesale clients and increase the risk of non-compliance. This could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

Payment Services

In July 2013, the Commission adopted a legislative package relating to the UK payments framework including a proposal for a Directive on payment services in the internal market and amending Directives 2002/65/EC, 2013/36/EU and 2009/110/EC and repealing the Payments Services Directive (2007/64/EC) (PSD) ("**PSD2**"); and a proposal for a Regulation on interchange fees for card-based payment transactions (the "**MIF Regulation**").

PSD2 is intended to update the existing legal and regulatory framework for payment services in the EEA, broadening its application to capture previously-unregulated payment service providers, and to improve the transparency and security of payment services. The European Parliament Plenary adopted the revised PSD2 on 8 October 2015. Following formal adoption by the EU Council of Ministers the Directive will then be published in the Official Journal of the EU. From that date, Member States will have two years to introduce the necessary changes in their national laws in order to comply with the new rules. PSD2 is expected to be transposed into national law in 2017.

On 19 December 2014, EBA published its final guidelines on the security of internet payments. The guidelines set minimum security requirements that EU payment service providers were expected to have implemented by 1 August 2015 in respect of internet payments including, among other things, customer authentication requirements and the storage of sensitive payment data. The FCA advised the UK market in March 2014 that it would be requiring compliance with the Secure Pay Recommendations in line with PSD2 transposition, and reconfirmed in May 2015 that it remained of the view that it is reasonable, in all the circumstances, for the detail of the guidelines to be incorporated into its supervisory framework in line with the PSD2 timetable.

The MIF Regulation addresses the Commission's concerns about the impact of interchange fees charged on debit and credit card transactions. It also lays down business rules and other technical requirements that apply to all types of card-based payment transactions. The combined effect of PSD2 and the proposed MIF Regulation would be to introduce maximum levels of interchange fees for transactions based on consumer debit and credit cards and ban surcharges on these types of card. The European Parliament and Council reached political agreement on the Regulation on 17 December 2014 and in January 2015. The MIF Regulation was published in the Official Journal on 19 May 2015 and most of the provisions entered into force on 8 June 2015. Rules capping interchange fees for consumer debit and credit card transactions will apply from 9 December 2015.

As at the date of this Scheme Booklet the introduction of the MIF Regulations is estimated (based on the published maximum levels for interchange fees) to have a negative impact on income for CYBG Group. There is the possibility of further downside income risk, should the UK choose to pursue additional domestic regulatory measures on credit and/or debit card interchange fees, which whilst subject to consultation is not considered likely; or if a more restrictive position is adopted under further amendments to the MIF Regulations; or finalised Card Scheme (MasterCard and VISA) interchange rates result in lower than anticipated interchange rates across the portfolio. However, at this stage material variances from current planned numbers are not expected, until the relevant provisions and interchange rates are in full force, the full impact of the measures on CYBG Group cannot be fully determined.

Other significant payment services legislation include regulation (EU) 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro (the "**SEPA Migration Regulation**") and Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**").

The SEPA Migration Regulation sought to create an integrated market for electronic payments in Euro, by replacing existing national payment schemes in Euro with pan-European SEPA payment schemes. The new SEPA payment schemes were implemented for Eurozone countries by 2014. The deadline for implementation of these schemes by non-Eurozone countries (including the UK) is 31 October 2016.

The Payment Accounts Directive introduced measures that banks and other payment service providers must comply with including in relation to provision of standard fee information in relation to payment accounts to consumers, facilitation of account switching and ensuring basic bank accounts are available to all EU consumers. The Payment Accounts Directive came into force in September 2014, with Member States being required to transpose its provisions into national law by September 2016.

EMIR

EMIR was adopted by the European Parliament and European Council on 4 July 2012. EMIR provides for certain OTC derivatives contracts to be submitted to central clearing and imposes, inter alia, margin posting and other risk mitigation techniques, reporting and record keeping requirements. CYBG Group is subject to reporting obligations which are already in force. The clearing and margin requirements are being phased in and CYBG Group will be subject to these requirements in relation to those classes of derivatives that are declared to be subject to the clearing obligation. In addition, CYBG Group will have a significant volume of counterparty and operational risk with NAB due to NAB acting as Clydesdale Bank's sole clearing provider, on an arm's-length basis, for central clearing of a high volume of derivative transactions through LCH.Clearnet Limited.

Small and Medium Sized Business (Finance Platforms) Regulations

In February 2015, the Department for Business, Innovation & Skills published a draft version of the Small and Medium Sized Business (Finance Platforms) Regulations which HM Treasury intends to make and which are expected to come into force on 1 January 2016. The regulations, which are intended to assist small and medium sized businesses who are unsuccessful in obtaining financing from credit institutions to seek funding from alternative lenders, will require credit institutions above a certain market threshold to provide specified information about unsuccessful finance applications of such businesses to designated online finance platforms which can be accessed by alternative lenders who meet certain conditions. In its August 2014 statement, the UK government indicated that it intends to designate Clydesdale Bank as one of the credit institutions which will be required to provide credit information under these regulations, which may create additional loan processing costs for CYBG Group.

IMD2

In July 2012, the European Commission published a proposal for the revision of the Insurance Mediation Directive (2002/92/EC) which established an EU-wide supervisor regime for intermediaries involved in the promotion, sale and administration of certain insurance products. The recast Insurance Mediation Directive ("**IMD2**") expands the scope of the Insurance Mediation Directive to cover sales of all insurance products and *inter alia*, (i) introduces more stringent advertising and disclosure requirements (in particular in relation to bundled products); (ii) introduces rules covering the management of conflicts of interest; and (iii) introduces rules covering the disclosure of remuneration received by insurance intermediaries. IMD2 is expected to have a more limited impact on the UK intermediary regime than in other European jurisdictions as the UK intermediary regime already incorporates a number of the requirements proposed by IMD2.

The proposals in IMD2 may increase the regulatory compliance costs for CYBG Group in implementing the new regulations. However, the proposals remain subject to change and until the relevant provisions are in force, the full impact of the measures on CYBG Group cannot be ascertained. Member States will have until early 2017 to implement the IMD2 requirements into national law. The proposals are due to be discussed, and approved if appropriate, by a plenary session of the European Parliament.

Financial services compensation scheme and depositor guarantee scheme

The UK Financial Services Compensation Scheme (the "**FSCS**") pays compensation, up to certain limits, to eligible customers of financial services firms that are unable, or likely to be unable, to pay claims against them. As well as compensating customers when regulated firms fail, the FSCS's aim is to promote confidence in the financial system by limiting the system risk that the failure of a single firm might trigger a wider loss of confidence in the relevant financial sector. The levels of compensation are: (i) for retail and small corporate deposits, 100 per cent. of the first £85,000 (this limit will be reduced to £75,000 on 31 December 2015); (ii) for large corporate and small local authority deposits, 100 per cent. of the first £75,000; (iii) for investment business (including mortgage advice and arranging) 100 per cent. of the first £50,000; and (iv) for insurance firms declared to be in default after 3 July 2015, 90 per cent. of the claim with no upper limit (except that claims that arise in respect of a liability subject to compulsory insurance or to professional indemnity insurance is protected in full; no protection is available for goods in transit, marine, aviation and credit insurance and contracts of reinsurance).

Clydesdale Bank is responsible for contributing to the FSCS. The amount charged in Clydesdale Bank's accounts to meet its obligations to the FSCS was £11 million for the year ended 30 September 2013, £13 million for the year ended 30 September 2014 and £14 million for the year ended September 2015. Further provisions in respect of these costs are likely to be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material adverse effect on Clydesdale Bank's business, financial condition and results of operations.

The new EU directive on deposit guarantee schemes ("**DGSD**") was adopted by the European Parliament and European Council in April 2014 and implemented into national law by the Deposit Guarantee Schemes Regulations 2015 and certain amendments made to the PRA's depositor protection rules. DGSD introduces requirements on banks to contribute to their national deposit guarantee scheme at least annually and to have reached a target pre-funded level of at least 0.8 per cent. of deposits covered by the DGSD held by the relevant bank by 3 July 2024. In cases where this pre-funded level is insufficient to cover payments to depositors, the deposit guarantee scheme will collect immediate post event contributions from the banking sector and, as a last resort, will have access to alternative funding arrangements such as loans from third parties. In October 2014, the PRA published a consultation paper setting out its proposed new rules to implement the DGSD. The consultation closed on 6 January 2015 (and a second consultation closed on 27 February 2015) and the PRA published its policy statement and final rules in May 2015 and the rules came into effect in July 2015. The new rules make provision for, amongst other things, post event levies with access to funds collected from the UK bank levy (as discussed further in Part 7 of this Annexure G: "*Supervision and Regulation*"), changes to the UK FSCS which introduced, from 3 July 2015, temporary high balance deposit protection up to £1 million (an increase to the current £75,000 / £85,000 deposit protection limit as applicable (which is currently considered equivalent to €100,000)) for up to six months for certain types of deposits, and increased speed of pay-out. The new rules are intended to enable depositors protected by the FSCS to have continuity of access to their accounts during resolution, as well as changes to the existing Single Customer View ("**SCV**") rules. Key changes include most depositors now being eligible for protection as opposed to previous PRA rules where only retail deposits and deposits of small corporates are eligible for protection by the FSCS; all firms will be required to produce SCV files in a shortened time period for verification purposes and in the event of default; and firms will be required to update their SCV systems and mark eligible deposits in a way that allows immediate identification of them. Several DGSD disclosure requirements will be applicable to firms from 1 January 2016, and the rules on SCV and Continuity of Access will take effect from 1 December 2016.

It is possible, as a result of the new directive and subsequent UK implementation, that future FSCS levies on CYBG Group may differ from those at present, and such reforms could result in CYBG Group incurring additional costs and liabilities, which may have a material adverse effect on its profitability.

It is difficult to predict the financial obligations that may be imposed on CYBG Group pursuant to MiFID II, the BRRD, the EU DGSD, the PSD2, the MIF Regulation or the proposed guidelines on the security of internet payments or the effect that these proposed changes may have on CYBG Group's operations, businesses or prospects. However, depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on CYBG Group's operations, structure, costs and/or capital requirements.

Incremental tax reporting

On 18 March 2015, fundamental changes to the current system of tax deduction at source were announced, including the introduction of digital tax accounts from April 2016. Little detail is currently available though it is expected that banks and other financial institutions will be required to change their current reporting processes, and substantial cost will be associated with any such change.

Immigration Bill

The Government introduced a new Immigration Bill in the Queen's Speech 2015. The new bill will include a series of measures to control immigration and to do more to target illegal migration. The proposals include extending the current requirements introduced on banks last year in the Immigration Act creating a further obligation to check legacy books and take action should accounts for individuals residing illegally in the UK be identified. Compliance with the bill should it be passed into law could create additional costs for CYBG Group.

New FCA and PRA Remuneration Rules

Following previous consultations, the FCA and the PRA issued new remuneration rules on 23 June 2015 that are designed to better balance risk and reward in banking. Key changes include extending current deferral and clawback requirements, banning non-executive directors from receiving variable remuneration, and providing clarifying guidance on meeting Remuneration Code ex-post risk adjustment requirements. Variable remuneration buy-out options are to be further considered. Provisions in respect of clawback and deferral will apply for variable payments on or after 1 January 2016, with other requirements having become applicable from 1 July 2015. Any such changes may make it more difficult for CYBG Group to recruit and retain employees.

Electronic Signatures Regulation

Regulation 910/2014 on e-identification and trust services for electronic transactions in the internal market (the "**Electronic Signatures Regulation**") establishes a legal framework for electronic signatures, electronic seals, electronic time stamps, electronic documents, electronic registered delivery services and certificate services for website authentication. The Electronic Signatures Regulation sets the conditions under which Member States recognise means of electronic identification of natural and legal persons falling under another member state's electronic identification scheme which has been notified to the European Commission.

The provisions of the Electronic Signatures Regulation will apply in Member States (with some exceptions) on 1 July 2016. The potential impact of implementing the provisions of the Electronic Signatures Regulation on CYBG Group's business is currently unclear and is still being assessed, but could result in future costs.

47. CYBG Group is subject to substantial and increasing industry-wide regulatory and governmental oversight.

In addition to the promulgation of new legislation and regulation, the UK Government, the PRA, the FCA and other regulators in the UK, the European Union and overseas have in recent years become substantially more active in their application and monitoring of certain regulations and they may intervene further in relation to areas of industry risk already identified, or in new areas, which could affect CYBG Group.

Areas where regulatory changes have resulted, or could result, in increased compliance cost for CYBG Group include, but are not limited to:

- general changes in Government, central bank or regulatory policy, or changes in regulatory regimes, including changes that apply retroactively, that may influence investor decisions in particular markets in which CYBG Group operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- external bodies applying or interpreting standards or laws differently to those applied by CYBG Group;
- one or more of CYBG Group's regulators intervening to mandate the pricing of certain of CYBG Group's products as a consumer protection measure;
- one or more of CYBG Group's regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service;
- changes in competitive and pricing environments, including changes to interchange fees receivable on debit and credit card transactions;
- further requirements relating to financial reporting, corporate governance, conduct of business and employee remuneration;
- changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing;
- changes to the legislative framework relating to pension schemes imposing increased liabilities or increased financial commitments;
- changes to the legislative framework to increase the obligations on banks to identify tax evasion by customers;
- changes to the legislative framework to increase the obligations on banks to prevent illegal immigrants utilising the banking system;
- CMA market studies or investigations, FCA market studies or payment systems regulator market studies potentially resulting in a range of measures, including behavioural and/or structural remedies in addition to the costs of responding to the studies and investigations themselves;
- high implementation costs, including for example readiness for compliance with the common reporting standard;
- changes in business strategy, particularly impacting the rate of growth of the business; and
- changes to conditions imposed on the sales and servicing of products, which have the effect of making such products unprofitable or unattractive to sell.

CYBG Group, in common with much of the UK and European financial services industry, continues to be the focus of significant regulatory change and scrutiny. This has led to a more intensive approach to supervision and oversight, increased expectations, enhanced regulatory requirements and increased costs to comply with regulatory reporting requirements. As a result, regulatory risk will continue to require senior management attention and consume significant levels of business resources. Furthermore, as enhanced supervisory standards are developed and implemented, this more intensive approach and the enhanced regulatory requirements, along with uncertainty and the extent of international regulatory co-ordination, may adversely affect CYBG Group's business, capital and risk management strategies and/or may result in CYBG Group deciding to modify its legal entity structure, capital and funding structures and business mix or to exit certain business activities altogether or to determine not to expand in areas despite their otherwise attractive potential.

The Select Committee published in March 2015 its report on conduct and competition in SME, which has created further uncertainty including in relation to our position relating to complaints and redress from historic sales of financial products. See "*CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*" above for further information.

The changing political and regulatory landscape may result in increased political pressure for further restrictions or additional regulatory oversight of retail banks. The nature of any such changes and the potential effects on CYBG Group's business is to some extent uncertain.

CYBG Group continually assesses the impacts of legal and regulatory developments which could have an effect on it and will participate in relevant consultation and calibration processes undertaken by the various regulatory and other bodies. Implementation of the foregoing regulatory developments could result in additional costs or limit or restrict the way that CYBG Group conducts business, although uncertainty remains about the details, impact and timing of these reforms. CYBG Group continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate against risks to CYBG Group and its stakeholders.

New Payment Systems Regulator

The Banking Reform Act introduced a new PSR. The PSR is a competition-focused, utility-style regulator for retail payments systems. The roles, responsibilities and powers of the regulator have been established by the Banking Reform Act. The PSR was officially launched in April 2015 and exercises regulatory oversight functions over payment systems and the financial institutions that participate in them. It has wide powers to, for example, amend agreements relating to access to payment systems, order disposal of interests in the operator of a payment system, require banks to enter into agreements with smaller institutions to process transactions on their behalf, and investigate and impose fines or other sanctions in respect of breaches of its rules. CYBG Group expects to incur costs related to its compliance with relevant PSR requirements.

In March 2015, the PSR announced market reviews into (i) the supply of indirect access to payment systems (the "**Indirect Access Review**"), and (ii) how infrastructure is provided for certain payment systems in the UK (the "**Infrastructure Review**"), and issued terms of reference to that effect. The Indirect Access Review is focusing on developing a deeper understanding of the economics of the supply of indirect access generally and understanding what factors limit the degree of choice available to different types of indirect payment systems providers ("**PSPs**"). The scope of the review includes services provided to all types of PSP. The PSR intends to consider a number of issues as part of the review, including:

(a) the implications for competition arising from the structure of the market (including the characteristics of indirect access); and

(b) the initial and ongoing elements involved in providing indirect access, as well as risks associated with providing services across different types of indirect PSPs.

The Infrastructure Review is focusing on a number of issues, including:

(a) whether the payments infrastructure works in the interests of users of the payment systems; and

(b) whether or not current infrastructure ownership arrangements and market structure restrict competition or innovation.

To date, the PSR has received a number of responses to its draft terms of reference in relation to the Indirect Access Review, and, in June 2015, published the final terms of reference in relation to the Infrastructure Review. In relation to the Indirect Access Review, the PSR expects to publish an interim report by January 2016 and a final report by May 2016. In relation to the Infrastructure Review, the PSR expects to publish an interim report in early 2016 and a final report in the summer of 2016. If the PSR concludes there is a need to carry out actions to improve the market, it expects this will take a further six months to implement such actions.

As at the date of this Scheme Booklet, it is difficult to assess the impact of the reviews on CYBG Group until the reviews have been completed. A principle impact could be that any enhancements to the market and its infrastructure could increase competition in the payments market.

48. CYBG Group must comply with data protection regulations.

CYBG Group is subject to regulation regarding the use of personal data. CYBG Group processes personal customer, employee and other data as part of its business and therefore must comply with strict data protection and privacy laws. CYBG Group seeks to ensure that procedures are in place to ensure compliance with the relevant data protection regulations by its employees and any third party service providers, and also implements security measures to help prevent cyber-theft. Notwithstanding such efforts, CYBG Group is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection laws. By way of example in August 2014 Clydesdale Bank's personal customer data had been disclosed to NAB and subsequently disclosed to the Australian Prudential Regulation Authority potentially in contravention of data protection legislation. Whilst confirmation was received that the data had been destroyed and procedures have since been put in place to prevent the recurrence of such event in future, there can be no assurance that such procedure will prove adequate and that further breaches of data protection laws would not reoccur.

If CYBG Group or any of the third party service providers on which it relies failed to store or transmit customer information in a secure manner, or if any loss or wrongful processing of personal customer data were otherwise to occur, CYBG Group could be subject to investigative and enforcement action by relevant regulatory authorities, could be subject to claims or complaints from the person to whom the data relates, or could face liability under data protection laws. Any of these events could also result in reputational damage, which could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

UK data protection law is likely to be subject to material change in the medium term. In 2012 the European Commission published a proposal for a new general Regulation on Data Protection, which would replace the current UK Data Protection Act 1998 (and the equivalent laws in other EU and EEA Member States) with an EU Regulation having direct effect in the UK and all other EU and EEA Member States. It is now under discussion between representatives of the European Parliament and Counsel and may be passed into law in 2016 and would then be likely to come into effect up to two years later, in 2017 or 2018. The specific requirements of the proposed Regulation are not yet clear but it is likely to increase the regulatory burden on CYBG Group in processing personal customer, employee and other data in the conduct of its business and may also increase the potential sanctions for breach.

49. CYBG Group must comply with anti-money laundering, anti-bribery and sanctions regulations.

CYBG Group is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit CYBG Group, its employees or intermediaries from making improper payments or offers of payment to foreign Governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules can put a significant financial burden on banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has increased, resulting in several landmark fines against UK financial institutions. In addition, CYBG Group cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted. Although the CYBG Directors believe that its current policies and procedures are sufficient to comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that such policies completely prevent situations of money laundering or bribery, including actions by CYBG Group's employees, for which CYBG Group might be held responsible. Any of such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

In February 2013, the European Commission adopted proposals for a directive on the prevention of the use of the financial systems for the purpose of money laundering and terrorism financing amending and replacing Directive 2005/60/EC (known as Money Laundering Directive 3) and a regulation on information accompanying transfer of funds to secure due traceability of these transfers. Reforms to Money Laundering Directive 3 (known as Money Laundering Directive 4) have been enacted and came into force on 25 June 2015. The reforms contained in Money Laundering Directive 4 may increase the regulatory compliance costs for CYBG Group in implementing the new regulations.

50. As a result of any of the foregoing risks, CYBG Group may be subject to the provisions of the UK Banking Act in the future.

Under the UK Banking Act, substantial powers have been granted to HM Treasury, the Bank of England (including the PRA) and the FCA (together, the "**Authorities**") as part of the special resolution regime (the "**SRR**"). In Europe, BRRD has introduced a package of minimum early intervention and resolution related tools and powers for relevant authorities and provided for special rules for cross-border groups. The BRRD is being implemented in the UK by means of new statutory instruments and amendments to the UK Banking Act. See "*CYBG Group is subject to substantial and changing prudential regulation*" above for further information.

These powers enable the Authorities to engage with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV FSMA that are failing or are likely to fail to satisfy FSMA's threshold conditions (within the meaning of section 55B FSMA). The SRR consists of five stabilisation options, which could be imposed on any bank, including CYBG Group, that fails, or is likely to fail, to meet FSMA's threshold conditions: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a third party private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" established and wholly owned by the Bank of England; (iii) transfer all or part of the business of the relevant entity or any bridge bank to an asset management vehicle wholly or partly owned by HM Treasury or the Bank of England; (iv) the bail-in option (as described below); and (v) temporary public ownership of the relevant entity. HM Treasury may also take a parent company (such as the Company) of a relevant entity into temporary public ownership where certain conditions are met. The UK Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances. Use of any such powers in the case of a resolution of CYBG Group would impact Shareholders' ongoing holding of CYBG Securities, including, but not limited to, potential substantial reductions in the value of such holdings.

The Banking Reform Act and the Bank Recovery and Resolution Order 2014 together amended the UK Banking Act to introduce the bail-in tool. These amendments establish the bail-in tool as a new stabilisation option available to the Bank of England. The relevant amendments to the UK Banking Act 2009 came into force in January 2015, and transitional PRA rules on contractual recognition of bail-in for certain debt instruments and unsecured liabilities came into force on 19 February 2015. The final PRA rules on contractual recognition of bail-in for liabilities are due to come into force on 1 January 2016.

In addition to the bail-in tool, amendments introduced to the UK Banking Act in order to implement the BRRD give the Bank of England a separate power to write down capital instruments of a bank in certain circumstances. This may include circumstances where the relevant credit institution is failing or likely to fail to meet its threshold conditions, in which case this power may be used alongside the stabilisation options; however it can also be used before the relevant credit institution reaches a point where the stabilisation options become available to the Authorities. This allows the Bank of England to cancel, transfer or dilute equity instruments and convert or reduce the amount of subordinated debt instruments.

Annexure G: Part One
CYBG Risk Factors

Pursuant to amendments made to the UK Banking Act, provision has been made for the stabilisation tools to be used in respect of banking group companies. The UK Banking Act (Banking Group Companies) Order 2014 which specifies the definition of such companies was made by HM Treasury on 9 July 2014 and entered into force on 1 August 2014. These amendments to the UK Banking Act allow all of the current stabilisation options under the SRR and the bail-in stabilisation power to be applied to any of CYBG Group's group companies that meet the definition of a "banking group company".

Use of bail-in powers and/or powers to write down capital instruments by the Authorities may result in the issuance of additional share capital or capital instruments, consequently existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

Risks Relating To The Institutional Offer And The Shares

51. Following UK Admission, NAB may continue to be able to exercise substantial influence over CYBG Group's business.

As at the date of this Scheme Booklet, NAB holds 100 per cent. of the voting rights in respect of the Company's issued share capital. Immediately following UK Admission, NAB could hold up to approximately 25 per cent. of the voting rights in respect of the Company's issued share capital. In circumstances where, following UK Admission, NAB retains a significant shareholding in the Company, NAB may be able to exercise substantial influence over the Company's management and operations and over Shareholders' meetings, such as in relation to the election of directors, approval of significant corporate transactions and the payment of dividends. In circumstances where, NAB retains a shareholding in the Company in excess of 10 per cent. NAB has, conditional on the Demerger becoming effective, entered into a Relationship Agreement with the Company to govern its relationship with the Company after UK Admission and ensure the Company is capable of carrying on its business independently of NAB. However, NAB has certain rights in respect of the Company under the Relationship Agreement, including, among others, the right for NAB to appoint a Non-Executive CYBG Director to the CYBG Board if NAB directly or indirectly holds at least 20 per cent. of the Company's issued share capital following UK Admission. For more information on the Relationship Agreement, see Section 5.3 of this Scheme Booklet. There can be no assurance that the interests of NAB will coincide with the interests of purchasers of the CYBG Securities or that NAB will act in a manner that is in the best interests of the Company.

CYBG Group will also have an ongoing contractual relationship with NAB, including through the TSA, as is discussed above in "*Risks related to CYBG Group's relationship with NAB*".

52. There has been no prior trading market for CYBG Securities.

Prior to the Institutional Offer, there has been no public trading market for CYBG Securities. The Institutional Offer Price will be determined by NAB after consultation with the Managers and CYBG Group and may not be indicative of the market price for CYBG Securities following UK Admission. Although the Company intends to apply to the FCA for admission of CYBG Securities to the premium segment of the Official List and intends to apply to the London Stock Exchange for admission of CYBG Shares to trading on its main market for listed securities, the Company can give no assurance that an active trading market for CYBG Securities will develop or, if developed, can be sustained following the closing of the Institutional Offer.

Further, as a result of the Demerger, the majority of current holders of shares in NAB will receive CYBG Shares initially through CYBG CDIs listed on the ASX. This may result in limited levels of initial liquidity in the trading of the CYBG Shares on the London Stock Exchange. In addition, there is a risk that significant numbers of these investors holding interests in the Company through CYBG CDIs may sell those interests at or shortly following UK Admission, which may result in downward pressure on the market price of CYBG Shares and CYBG CDIs and in a reduction in the level of liquidity available in the trading of CYBG CDIs on the ASX.

If an active trading market is not developed or maintained, the liquidity and trading price of the CYBG Securities could be materially adversely affected.

53. The Company is expected to have a shareholder base that will be predominantly based in Australia.

The Company's initial shareholder base will consist of those shareholders that have received CYBG Securities through the Demerger and those that have bought CYBG Securities in the Institutional Offer. 75 per cent. of the CYBG Securities will be distributed through the Demerger to current shareholders of NAB, most of whom have registered addresses in Australia and the majority of CYBG Securities will be held, as from a time shortly after UK Admission, in the form of CYBG CDIs traded on the ASX. Those CYBG CDIs will be included in indices of companies with securities traded on the ASX. As a consequence, notwithstanding that Clydesdale Bank has no operations in Australia, the price of CYBG Shares may be subject to significant volatility as a result of fluctuations in the prices of securities on the ASX and general economic conditions in Australia and conversely the price of CYBG CDIs may also be subject to volatility as a result of fluctuations in the prices of securities on the London Stock Exchange.

54. Significant trading volumes of the CYBG Shares or CYBG CDIs in the public market in the period post-Demerger could adversely impact the share price.

Following UK Admission, there may be a period of relatively high volume trading in CYBG Shares and the CYBG CDIs. The Company is unable to predict the trading intentions of the persons who will receive CYBG Shares or CDIs through the Demerger. In addition, Sale Facility Shareholders will be eligible to elect to have their CYBG Securities sold by the Sale Agent during a limited period following the Demerger. If substantial amounts of CYBG Shares or CYBG CDIs are sold in the open market after UK Admission, whether by the Sale Agent or otherwise or there is a perception that these sales might occur, the market price of CYBG Shares may fall.

55. Investors with a reference currency other than pounds sterling will become subject to foreign exchange rate risk when investing in or holding the CYBG Securities.

CYBG Securities are, and any dividends that may be declared in respect of CYBG Securities will be, denominated in pounds sterling. An investment in CYBG Securities by an investor whose reference currency or reporting currency is not pounds sterling exposes the investor to currency exchange rate risk. For example, shareholders holding CYBG Securities in the form of CYBG CDIs traded on the ASX will be subject to pounds sterling/Australian dollar exchange rate risk. See "T*he Company is expected to have a shareholder base that will be predominantly based in Australia*" above. Such currency exchange rate risk may impact the value of an investment in CYBG Securities or any dividends.

56. The value of the CYBG Securities may fluctuate significantly

Following the Institutional Offer, the value of CYBG Securities may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in these "*CYBG Risk Factors*", as well as market appraisal of CYBG Group's strategy or business, differences between CYBG Group's expected and actual financial and operating performance, cyclical fluctuations in the performance of CYBG Group's business, period to period variation in CYBG Group's operating or financial results, and changes in targets established by CYBG Group for, or changes in estimates by CYBG Group for, industry participants or financial analysts of, income, expenses, assets, liabilities, profits/(losses), net interest margin or other margins, returns on equity or assets, dividends, regulatory capital, regulatory ratios, other key performance indicators, market growth or market shares. The market price of CYBG Securities may decrease or increase abruptly, and such volatility may bear little or no relation to CYBG Group's performance. In addition, stock markets have, from time to time, experienced significant price and volume fluctuations that have affected the market price of securities, and may, in the future, experience similar fluctuations which may be unrelated to CYBG Group's operating performance and prospects but nevertheless affect the price of CYBG Securities. The market price of CYBG Securities could also be affected by developments unrelated to CYBG Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to CYBG Group, speculation (whether or not well founded) about CYBG Group in the press or the investment community (including regarding the intentions of significant shareholders or significant sales of CYBG Securities by any such shareholders or short selling of CYBG Securities), speculation (whether or not well founded) regarding significant issues of CYBG Securities by the Company, possible changes in CYBG Group's management team, strategic actions by CYBG Group or competitors (including mergers, acquisitions, divestitures, partnerships and joint ventures), adverse resolution of new or pending litigation or regulatory matters against any member of CYBG Group, unfavourable press, the publication of research reports by analysts, general economic, industry and stock market conditions, changes in market conditions and regulatory changes in the UK or other countries, whether or not CYBG Group derives significant revenue therefrom. Any or all of these factors could result in material fluctuations in the price of CYBG Securities, which could lead to investors getting back less than they invested or a total loss of their investment.

If NAB proceeds only with a partial Institutional Offer and retains the balance of CYBG Securities, following expiry of any relevant lock-ups commencing on completion of the Institutional Offer, sales of CYBG Securities by NAB or any of the CYBG Directors in the public market, or the perception that such sales may occur, could depress the market price of CYBG Securities and could have a material adverse effect on CYBG Group's ability to raise capital through the issue or sale of additional equity securities.

57. There are restrictions on the ability of the Company to pay dividends

CYBG Group's results of operations and financial condition are dependent on its trading performance and the trading performance of the members of CYBG Group. As a matter of applicable company law, the Company may only pay dividends if and to the extent that, among other requirements, it has distributable reserves and sufficient cash available for this purpose. Any decision to declare and pay dividends in the future will be made at the discretion of the CYBG Board and will depend on, among other things, applicable law, regulation, restrictions, CYBG Group's financial position, regulatory capital requirements, working capital requirements, finance costs, dividend policy, general economic conditions and other factors the CYBG Directors deem significant from time to time. The Company's ability to pay dividends will also depend on the level of distributions, if any, received from its operating subsidiaries and regulatory restrictions in relation to the extent to which it can distribute its distributable reserves. As a result, there can be no assurance that the Company will pay dividends in the future.

58. The issue of additional shares in the Company in connection with the conversion of future additional tier 1 securities (including the New AT1 Notes) issued by CYBG Group into CYBG Securities may dilute other shareholdings in the Company.

CRD IV rules allow CYBG Group to issue Additional Tier 1 securities to meet its capital requirements. Additional Tier 1 securities issued by CYBG Group would be subordinated obligations of CYBG Group but would rank ahead of CYBG Securities in any winding-up of the Company. Any such securities issued may, under CRD IV, include a provision whereby if the common equity tier 1 ratio of CYBG Group falls below a specified percentage, any distributions which were accrued and unpaid on the Additional Tier 1 securities would be cancelled and the Additional Tier 1 securities would be converted into CYBG Securities (depending on the terms of the instrument issued). As a result, the Company's then-existing shareholders could suffer dilution in their percentage ownership upon any conversion of convertible securities such as Additional Tier 1 securities or similar securities issued by CYBG Group into CYBG Securities.

The New AT1 Notes include a provision that if the common equity tier 1 ratio of CYBG Group falls below 7 per cent., the New AT1 Notes automatically convert into Shares at a conversion price equal to 66 per cent. of the Offer Price (subject to adjustments in certain circumstances in the event of any consolidation, reclassification, subdivision in relation to the Shares, bonus issues, rights issues or extraordinary dividends). As a result, the Company's then-existing shareholders could suffer a dilution of their percentage ownership upon such conversion. However, the terms and conditions of the New AT1 Notes include a mechanism to give the Company's then-existing shareholders the opportunity to purchase the Shares issued on such conversion, on a pro rata basis, where practicable (at the Company's discretion) and subject to applicable laws and regulations, at a price equal to the then conversion price of the New AT1 Notes (which may be higher, equal or lower than the then market price of the Shares). The terms of the proposed New AT1 Notes and further information on the arrangements between NAB and CYBG Group relating thereto are set out in Part 8 of this Annexure G: *"Additional Information – Material Contracts – Demerger Deed – Arrangements between NAB and CYBG Group after separation and intentions of NAB and the Company to further separate funding, capital and derivative relationships"*.

59. The issue of additional shares in the Company in connection with the termination of the Capped Indemnity, future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings.

CYBG Group may seek to raise financing to fund future acquisitions and other growth opportunities. The Company may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. The Company's existing shareholders would suffer dilution in their percentage ownership if they were not to participate in any such issues pro rata to their existing holdings.

In certain circumstances, the Company may also undertake a Share issuance at market value in the context of the termination of the Capped Indemnity which would be likely to dilute the Company's existing shareholders:

- (i) the PRA determines that NAB's remaining exposure under the Capped Indemnity; or (ii) the Unutilised Indemnity Amount, is £100 million or less, in which case NAB will have the right (subject to the agreement of the PRA) to terminate the Capped Indemnity by subscribing for CYBG Shares at market price in an amount equal to the Unutilised Indemnity Amount provided that value of the CYBG Shares to be subscribed for does not exceed a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**£100 million Termination**"); or
- NAB and the Company agree arrangements to terminate or replace the Capped Indemnity (with the consent of the PRA). In particular, NAB and the Company have agreed that they will, on the fifth anniversary of the Demerger (and, if relevant, each subsequent anniversary thereafter), seek to agree arrangements to terminate or replace the Capped Indemnity. The Company cannot unreasonably withhold its agreement to a proposal made by NAB pursuant to such discussions involving the Capped Indemnity being replaced by a payment equal to the Unutilised Indemnity Amount to be applied (in whole or in part) in subscribing for CYBG Shares at market price, provided that the maximum value of the CYBG Shares to be subscribed for would not exceed £200 million or if lower, a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**Post-5 Year Equity Subscription Termination**").

It would not be necessary for the Company to seek shareholder approval pursuant to Chapter 10 or 11 of the UK Listing Rules nor to obtain shareholder authority under the *Companies Act (UK)* to allot CYBG Shares to NAB, in order to implement a £100 million Termination. If the Company and NAB agree, with the PRA's consent, to terminate the Capped Indemnity pursuant to a Post-5 Year Equity Subscription

Termination, it would not be necessary for the Company to seek shareholder approval pursuant to Chapter 10 or 11 of the UK Listing Rules (unless, in the case of Chapter 11, such arrangements are subject to material amendment) nor to obtain shareholder authority under the *Companies Act (UK)* to allot CYBG Shares to NAB, in order to implement a Post-5 Year Equity Subscription Termination.

If the Capped Indemnity is terminated, dilution of the Company's existing shareholders is expected to occur. The potential magnitude of any dilution is dependent on (i) the level of NAB's remaining potential exposure under the Capped Indemnity at the time the Capped Indemnity is terminated; and (ii) the extent to which the Unutilised Indemnity Amount is replaced by the subscription by NAB of CYBG Shares and the price at which NAB subscribes for the new Shares.

60. Shareholders outside the UK may not be able to participate in future equity offerings.

The Articles of the Company provide for pre-emptive rights for Shareholders in the Company, unless such rights are disapplied by a Shareholder resolution. However, securities laws of certain foreign jurisdictions (including Australia) may restrict the Company's ability to allow participation by Shareholders in future offerings. Further, while in deciding whether to make any future offerings and what the most appropriate form of any offering may be the CYBG Directors will have regard to Shareholders' interests, there can be no guarantee that all Shareholders will be able to participate in all or any such offerings. In particular, Shareholders in the United States may not be entitled to exercise these rights unless either the rights and CYBG Securities are registered under the Securities Act, or the rights and CYBG Securities are offered pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

61. Payments on CYBG Securities may be subject to U.S. withholding tax under FATCA

The United States has enacted rules, commonly referred to as "FATCA", that generally impose a new reporting and withholding regime with respect to certain payments made by entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with the United Kingdom (the "**IGA**"). Under the IGA, as currently drafted, the Company does not expect payments made on or with respect to CYBG Securities to be subject to withholding under FATCA. However, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to CYBG Securities in the future. Prospective investors should consult their own tax advisors regarding the potential impact of FATCA.

Annexure G: Part Two
Information on CYBG Group

1. Overview

With over 175 years of history, CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, CYBG Group offers, through its strong local community brands Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services. Clydesdale Bank is also one of only a small number of banks in the world that issues banknotes.

CYBG Group's long established retail and SME franchises have significant scale and strong market shares in personal current accounts, business current accounts, SME business lending and mortgages in its core regions. As at 30 September 2015, CYBG Group had 2.8 million retail and business customers, with £26,349 million of customer deposits and a £28,783 million customer loan portfolio, of which £20,504 million were mortgage loans, £7,061 million were business lending and the remainder of the portfolio was comprised of unsecured personal lending (including credit cards and overdrafts).

CYBG Group has a standalone operating platform, with limited ongoing support required from NAB under a TSA until CYBG Group's planned separation is fully implemented. CYBG Group's operating platform supports its full service customer proposition and enables CYBG Group to provide services to customers through multiple distribution channels. As at 30 September 2015, these distribution channels included 275 retail branches (121 Clydesdale Bank-branded branches and 154 Yorkshire Bank-branded branches) and 40 business and private banking centres (including 28 centres integrated with retail branches), strong and well-established relationships with leading third-party mortgage intermediaries, a rapidly evolving digital platform (including proprietary website and mobile offerings as well as participation in third-party aggregator sites), access to certain banking services through the Post Office's over 11,800 branches, telephony and voice services, and an ATM network. CYBG Group's distribution platform continues to develop to allow Clydesdale Bank and Yorkshire Bank customers to complete their retail and SME banking needs across multiple distribution channels with an emphasis on digital and non-branch channel usage which reflects changing customer behaviour and preferences for omni-channel interactions.

Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened. The CYBG Directors believe that CYBG Group's balance sheet is now more resilient and strongly capitalised, which together with the capital protection provided by the Capped Indemnity package, provides a strong foundation to support CYBG Group's targeted future growth. Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring.

The Directors believe CYBG Group has the key strengths and capabilities to enable its experienced leadership team to execute the strategy as set forth herein.

2. History

CYBG Group has a long track record of serving the needs of customers in its core regions.

Set out below are key milestones in CYBG Group's development.

1838	**Clydesdale Bank founded in Glasgow, Scotland**
1859	**Yorkshire Bank founded in Halifax, West Yorkshire, England**
1877	**Clydesdale Bank establishes London presence**
1911	**Yorkshire Bank incorporates as The Yorkshire Penny Bank Limited**
1920	**Midland Bank buys Clydesdale Bank**
1987	**NAB acquires Clydesdale Bank**
1990	**NAB acquires Yorkshire Bank**
2001	**Clydesdale Bank and Yorkshire Bank's banking licences are merged pursuant to the National Australia Group Europe Act 2001, a UK Private Act of Parliament** – Following from this act, in 2004, Clydesdale Bank assumed all assets, rights, liabilities and obligations of Yorkshire Bank, with integration efforts resulting in a single brand-agnostic operating platform with two distinct marketing brands maintained in recognition of their strong regional presence.
2012	**Strategic review to simplify business and operating model conducted; commercial real estate ("CRE") book transferred to NAB** – Business restructured and positioned to capitalise on its strengths and focus on retail operations and SME business lending across core regions.
2013	**"We care about here" rebranding campaign and launch of mobile banking** – The brand re-launch reinforced CYBG Group's commitment to customer service
2014	**New concept branches, new service proposition and increased digital functionalities introduced**

2015 **First polymer banknotes in Great Britain issued by Clydesdale Bank**

2015 **CYBG Group's demerger announced and NAB announces intention to exit the UK retail banking market**

The Demerger involves the proposed restructure of NAB in conjunction with the Institutional Offer, as described in Section 4 of this Scheme Booklet. As a result of the Demerger and the Institutional Offer, CYBG Group will operate its business separately from NAB as a standalone bank (other than by virtue of certain limited services arrangements under the TSA described in Section 4.8.5 of this Scheme Booklet.

3. Strengths

The CYBG Directors believe that CYBG Group has the following key strengths:

- Long established franchise in its core regional and selected national markets
- Strong local community brands
- Standalone, scalable and full-service operating platform
- Profitable with a resilient and strongly capitalised balance sheet
- Experienced leadership team

3.1 Long established franchise in its core regional and selected national markets

CYBG Group operates from a strong, existing franchise position in its core regions with a track record of growth. As at 30 September 2015, CYBG Group had 2.6 million retail customers and 179,000 SME customers.

CYBG Group has strong market shares in its core regions, in particular:

- An estimated 9.1 per cent. share of the PCA market by balances in its core regions (compared to 3.1 per cent. in the UK) (*Source: CACI Market Share Data* as at 31 July 2015). As at 30 September 2015, CYBG Group had total PCA balances of £6,944 million;
- An estimated 3.8 per cent. share of the personal variable rate savings account and fixed rate term deposit market by balances in its core regions (compared to 1.3 per cent. in the UK) (*Source: CACI Market Share Data* as at July 2015). As at 30 September 2015, CYBG Group had total personal variable rate savings account balances of £6,013 million and total personal fixed rate term deposits of £4,519 million;
- An estimated 14 per cent. share of the BCA market by number of accounts in Scotland (*Source: CMA Review, Banking services to small and medium sized enterprises, July 2014*) (compared to 1.4 per cent. in the UK by balances as at 30 June 2015 (*Source: Bank of England data*)). As at 30 September 2015, CYBG Group had total BCA balances of £6,038 million;
- An estimated 8.1 per cent. share of the SME business lending market by balances in its core regions (compared to 3.6 per cent. in the UK) (*Source: BBA 1Q2015 SME lending, as at 31 March 2015*). As at 30 September 2015, CYBG Group had total SME business lending balances of £7,061 million; and
- An estimated 3.9 per cent. share of the mortgage market by balances in its core regions (compared to 1.6 per cent. in the UK), with total mortgage balances of £20,504 million (*Source: CML Market Share Information as at 30 September 2015*, with regional market share based on availability of regional loan data for 73 per cent. of the UK market).

3.1.1 Long established retail banking franchise position

CYBG Group has a strong existing retail banking franchise position across a range of products including PCAs (£6.9 billion), mortgages (£20.5 billion), personal variable rate savings accounts and personal fixed rate term deposits (£10.5 billion), personal loans (£0.8 billion) and credit cards (£0.4 billion), in each case as at 30 September 2015.

CYBG Group has demonstrated recent success in attracting new PCA customers following a period of sustained marketing activity with 88,511 new PCA accounts opened in the year ended 30 September 2015 (with 47,922 new PCA accounts opened in the six months ended 31 March 2015 and 40,589 opened in the six months ended 30 September 2015), an increase compared to 77,493 opened in the year ended 30 September 2014. (with 41,274 new PCA accounts opened in the six months ended 31 March 2014 and 36,219 opened in the six months ended 30 September 2015). Of the customers acquired during the year ended 30 September 2015, 81 per cent. were new to CYBG Group and 46 per cent. were aged between 26 and 45, consistent with CYBG Group's aim to acquire customers among younger, more affluent demographics with the potential for long-term sustainable relationships and higher income families with children.

CYBG Group delivers its retail banking services through an omni-channel distribution proposition, including branch, intermediary and digital channels.

Branch Network

In December 2014, CYBG Group had branches in seven out of the top ten retail sites in Great Britain (per Cushman & Wakefield Retail Centre Rankings). CYBG Group's branch network, together with its other distribution channels, provides an established platform from which to serve existing retail customers and pursue new customer acquisition opportunities.

As set out in the table below, CYBG Group customers use its branch and direct network (includes digital and telephony) more than the market average (*Source: GfK Financial Research Survey*) based on a survey of 26,837 adults interviewed.

Annexure G: Part Two
Information on CYBG Group

For the six months ended 30 September 2015	Clydesdale	Yorkshire	Market
	%	%	%
Branch only	46	50	33
Branch & direct	33	28	39
Direct only	21	22	28

CYBG Group is responding to customers' changing needs by redesigning its branch layouts and reorienting the traditional teller/customer interaction toward a more digital experience. CYBG Group has launched in-branch tablets that provide account information, which are being piloted with transaction execution capabilities and has introduced Wi-Fi in its branches. CYBG Group opened four new concept branches in 2014, which offer full interactive IT set ups alongside customer lounges. These branches allow customers to transact quickly or self-serve via ATMs and digital interactive media, such as iPad tablets.

In addition to digital innovations, CYBG Group has announced plans to further enhance and optimise its branch network. The plan includes extensive refurbishment projects in selected flagship and key branches in line with CYBG Group's overall distribution strategy. As part of these plans, CYBG Group has completed 24 branch closures for the period from 31 March 2015 to 30 September 2015.

Intermediary Mortgages Channel

CYBG Group has a proven track record of more than eleven years of originating mortgages through its third-party distribution channel of mortgage intermediaries. CYBG Group employs an "invitation only" approach to establishing and operating its mortgage intermediary panel in order to maintain the high quality of its intermediary relationships and customer service. CYBG Group also employs a team of experienced business development managers to manage its relationships with mortgage intermediaries. CYBG Group's relationships with its intermediaries allow for geographic diversification of its mortgage portfolio across the UK. By working with these intermediaries, CYBG Group has extended its national reach and diversified its mortgage portfolio to areas outside of its core regions, with 86 per cent. of intermediary gross stock balances outside of the core regions and 48 per cent. of its total mortgage book secured by property in the South of England as at 30 September 2015. CYBG Group has a national market share of approximately 3 per cent. of gross new intermediary mortgage lending (*Source: estimate based on 60 percent of market from CML Regulated Mortgage Survey for the year ended 30 September 2014*). As at 30 September 2015, approximately 59 per cent. of CYBG Group's mortgages by balances were secured by properties located outside its core regions, an increase from 49 per cent. as at 30 September 2012.

CYBG Group's mortgage lending through the intermediary channel has enabled it to grow its loan portfolio at above-market rates. Gross new intermediary mortgage lending has increased from £2.1 billion for the year ended 30 September 2012 to £3.6 billion for the year ended 30 September 2014 and £3.7 billion for the year ended 30 September 2015, representing a CAGR of 21.1 per cent., compared to a market CAGR of 13.0 per cent. over the same period for overall gross new lending. CYBG Group has established relationships with intermediaries, approximately 65 per cent. of whom it has conducted business with for more than four years. For the year ended 30 September 2015, 74.1 per cent. (or £3.7 billion) of CYBG Group's gross new mortgage lending was originated through intermediaries, compared to 18 per cent. for branch originations. These relationships have enabled CYBG Group to leverage its existing mortgage infrastructure, including risk management, at a low marginal cost of origination, to provide a cost-effective way of achieving mortgage portfolio growth and a greater geographical reach in line with CYBG Group's strategy.

In addition, as set out in the table below, the intermediary mortgage origination has provided a different demographic exposure compared to mortgages originated through the proprietary channels:

	As at 30 September 2015	
	Intermediary	Propriety (branch and private bank)
	(£)	
Average customer annual income	137,000	63,000
Average mortgage balance	287,000	194,000

As at 30 September 2015, only 1 per cent. of CYBG Group's mortgages had an indexed LTV ratio of more than 90 per cent., and the average indexed LTV of CYBG Group's mortgage portfolio was 55.3 per cent.

Digital

CYBG Group's digital platform is rapidly evolving with development in recent years focused on bringing CYBG Group's capabilities closer to parity with peers.

CYBG Group offers online and mobile banking to its customers, and they are the two fastest growing distribution channels for CYBG Group. In September 2015, CYBG Group launched full online PCA account opening capability for customers. CYBG Group has minimised the number of options to be completed alongside auto population of data, increasing the speed with which a customer can open and access the account.

In the year ended 30 September 2015, CYBG Group had 689,000 retail internet banking registrations and 284,000 new mobile banking registrations. In that year, CYBG Group also had approximately 14,000 business online users and approximately 47,000 business internet banking registered users. During September 2015, over 6.5 million mobile banking customers logged in. CYBG Group has increased retail sales through digital channels, with approximately 41.5 per cent. of total gross new lending for personal loans originated through digital channels in the year ended 30 September 2015. Personal lending through the digital channel is supported by the web-based personal loan platform which provides CYBG Group with greater access to national markets.

In addition to direct digital channels, CYBG Group has increased the use of aggregator channels with loans, mortgages, credit cards, PCAs and BCAs for both Clydesdale Bank and Yorkshire Bank brands marketed through 21 external websites as at 30 September 2015, which facilitate price comparisons and increase national visibility. CYBG Group was named "Best First Time Buyer provider" in 2014 and 2015 for mortgages by online aggregator Moneyfacts and achieved Moneyfacts outstanding status for five year fixed rate mortgages and its two year fixed rate mortgage offer. Additionally, Yorkshire Bank won the 2014 Your Mortgage Award for "Best Regional Lender."

CYBG Group expects to roll out a video conference capability in branch, which together with an assisted webchat function at home, will increase its use of co-browsing and screen-share technology. CYBG Group has also integrated social media usage into its assisted digital capabilities, further facilitating out of branch interaction with customers.

3.1.2 Strong existing SME franchise position

CYBG Group provides its SME customers with a full range of products and services across an £8.8 billion business deposit portfolio as at 30 September 2015, which consists of BCAs (£6.0 billion), variable rate savings accounts (£1.8 billion) and fixed rate term deposits (£1.0 billion). CYBG Group also provides its SME customers with a range of lending products and services across a £7.1 billion portfolio as at 30 September 2015, which consists of term lending (£5.1 billion), overdrafts (£1.2 billion) and working capital solutions (including invoice, trade and asset finance products, £0.8 billion), with an average deposit balance of £42,000. In addition, CYBG Group offers its business banking products and services to larger corporate businesses where it has the sector expertise, experience or relationships to do so competitively. For the period from 31 December 2014 to 30 September 2015, CYBG Group increased its rate of recruitment of small business new BCA accounts from 2,161 BCA accounts opened in the three months ended 31 December 2014 to 4,311 opened in the three months ended 30 September 2015. As at 30 September 2015, 54 per cent. of CYBG Group's business customers had been business customers with CYBG Group for more than ten years.

CYBG Group's private banking proposition is complementary to the business banking franchise. It is a fee based service targeted at higher net worth customers, in particular business owners and professionals, providing tailored solutions to meet their financial requirements. As at 30 September 2015, new to bank private banking customers had an approximate average mortgage balance of £318,600 and an approximate average deposit balance of £84,400 as compared to £121,900 and £5,700, respectively for new to bank retail customers (excluding intermediary). CYBG Group delivers its business and private banking services through a relationship management proposition that provides customers with access to a personal relationship manager and specialist advisers as needed.

CYBG Group offers a differentiated SME proposition through dedicated relationship managers supported by product and sector specialists. As at 30 September 2015, CYBG Group had 325 business and commercial banking relationship managers with an average of 11 years of experience with CYBG Group and 97 private banking relationship managers with an average of 19 years of experience. This customer-focused approach includes access to sector and product specialists. The sector specialism is delivered through 177 specialist and acquisition finance staff (including 69 relationship managers plus associate directors, growth finance, origination directors, NBS advisers and management) and 70 sector specialists (including 50 agriculture relationship managers plus 12 other sector specialists and 8 CRE specialists), combining sector expertise with specialist business knowledge to deliver solutions to meet customer needs. The product specialists consist of an additional 183 working capital staff (including asset finance (46), invoice finance (69) and other (including payments and treasury solutions, 68)). CYBG Group has also created an emerging technology unit which targets high growth early stage technology companies backed by business angel syndicates, venture capitalists and private equity funds.

Clydesdale Bank holds the third largest share of BCAs in Scotland (*Source: CMA Review: Banking services to small and medium sized enterprises, October 2015*). CYBG Group offers full business and private banking services at its business and private banking centres. As at 30 September 2015, CYBG Group operated 40 business and private banking centres, including 28 that are co-located with retail branches and 4 regional customer service hubs, restructured from 72 business and private banking centres as at 30 September 2012. CYBG Group's refocused business and private banking centres are an important means of delivering its relationship-management based service to business and private banking customers. The CYBG Directors believe that the ability to bank at a branch or other location with personal contact is an important factor for SME customers in selecting where and how they bank, with 31 per cent. of SME customers in Northern England and 30 per cent. of SME customers in Scotland conducting business at a branch at least once a week (*Source: YouGov SME Banking 2014 Data*). The CYBG Directors believe that integrated business, private banking and retail centres provide an opportunity to meet a broader range of customers' needs, improve operational efficiencies as well as enhance community visibility, staff engagement, and customer service continuity.

Annexure G: Part Two
Information on CYBG Group

As at 30 September 2015, CYBG Group served approximately 51,000 business customers through the Business Direct channel. CYBG Group's Business Direct proposition is relationship banking for small business customers delivered through 79 centrally based, experienced, relationship managers via telephone that have access to a complementary digital platform enabling an integrated approach to banking. The customer to relationship manager ratio, based on lending customers and analysed by level of customer exposures, was approximately 500 customers per relationship manager for customers with lending of more than £50,000 and approximately 650 customers per relationship manager for customers with lending of less than £50,000 as at 30 September 2015.

CYBG Group's customer relationships and stable business deposit franchise support a balanced SME lending book across a variety of sectors. Within the SME loan portfolio, the only industry sector as at 30 September 2015 that represented more than 12 per cent. of total customer loans was the £1.7 billion exposure to the agriculture (soft commodities) sector, in which CYBG Group has a lending history of over 100 years. The agriculture portfolio is balanced and diversified across the following sectors as at 30 September 2015: beef or sheep (26 per cent. of the total), arable (27 per cent.), dairy (21 per cent.), agricultural services (13 per cent.) and other (13 per cent.), comprised of poultry, pig farming, forestry and fishing and horticulture and fruit growing. In addition to a long-established agricultural presence, CYBG Group's existing capabilities and other areas of expertise enable it to identify and target underserved sub-sectors.

CYBG Group operates its business and private banking businesses on an integrated basis. As at 31 March 2015, CYBG Group's private banking customer base was comprised of business owners (with a stake of 25 per cent. or more in a business) or senior management (together 52 per cent. of the total), professionals with incomes of between £75,000 and £200,000 per annum (26 per cent.) and retirees with assets in excess of £100,000 (22 per cent.). Private banking customers also have access to the full suite of CYBG Group's retail banking products and services, and tend to hold a higher number of CYBG Group products per customer. As at 30 September 2015, 47 per cent. of CYBG Group's customers with a private banking current account held three or more CYBG Group products and 35 per cent. held two products, whereas 17 per cent. of total current account customers held three or more other CYBG Group products and 32 per cent. held two products.

3.2 Strong local community brands

CYBG Group benefits from a strong reputation built on its established and trusted brands, Clydesdale Bank and Yorkshire Bank, which are well-regarded in its core regions with proven national reach. According to an internal brand tracker survey, the top three attributes associated with Clydesdale Bank and Yorkshire Bank by customers were stability (selected by 87 per cent. of those surveyed), trust (selected by 86 per cent. of those surveyed), and reputation (selected by 81 per cent. of those surveyed) (*Source: Clydesdale internal brand tracker survey, August 2015*).

In May 2013, Clydesdale re-launched the Clydesdale Bank and Yorkshire Bank brands, internally and externally. Built on customer responses to what a great bank should be, this re-launch followed significant work to establish and promote the core values and principles that underpin CYBG Group's brand statement, "We Care About Here".

"We Care About Here" brand positioning is founded on five key principles:

- Get the basics right - first time, every time;
- Listen, understand, respond;
- Be accountable - to customers and each other;
- Treat customers' time as more important than your own; and
- Know your neighbourhood.

Designed to stretch across both the retail and SME franchises as well as beyond its core regions, the brand re-launch was supported with a high-profile marketing campaign including television, outdoor, press and branch advertising. Overall, CYBG Group increased marketing and advertising expenditure from £14 million in the year ended 30 September 2012 to £19 million in the year ended 30 September 2013, £22 million in the year ended 30 September 2014 and £33 million in the year ended 30 September 2015.

The CYBG Directors believe that the re-launch of the Clydesdale Bank and Yorkshire Bank brands and associated advertising and marketing campaigns have strengthened the brands and increased consumer awareness, providing a strong platform from which to launch new products both in its core regions and nationally. Since the brand re-launch, CYBG Group has seen branch interview satisfaction increase from 95.2 per cent. as at 30 September 2013 to 95.6 per cent. as at 30 September 2014 and 96.8 per cent. as at 31 August 2015, as well as an increase in the likelihood of customers recommending CYBG Group from 30.9 per cent. to 42.2 per cent. and 58.4 per cent. respectively, for the same period (*Source: Gusto CEA reports*).

CYBG Group has revitalised and refreshed its brands to focus on delivering fair outcomes and quality service to customers. According to the March 2015 uSwitch annual customer survey results, Clydesdale Bank was ranked number one for best branch customer service (77 per cent.), number two in online service (78 per cent), number two for best customer service overall (66 per cent) and number two in overall customer satisfaction (72 per cent). The uSwitch annual survey also included Bank of Scotland, Barclays, Co-Op, First Direct, Halifax, HSBC, Lloyds, Nationwide, NatWest, RBS, Santander and TSB. For the year ended 30 September 2015, CYBG Group saw a 19 per cent. reduction in customer complaints (excluding PPI complaints), compared to the year ended 30 September 2014, with 78,020 customer complaints down from 96,335 customer complaints in the prior year.

For reportable banking complaints per 1,000 customers CYBG had 2.6 for the six months ended 30 September 2015, compared to a peer average of 2.7 for the six months ended 30 June 2015.

CYBG Group also has a deep rooted track record of supporting the communities in which it operates; please see paragraph 12: "*Community Outreach and Charitable Giving*".

3.3 Standalone, scalable and full-service operating platform

CYBG Group employs a standalone core banking platform with a demonstrated track record of systems resilience. After the Demerger, a limited level of ongoing support will be required from NAB for certain enterprise dependencies pursuant to TSA agreements until CYBG Group's planned separation is fully implemented. For more information on the TSA arrangements, please see paragraph 9: "Relationship with NAB". All key decision-making is the responsibility of CYBG Group management.

CYBG Group's operating systems are resilient and provide a platform for customer and balance sheet growth. The CYBG Directors believe that CYBG Group's key IT systems and services can be scaled to process double their existing transaction volumes without incurring material additional costs. CYBG Group uses selected outsourcing arrangements with reliable and industry-leading third-party suppliers to maintain flexibility in its cost base and facilitate scalability. However, CYBG Group does not outsource any of its core banking or payment systems.

CYBG Group's established operating platform enables it to provide new products and services, along with increased business volumes, at what the CYBG Directors believe are relatively low marginal costs. CYBG Group is also able to launch new products and services quickly through its existing distribution network, leveraging opportunities within customer facing services and across the core banking platform.

The net incremental costs of operating as a standalone entity after the Demerger are estimated to be £15 million to £25 million per annum.

3.4 Profitable with a resilient and strongly capitalised balance sheet

Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened. CYBG Group has reshaped its loan book through the transfer in 2012 of a legacy CRE portfolio to NAB, which together with strong growth in mortgages, has increased the percentage of its overall loan book comprised of low risk retail secured lending. CYBG Group's asset quality has been restored with both a decreasing non-performing loans ratio (defined as the ratio of loans that are more than 90 days past due plus gross impaired assets as a percentage of total customer loans) and impairment charge to average customer loans ratio. Overall levels of capital have been strengthened, with a CET 1 ratio of 13.2 per cent. and leverage ratio of 7.1 per cent, both as at 30 September 2015. CYBG Group's leverage ratio is among the highest of larger UK Banks. CYBG Group continues to maintain a diversified funding portfolio, seeking to optimise its deposit mix, with growth in current account and savings account balances driving a reduction in overall funding costs.

Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring. CYBG Group's return on tangible equity on the Management Basis has increased to 5.1 per cent. for the year ended 30 September 2015 from 0.5 per cent. in the year ended 30 September 2012.

3.4.1 Robustly capitalised in Basel III environment

The CYBG Directors believe that CYBG Group's high quality capital levels are robust, as CYBG Group continues to navigate the capital management measures stemming from the implementation of Basel III. The CYBG Directors believe that CYBG Group's capital base, together with organic capital generation, supports CYBG Group's medium term growth plans. As at 30 September 2015:

- CYBG Group's Common Equity Tier 1 Ratio was 13.2 per cent.;
- CYBG Group's Additional Tier 1 Ratio was 2.5 per cent.;
- CYBG Group's Tier 2 Ratio was 3.2 per cent.; and
- CYBG Group's Leverage Ratio was 7.1 per cent.

CYBG Group's Common Equity Tier 1 Ratio as at 30 September 2015 is comprised solely of common equity and retained earnings and other reserves and can fully absorb losses on a going concern basis. As at 30 September 2015, all of CYBG Group's Tier 1 and Tier 2 capital instruments were held by NAB.

The CYBG Directors believe that the capital position of CYBG Group is sufficient to meet known regulatory expectations over the medium term. The CYBG Directors are targeting to maintain CYBG Group's CET 1 ratio in the range of 12.0 per cent. to 13.0 per cent.

3.4.2 Prudent risk appetite coupled with strong asset quality

CYBG Group manages its loan portfolios using robust underwriting processes supported by staff with sector and product experience, as well as by implementing risk appetite limits. The CYBG Directors believe that CYBG Group has a high quality loan book due to its high credit quality and the portfolio's overall diversification, with the portfolio comprised of 75 per cent. retail and 25 per cent. business lending as at 30 September 2015. The performance of the loan book has also benefited from ongoing risk management actions and a favourable macroeconomic climate in the UK. This is evidenced by the ratio of gross impaired assets to customer loans, which decreased from 1.35 per cent. as at 30 September 2014 to 0.91 per cent. as at 30 September 2015. CYBG Group also engaged a third party to conduct an Asset Quality Review during 2015, the results of which reaffirmed the strength of the credit risk management framework and the adequacy of provisions for bad and doubtful debts.

The CYBG Directors believe that the high quality of CYBG Group's mortgage portfolio is demonstrated by the ratio of impaired mortgage loans to gross mortgage loans, which was 0.35 per cent. as at 30 September 2014, and which improved to 0.32 per cent. as at 30 September 2015.

The CYBG Directors believe that the customer loan portfolio of £28,783 million as at 30 September 2015 is diversified; as at 30 September 2015, mortgage lending comprised 71.2 per cent. of the total loan book, business lending comprised 24.5 per cent. and unsecured personal lending comprised 4.2 per cent.

CYBG Group's mortgage loan book is also geographically diversified between its core regions, the South of England and the rest of the UK market, with 48.0 per cent. of the total book in the South of England, 24.0 per cent. in Northern England, 17.0 per cent. in Scotland, 7.0 per cent. in the Midlands and 4.0 per cent. in other UK regions as at 30 September 2015.

Credit risk associated with the business lending portfolio also has improved following the transfer of the majority of the legacy CRE portfolio to NAB in 2012, management actions to reduce exposures to higher risk sectors (such as hospitality and construction), sustained low interest rates, improving macro-economic conditions and customer deleveraging. As a result of changes to CYBG Group's risk appetite, the level of "single name" exposure risk also has reduced. This improvement in business lending asset quality is evidenced by the impairment charge to business lending ratio, which decreased from 1.41 per cent. for the year ended 31 December 2012 to 0.62 per cent. for the year ended 30 September 2014 and 0.37 per cent. for the year ended 30 September 2015. The ratio of impaired business loans to gross business loans also has improved, from 3.90 per cent. as at 30 September 2014 to 2.79 per cent. as at 30 September 2015.

3.4.3 Stable and low cost funding platform

As at 30 September 2015, customer deposits of £26,349 million accounted for 83.6 per cent. of CYBG Group's funding base (defined as customer deposits, bonds and notes, amounts due to related entities and amounts due to other banks). PCA balances represented 26.4 per cent. of total customer deposits and 39.7 per cent. of retail customer deposits as at 30 September 2015. As at 30 September 2015, 78 per cent. of customers with PCAs had a tenure with CYBG Group of ten years or more. The loyal retail banking customer base, alongside stable customer deposit balances, provides low cost funding to support CYBG Group's asset growth.

CYBG Group has managed its funding to reduce its reliance on short-term wholesale funding, which can be volatile as to interest rates and availability. CYBG Group has improved its funding position in recent years by replacing a significant volume of short-term wholesale funding with stable and low-cost retail funding as well as secured term wholesale funding. As at 30 September 2015, in addition to customer deposits, the split of wholesale funding sources comprised RMBS and covered bonds of £3.7 billion and amounts due to related entities of £1.0 billion. The loan-to-deposit ratio was 115 per cent. as at 30 September 2014 and 109 per cent. as at 30 September 2015. By significantly increasing its volumes of non-interest bearing or low interest bearing current account deposits and lower cost variable rate savings account deposits, CYBG Group has improved its deposit mix and reduced its reliance on higher-cost term deposits. The overall impact has been to reduce the average cost of deposits from 1.34 per cent. for the year ended 30 September 2012 to 0.90 per cent. for the year ended 30 September 2014 and 0.78 per cent. for the year ended 30 September 2015.

CYBG Group has also actively diversified its funding mix and reduced the utilisation of funding from NAB through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding through these programmes in terms of the type of instrument and product, maturity, currency, counterparty, term structure and market. As at 30 September 2015, CYBG Group had £3,714 million (excluding accrued interest) of outstanding RMBS and covered bonds held by third parties with maturities ranging from August 2016 to June 2026. The CYBG Directors believe that CYBG Group's demonstrated track record of access to the secured funding markets through these programmes provides CYBG Group with an important source of stable term funding.

CYBG Group plans to continue to manage the overall composition of its funding in terms of the mix of retail and wholesale funding, the mix of on-demand and term deposits, and the overall stability of funding, in order to effectively manage risk and return. The CYBG Directors believe that CYBG Group's current funding mix, strong base of predominantly low-cost customer deposits, proven access to wholesale secured funding and limited utilisation of short-term funding, provides a stable source of funding for the growth of its business. The CYBG Directors are targeting to maintain the loan-to-deposit ratio at a level of up to 115 per cent. over the period up to financial year 2020.

3.5 Experienced leadership team

CYBG Group's executive and senior management team is comprised of team members with a combination of experiences at executive level positions with established public and private institutions. David Duffy joined CYBG Group as Chief Executive Officer on 5 June 2015 from his position as chief executive of Allied Irish Banks, where he successfully steered the bank back to profitability following nationalisation and losses during the financial crisis.

The Executive CYBG Directors have an average of 25 years of industry experience while the Senior Managers have an average of approximately 10 years of experience with NAB and/or CYBG Group, resulting in deep institutional knowledge complemented by broad industry experience. The CYBG Directors believe CYBG Group's executive and senior management team has the skills, knowledge and expertise to lead CYBG Group in the future execution of its strategy.

CYBG Group also benefits from eight experienced independent Non-Executive CYBG Directors, all of whom also sit on board committees. These Non-Executive CYBG Directors contribute to the diverse capabilities of the CYBG Board with experience across multiple customer service oriented industries.

CYBG Group's employee base has a high level of experienced staff; as at 30 September 2015, 74 per cent. of retail staff members had been with CYBG Group for longer than five years. An engaged and motivated employee base further underpins successful execution of the strategy; see paragraph 4: "*Strategy Execution Enablers*" and paragraph 7.1: "*Employees*".

As of 30 September 2015, 99 per cent. of CYBG Group's employees have completed the Chartered Banker Professional Standards Board Foundation module. CYBG Group launched a new comprehensive learning platform for all employees on 1 October 2015.

4. Strategy

Overview

The CYBG Directors' goal is for CYBG Group to be a customer-centric franchise that proactively responds to changes in its customers' needs, builds long-standing customer relationships and delivers enhanced shareholder returns.

The CYBG Directors have four clear strategic aims for CYBG Group:

- Leverage its capabilities in existing core regions
- Continue its successful national growth strategy focusing on selected products and sectors where it has a strong history and established capabilities
- Deliver a consistently superior experience to customers underpinned by its local community brands and a customer driven omni-channel strategy
- Deliver enhanced shareholder returns

CYBG Group's business plan is based on the goals, strategic aims and priorities of CYBG Group going forward, and has been prepared employing a number of assumptions that have been referenced to both internal and external data sources. These assumptions include assumptions with respect to the outlook for interest rates and the broader macro-economic environment (in each case as set forth below) and expectations as to the competitive environment (as disclosed in the Industry Overview), taking into account the current regulatory environment (as described in Part 7 of Annexure G: "*Supervision and Regulation*").

With reference to both internal and external data sources, CYBG Group's business plan assumes (i) sustainable GDP growth in the UK, (ii) both inflation and the unemployment rate in the UK remaining low and (iii) measured increases in UK base rates from current levels, with such increases expected to start in 2016. With respect to the macroeconomic environment, the UK economy has in recent years experienced growth in real GDP, reductions in unemployment levels, increases in house prices and increases in consumer confidence, with SME lending showing signs of moving out of a deleveraging phase. In the context of ongoing uncertainties in Europe and Asia, the UK currently enjoys a positive outlook for continued growth in real GDP. The interest rate assumptions are a key sensitivity for the forecast net interest income in the business plan and, therefore, future profitability.

Based on this business plan, the CYBG Directors are targeting a double digit ROTE within the period up to financial year 2020 following a period of expected increased investment in 2015 and 2016. To support its strategic aims and priorities, CYBG Group has targeted total investment spend (comprised of both capital and operating expenditure) for financial years 2015 and 2016 of approximately £300 million, with 50 per cent. distributed across system resilience (e.g. technology investments to maintain reliable customer service within risk appetite) and mandatory and regulatory projects and the other 50 per cent. distributed across customer investment and separation initiatives. This is as compared to financial years 2013 and 2014 in which CYBG Group had a total investment spend of £219 million, with £90 million allocated to resilience projects, £66 million for customer investment and £63 million for mandatory and regulatory costs.

The CYBG Directors are also targeting the delivery of a positive jaws ratio (defined as the difference in the growth rates of income and costs, respectively) annually, other than in the year ending 30 September 2016, after allowing for the impact of increased investment on cost growth. Meeting the positive jaws ratio target over the five year period should drive the cost-to-income ratio to below 60 per cent.

In the near term, as CYBG Group seeks to grow its earnings and balance sheet, the CYBG Directors will have particular regard to the need to invest in the franchise as a driver for future growth and the need to preserve capital to support the business. Taking this into account and subject to regulatory requirements, it is the CYBG Directors' current intention that CYBG Group's inaugural dividend on the Shares would be in respect of the financial year ending 30 September 2017 and reflect only a modest percentage of CYBG Group's earnings. The CYBG Directors intend to review on an ongoing basis the expected timing and quantum of any dividend payments in the context of progress on the delivery of CYBG Group's strategy and the broader operating environment. The CYBG Directors believe that CYBG Group will, in time, be able to support a dividend distribution of up to approximately 50 per cent. of earnings (after paying Additional Tier 1 distributions).

The CYBG Directors believe there is a reasonable basis for the business plan and targets with their overall delivery, across its strategic priorities, being dynamic relative to changes in the macroeconomic and competitive environment. The plan and targets do, however, involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual future results and performance or achievements of CYBG Group to be materially different than those set forth herein. The business plan and targets are based on numerous assumptions regarding present and future business strategies, an assessment of present economic and operating conditions and the environment in which CYBG Group will operate in the future, which may prove to be incorrect. Important factors that could cause actual results and performance to differ materially from those set forth in the business plan and targets include, among others, the risk factors described in the Part 1 of Annexure G: "*CYBG Risk Factors*", and other unknown risks and uncertainties.

The assumptions with respect to interest rates and key macroeconomic factors used in preparing CYBG Group's business plan are set out below:

	For the year ended 30 September					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Real GDP Growth	2.30%	2.20%	2.30%	2.30%	2.30%	2.30%
Consumer Price Index	0.50%	1.40%	2.00%	2.10%	2.20%	2.20%
Unemployment Rate	5.60%	5.30%	5.20%	5.10%	4.90%	4.90%
Interest Rates:						
BoE Base Rate (Average)	0.50%	0.73%	1.10%	1.38%	1.50%	1.58%
3 Month Libor (Average)	-	0.97%	1.44%	1.73%	1.77%	1.84%
Forward 2 Year Swap Rate	-	1.34%	1.64%	1.75%	1.81%	1.90%
Forward 5 Year Swap Rate	-	1.57%	1.74%	1.83%	1.89%	1.97%

The macroeconomic assumptions set out above have been developed by internal economists using their own macro-economic modelling, with reference made to a consensus of external forecasts for the broader macro-economic assumptions. The interest rate assumptions set out above have been developed with reference to forward market rates.

CYBG Group continues to focus on the momentum and growth resulting from positive dynamics such as its loyal customer base, motivated, engaged staff and solid financial fundamentals. However, the CYBG Directors have also identified areas that require improvement and change to evolve away from the subsidiary mentality, simplify internal governance and processes, streamline operations and significantly enhance productivity. CYBG Group's near term priorities underpinning this strategy include identifying and enhancing or engaging internal talent, rigorous management of the operating costs of CYBG Group and its investment expenditure, delivery of its digital enablement initiatives and continued focus on enabling customer franchise growth.

4.1 Grow the customer franchises by leveraging capabilities in existing core regional markets and continue its successful national growth strategy

The CYBG Directors aim to leverage CYBG Group's retail and SME banking capabilities and customer base to grow the customer franchise by investing in propositions in target segments and geographies. According to September 2015 branch catchment data, CYBG Group had a potential customer population of approximately 18 million within a ten minute drive of a Clydesdale Bank or Yorkshire Bank branch (*Source:* Experian Branch Catchments).

In retail banking, CYBG Group seeks to acquire new customers, with an emphasis on younger, more affluent demographics with the potential for long-term sustainable relationships through its PCA propositions. By continuing to grow the PCA customer base, CYBG Group seeks to also grow customer deposits in order to maintain its overall loan to deposit ratio. During the year ended 30 September 2015, CYBG Group opened 88,511 new PCA accounts, compared to 77,493 new accounts during the year ended 30 September 2014.

CYBG Group also aims to continue to grow nationally in mortgages through the intermediary and proprietary channels as well as in the unsecured loan portfolio by deepening relationships with existing customers and establishing relationships with new customers, in each case consistent with a prudent risk appetite. CYBG Group's lending strategy includes a focus on higher return products and sectors where CYBG Group has a strong track record and expertise. The CYBG Directors also intend to increase the proportion of gross new business lending to new-to-bank customers to a level above the current level of 33 per cent. of total gross new business lending for the year ended 30 September 2015.

The CYBG Directors are targeting, through the delivery of CYBG Group's strategic priorities described below, an increase in CYBG Group's total retail lending book of between 40 per cent. and 50 per cent. in aggregate within the period up to financial year 2020. This target is based on the assumptions as to interest rates and the broader macro-economic environment specified above, and expectations as to customer demand and the competitive environment (as described in the Industry Overview, taking into account the current regulatory environment (as described in Part 7 of Annexure G: "*Supervision and Regulation*")).

Within the SME business, CYBG Group seeks to drive lending growth by leveraging sector led propositions in selected products and sectors with established capabilities (while executing the run-off of low yielding assets) and acquiring new small business customers and deposits through a customer-driven omni-channel strategy.

4.1.1 Retail banking – focus on growth in core competencies

Continue to grow PCA customer base and deposit franchise

CYBG Group plans to continue to grow its PCA customer base in both its core regions and nationally, targeting an increase in market share of PCA flow while maintaining its overall loan to deposit ratio. As at 30 September 2015, CYBG Group had 1.8 million PCA customers.

CYBG Group has seen a significant increase in the average deposit balance per retail customer, from £2,700 for each of PCA and variable rate savings accounts as at 30 September 2012 to £3,500 and £3,600 for PCA balances and £4,200 and £4,700 for savings account balances per customer as at 30 September 2014 and 30 September 2015, respectively.

In order to support the development of sustainable, multi-product customer relationships, CYBG Group aims to deliver a customer experience that makes CYBG Group the first choice for a customer to operate their main bank account. As at 30 September 2015, 60 per cent. of Yorkshire Bank main current account customers and 64 per cent. of Clydesdale Bank main current account customers held a PCA only, 31 per cent. and 24 per cent. respectively held one additional product and 9 per cent. and 12 per cent. held two or more additional products. This compares to a market average of 45 per cent. with only a PCA with the customer's main current account provider, 33 per cent. with one additional product and 22 per cent. with two or more additional products as at 30 September 2015. (*Source: GfK Financial Research Survey*). Due to the nature of the PCA product and the relationship developed with customers, the CYBG Directors believe that growth in this area would provide valuable opportunities to meet customers' needs for other banking products with a particular focus on unsecured lending and savings and mortgage products.

CYBG Group's customer segmentation is currently weighted toward older or less affluent customers (representing 77 per cent. of CYBG Group's total customers as at 30 September 2015) compared to 69 per cent. for the market as a whole (*Source: Experian data*). CYBG Group has identified key customer demographics in which it is under-weight, targeting growth across younger and more affluent customers, which account for 23 per cent. of retail customers (compared to 31 per cent. for the market as a whole). Based on Experian data, these more attractive customer demographics present a significant revenue opportunity as they tend to have higher average product holdings, higher unsecured personal lending balances and higher digital channel usage.

CYBG Group has also introduced product offerings specifically targeted at increasing the number of PCA customers outside of its core regions, including the Current Account Direct product, which offers customers higher interest rates on balances up to £3,000 and received the 2014 Moneynet Personal Finance Award for best new current account. CYBG Group also launched full online PCA account opening capability on its website in September 2015. The CYBG Directors intend to further increase CYBG Group's retail customer base nationally through continued development of its digital distribution capability. Digital distribution will be supported by access to agent-assisted channels providing personal interaction as required by customers seeking support for advice or service requirements.

4.1.2 Continue to grow mortgage book

CYBG Group is targeting growth across the mortgage loan portfolio and an increase in national market share, including managed growth in buy-to-let mortgage lending. CYBG Group plans to deliver this growth with prudent risk controls in place, primarily via a quality intermediary platform with an established track record of growth, alongside a mix of proprietary channels.

CYBG Group has a strong track record of delivering growth in its mortgage book outside of its core regions, increasing diversification from 49 per cent. of gross mortgage balances located outside the core regions as at 30 September 2012 to 59 per cent. as at 30 September 2015. This more balanced geographical exposure was achieved primarily through growth of mortgages originated through the intermediary channel, which increased from 35 per cent. of CYBG Group's gross mortgage balances as at 30 September 2012 to 53.2 per cent. as at 30 September 2015. As part of its mortgage growth strategy, CYBG Group also aims to maintain a balanced portfolio mix by competitively pricing lower LTV owner-occupied products, while continuing to be competitive in higher LTV owner-occupied products.

The CYBG Directors believe that the intermediary mortgage market represents a source of continuing growth given that it represents over half of gross new mortgage lending across the UK marketplace (approximately 67.0 per cent. of regulated gross new mortgage lending excluding further advances was written by intermediaries for the six months ended 31 March 2015 (*Source: CML data*)). In the year ended 30 September 2015, CYBG Group had a 2.4 per cent. national market share of gross new mortgage lending, and a 4.1 per cent. market share in the three months ended 30 June 2015 in its core regions (with regional market share based on availability of regional loan data for 73 per cent. of the UK market). CYBG Group intends to continue to operate a business development management model with the intermediaries with whom it works in order to drive higher quality and higher value mortgage origination. CYBG Group will also seek to deepen its existing relationships with intermediaries and selectively expand the invitation only panel of intermediaries with whom it works.

In addition to targeted growth in gross new mortgage lending, CYBG Group is running off its low yielding tracker rate mortgage book. In 2008, CYBG Group ceased sales of tracker rate mortgages and the balance of the portfolio has decreased since then. As at 30 September 2015, this tracker rate mortgage portfolio consisted of approximately £2,625 million of mortgages. The run-off of the book is dependent upon customer behaviour, and the book is not expected to fully amortise significantly ahead of its contractual maturity profile in the medium term.

The CYBG Directors are targeting to grow CYBG Group's market share of mortgage stock from 1.6 per cent. as at 30 September 2015, with a targeted increase in aggregate mortgage balances of 40 per cent. to 50 per cent. within the five year period following UK Admission. This target was developed with reference to CYBG Group's historic mortgage growth record (representing a CAGR of approximately 10 per cent. over the period from 30 September 2012 to 30 September 2015) but is otherwise based on the assumptions as to interest rates and the broader macro-economic environment specified above, and expectations as to the competitive environment (as described in the Industry Overview), taking into account the current regulatory environment (as described in Part 7 of Annexure G: "*Supervision and Regulation*").

4.1.3 Grow the SME franchise

CYBG Group aims to deepen its relationships with existing SME customers, grow its BCA customer base, and develop its business lending in selected products and sectors.

CYBG Group continues to target the acquisition of small business customers through digital and direct channels, including marketing campaigns specifically aimed at these customer segments, such as its business current account free day-to-day banking offer. Since December 2014, CYBG Group has seen strong new BCA growth principally for new small business customers, growing from 625 accounts opened in that month to 1,458 accounts opened in September 2015. CYBG Group aims to further develop small business relationships, where CYBG Group has historically been underweight relative to peers. CYBG Group's average revenues per small business customer are 64 per cent. below the peer average, its lending products per small business customer ratio is 62 per cent. below the peer average and its small business cross sale penetration ratio is currently 16 per cent. below the peer average (*Source: Finalta Small Business Benchmarking Survey, 2014*). CYBG Group believes this presents an opportunity to leverage its existing relationships and product offerings to capitalise on the growth opportunities within the small business segment, providing the opportunity to begin a long term relationship with the business as it grows.

The origination of business lending to new SME businesses is a key area of focus, alongside digital and direct channels. CYBG Group's lending strategy includes a focus on higher return products and sectors where CYBG Group has a strong track record and expertise, including agriculture, health, hospitality, transport and storage, manufacturing, finance and CRE. The CYBG Directors also intend to increase the proportion of gross new business lending to new-to-bank customers to a level above the current level of 33 per cent. of total gross new business lending (for the year ended 30 September 2015).

The CYBG Directors intend to attract new SME customers by deploying CYBG Group's relationship management proposition supported by specialist sector knowledge and expertise in a number of targeted growth sectors and segments that they believe are underserved by existing providers. CYBG Group seeks to leverage its industry knowledge including by providing development funding to target growth across attractive sectors, for example by using a cash-flow based lending approach which supports asset-light sectors. The penetration of under-served opportunities will be managed within CYBG Group's risk appetite.

As part of this, CYBG Group has executed a managed and controlled re-entry into the CRE market by launching a centralised and specialised CRE capability, led by experienced specialists with deep sector knowledge, to facilitate a strategic re-entry into this sector with targeted lending to good quality, higher margin CRE developments and investments.

Underpinning CYBG Group's approach is the focus on understanding the customer's business and associated financing needs, and ensuring that its banking products fulfil customer requirements. Through the provision of a full suite of banking products, CYBG Group seeks to meet the working capital and longer-term funding requirements of its customers, as well as their cash management and payment services needs.

CYBG Group increased new-to-bank gross SME lending facilities accepted and available to customers from £483 million in the year ended 30 September 2014 to £636 million in the year ended 30 September 2015. In the short term, however, the CYBG Directors expect CYBG Group's total SME lending balance to decline moderately as low yielding assets run-off. As at 30 September 2015, the SME lending book consisted of approximately £1.1 billion of low yielding business loans out of a total business lending portfolio of £7.1 billion. The low yielding portfolio run-off is aligned with facility contractual end dates and in accordance with conduct best practice guidelines. CYBG Group expects to have largely exited legacy low yielding loans by 2017, with the remainder fully run-off by 2019.

CYBG Group has actively managed attrition of its SME lending book to improve risk quality and improve overall yields. The following table sets out the composition of CYBG Group's business lending portfolio by core lending, legacy CRE lending and identified run-off.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		(£bn)		
Core lending	6.0	6.2	9.0	10.8
Legacy CRE portfolio(1)	-	-	-	5.7
2014 Identified run-off lending	1.1	1.8	-	-
Total lending balance	**7.1**	**8.0**	**9.0**	**16.5**

(1) The 2012 CRE portfolio consisted of approximately £5,225 million of CRE assets and associated loans plus impairment provisions on credit exposures of £463 million and derivative financial instruments of £4 million relating to the legacy CRE portfolio.

Taking into account the run-off in low yielding assets, the CYBG Directors are aiming to modestly grow CYBG Group's national market share of SME loan balances from its level of 3.6 per cent. as at 31 March 2015, targeting an aggregate increase in SME lending balances between 15 per cent. and 25 per cent. in the period up to financial year 2020. In the two years following the date of UK Admission, the CYBG Directors believe that CYBG Group's overall SME lending book is likely to be broadly flat as the run-off in low yielding assets exceeds net new SME lending. This target is based on the assumptions as to interest rates and the broader macro-economic environment specified above, and expectations as to the competitive environment (as described in the Industry Overview), taking into account the current regulatory environment (as described in Part 7 of Annexure G: "*Supervision and Regulation*").

4.2 Strengthen, develop and enhance omni-channel distribution to deliver a consistently superior experience to customers

CYBG Group plans to continue to develop its omni-channel distribution platform by investing further in scalable digital banking channels and continuing to optimise its branch network to offer customers an integrated experience across digital and physical channels. In doing so, CYBG Group seeks to improve its ability to acquire new customers in its core regions and elsewhere throughout the UK, as well as to service new and existing customers more efficiently and deliver a consistently superior experience to customers.

4.2.1 Continue to strengthen digital platform to support consistent and seamless omni-channel experience

CYBG Group continues to develop and invest in its digital platform, utilising long standing customer relationships to gain critical insights for the successful deployment of its digital propositions via customer research and ongoing customer focus group engagement.

In October 2014, CYBG Group embarked on a three year programme to further digitise the customer experience for retail and SME banking and to provide improved solutions for customers to manage their finances. CYBG Group expects the initiatives to not only result in fast and easy access to telephone and remote screen sharing support alongside more integrated mobile, online and branch services, but to also allow services to be tailored to individual customers.

As part of this programme, CYBG Group plans to launch "B", an innovative and intuitive customer-centric digital proposition. B is currently live, with staff and non staff users expected to reach up to 500 customers by December 2015. CYBG Group plans to publicly commence launch in early 2016 via a fully integrated advertising campaign that will leverage the benefits of digital and social media channels.

CYBG Group developed B following engagement with more than 10,000 customers, 250 members of staff and over 50 research sessions. B will introduce functionality designed to put customers in control of their finances and spending habits. This functionality includes providing narratives to engage customers with their finances, analysis of customers' spending behaviour and both automatic and/or personalised categorisation of customer spending. CYBG Group has designed B based on how customers have said they want to engage with their bank in order to deliver a more personalised and relevant service. CYBG Group has developed B to operate on a best-in-class digital platform for use on mobile devices and tablets, which will be supported by a dedicated telephony and video conferencing team, together with the existing branch network, with selective branches being further digitised to provide support. B is built on a modern architecture, which is designed to be scaled in order to accommodate projected demand requirements. In connection with the development of B, CYBG Group has implemented an analytics platform alongside the Digital Next Best Action ("**DNBA**") data and analytics capability discussed below, which will capture data for all retail customers. Cyber security for B employs a tiered security level model, including device bonding, security codes as well as "step up" passwords for high value payments. B will complement CYBG Group's existing suite of brand propositions with Clydesdale Bank and Yorkshire Bank and will carry the endorsement of the CYBG Group brands.

CYBG Group intends for B to be an important part of its omni-channel delivery and current account growth strategy, driving efficiency, process simplification and customer acquisitions. The strategic foundations developed by B have been designed to enable CYBG Group to simplify its consumer lending account opening processes, both for the public and secure websites, which should contribute to the growth of personal loan and credit card balances. B is expected to appeal to a younger, more affluent demographic who may have little or no association with the CYBG Group brands, as well as CYBG Group's traditional customer base. During 2015, CYBG Group conducted an online survey of existing Clydesdale Bank and Yorkshire Bank customers as well as non-customers outside of the core regions to market test B in advance of its launch. The focus group consisted of approximately 500 respondents over 23 years of age, with approximately 73 per cent. aged under 55. Of the existing Clydesdale Bank and Yorkshire Bank customers surveyed, there was a mix of main and secondary current account customers. During the 2015 trial period, 40 per cent. of the total focus group would feel more positively towards Clydesdale Bank and Yorkshire Bank if B was offered and, among likely users of B, this portion increased to 87 per cent. Additionally, this study found that B would boost perceptions of Clydesdale Bank and Yorkshire Bank in areas of innovation and modernity, which have not traditionally been areas of strength.

CYBG Group recognises the importance of continued investment in its IT platform alongside delivery of its digital-led customer propositions. CYBG Group has investments planned over the next three years to ensure that its IT platform remains compliant and maintains its systems currency within its risk appetite. CYBG Group also seeks to refresh its online SME platform, with initiatives such as the "Connected to You" proposition, which is expected to be launched during financial year 2016-2017 to focus on meeting the needs of micro business customers and Business Direct customers.

4.2.2 Branch network optimisation

The CYBG Directors believe that face-to-face service delivered through local branches remains an important consideration for some customers whilst the branch footprint needs to evolve to reflect how and where customers want to conduct their banking business. CYBG Group commenced a programme in 2015 to reshape and optimise its physical network. This investment programme over five years includes:

- Creating larger concept stores in key city locations, which as at November 2015, comprised London, Glasgow, Aberdeen, Sheffield and Leeds (which opened in November 2015), that bring together Retail and SME banking expertise, reduce customer service wait times, integrate with online and direct channels and provide greater front-office support for more complex transactions; another concept store to be located in Edinburgh, is planned to be opened during financial year 2017;
- Integrating business and private banking centres with retail branches to provide additional opportunities for customers to access a full range of services in a single location; there are currently 28 co-located centres, having executed five co-locations, with an additional three co-locations planned during financial years 2016 and 2017; and
- Ongoing activity to ensure branch locations match customer demand, which may result in selected branch closures and possible relocations.

4.2.3 Develop enhanced customer data management and analytics

Enhanced customer data management and analytics are key to the delivery of a consistently superior experience to CYBG Group's customers. Being able to provide customers with a seamless omni-channel experience requires an aggregated and up-to-date view on the customer accounts, their activity across those accounts and a strong understanding of their lifecycle of customer activity. Through this data and supported by analytics capabilities, CYBG Group seeks to provide insights to customers and enable them to manage their finances more effectively, and by developing predictive capabilities, anticipate potential future financial needs.

In May 2015, CYBG Group launched DNBA in retail internet banking, a customer data and analytics capability intended to support the delivery of an enhanced customer experience. DNBA enables full personalisation and optimisation of messages delivered to its retail banking customers and allows CYBG Group to manage customer messaging within a framework which tracks customer digital engagement across channels, recognising the interaction of multiple messages across channels. This functionality enables CYBG Group to deliver a highly relevant, personalised and event-led experience to each customer and increases opportunities to cross sell other products that are relevant to a particular customer based on that customer's transactions within the digital platform. CYBG Group's DNBA solution leverages CYBG Group's existing channels and reacts to channel demand in real time. CYBG Group has launched its DNBA solution for retail internet banking with plans to continue to incorporate it across customer interactions via its new digital platform, branches, telephone, customer statements, email, SMS and direct mail. Using the DNBA platform, CYBG Group will increase its annual message opportunities to customers from 20 million using traditional marketing platforms to approximately 500 million per annum over the next five years assuming all distribution channels become integrated into DNBA. CYBG Group estimates that the marginal costs of messages using the DNBA platform will be approximately £0.01 per message (based on estimated total cost of ownership of the DNBA system over five years and estimated message volumes), compared to £0.50 for a traditional direct marketing pack, which should enable CYBG Group to achieve deeper customer relationships at lower marginal costs. As at 30 September 2015, DNBA had delivered more than 40 million targeted messages, of which approximately six thousand of customers receiving messages visited a product related page per week.

4.3 Reduce costs through a broad-based simplification and productivity agenda as well as rigorously targeted investment spend

CYBG Group intends to make ongoing targeted improvements in its operating model to realise efficiencies, streamline its operations and simplify key service and fulfilment processes. These improvements are designed to enhance customers' experiences, reduce costs and support CYBG Group's ability to achieve significant operating leverage in tandem with the growth of the business. CYBG Group's targeted investment in its growth plan and system resilience will bring closer alignment of CYBG Group's investment spend to the overall strategic agenda.

CYBG Group's rigorous approach to cost control will target specific areas in the near term for reduction, including platform costs, headcount reductions and restructuring across the business. This focus, together with a revised governance and control framework for costs which includes the creation of a senior employee role focused solely on cost management in order to identify opportunities for cost reduction across the business, is expected, in combination with targeted investment spend and growth in the bank's customer franchise, to contribute to a decrease in the cost to income ratio from 75 per cent in the year ended 30 September 2015 to below 60 per cent within the period up to financial year 2020.

Annexure G: Part Two
Information on CYBG Group

CYBG Group is currently undertaking a number of simplification initiatives that are intended to result in sustained improvement in CYBG Group's cost position, including:

- Migrating towards a more integrated and digitised distribution model with an efficient and aligned approach to servicing both retail and SME banking customers. CYBG Group plans to develop this model over time by restructuring its distribution network and optimising its footprint to align with customer needs based on feedback from various pilot programmes. Operating model and efficiency initiatives are underway, including the continued optimisation of the branch network;
- Continuing to review and assess non-customer facing activities as a proportion of the total cost base, with further cost reductions under consideration; and
- Automating certain credit decisions, business capabilities and end-to-end processes to improve customer experience and efficiencies, including:
  - for mortgages: introduction of new processes and systems to improve communications as well as the customer experience such as "approval in principle", reducing interview time from 90 minutes to 60 minutes and reducing the average time from application to approval by 50 per cent.,
  - for PCAs: online account opening capabilities (which improves from a prior service time of 40 to 60 minutes in branch, with accounts opened the next day, or 20 to 40 minutes to open an account by telephone, with accounts opened 7 to 10 days later, to approximately 15 minutes to open an account online that is usable immediately),
  - for BCAs: account opening capabilities (which improved from accounts opening 14 days later to accounts opening 4 days later), and
  - reduce system touch points by 60 per cent. and internal effort per loan by 25 per cent.

CYBG Group is implementing these measures in a manner consistent with its risk management practices; see Part 6 "*Risk Management*" for additional information on CYBG Group's risk controls.

Strategy Execution Enablers

The CYBG Directors believe that meeting CYBG Group's strategic aims requires a customer-centric culture with strong leadership that is appropriate for a standalone environment. CYBG Group continues to prioritise recruiting and deepening talent at all levels of the organisation to address key capability gaps and upgrade the governance framework, including (i) recent reorganising and reducing the size of the leadership team and (ii) senior management appointments across the business, support and control functions. This effort to better align the organisation with CYBG Group's strategic aims and growth initiatives will help establish clear areas of accountability and streamlined operations. In addition to the commercial agenda, the CYBG Directors believe it is imperative that the Bank maintains a key focus on ensuring that the internal governance model is appropriate for a bank of its size and is supported by best in class risk, audit, legal and compliance functions as part of a robust and effective governance model.

Implementation of CYBG Group's strategy will also require an engaged and empowered employee base. CYBG Group plans to implement a customer-centric reward programme aligned to the bank's larger strategic goals. CYBG Group has also taken steps to progress a new employment engagement strategy that uses multimedia, video streams and management Q&A which has been well received.

5. Banking Activities

5.1 Retail Banking

CYBG Group has a comprehensive regional and national retail banking product proposition, serving 2.6 million customers. CYBG Group's personal deposit portfolio was £17.5 billion as at 30 September 2015, comprising PCAs (39.7 per cent. of the total portfolio), variable rate savings accounts (34.4 per cent. of the total portfolio) and fixed rate term deposits (25.9 per cent. of the total portfolio). As at 30 September 2015, 83 per cent. of variable rate savings account and fixed rate term deposit customers were located in CYBG Group's core regions, compared to 86 percent of PCA customers.

CYBG Group's retail loan portfolio was £21.7 billion as at 30 September 2015, comprising of mortgages (94.4 per cent. of the total portfolio), personal loans (3.5 per cent. of the total portfolio) and credit cards and overdrafts (2.1 per cent. of the total portfolio).

5.1.1 Current Accounts

CYBG Group had approximately 1,819,000 PCA customers as at 30 September 2015. 34 per cent. of CYBG Group's PCA customers also held savings accounts with CYBG Group, 14 per cent. held CYBG Group credit cards and 7 per cent. held mortgages with CYBG Group.

CYBG Group has developed a loyal PCA customer base that represents a stable source of funding. As at 30 September 2015, 78 per cent. of CYBG Group's PCA customers had a tenure with CYBG Group of more than ten years. As at 30 September 2015, 86 per cent. of CYBG Group's PCA customers were located in its core regions, with 35 per cent. in Scotland, 25 per cent. in North East England, 27 per cent. in North West England, 8 per cent. in the Midlands and less than 6 per cent. in the rest of the UK. In the 10 months ended 31 July 2015, CYBG Group had a 3.5 per cent. share of gross new PCA account deposits in its core regions.

CYBG Group has identified key customer demographics in which it is under-weight, targeting growth across younger and more affluent customers. The following table demonstrates the opportunity presented by these more attractive demographics by comparing the "growing rewards" segment (comprised of high income families with children) and the "traditional thrift" segment (comprised of ageing individuals with low income and state reliance).

	As at 30 September 2014	
	Traditional thrift	**Growing rewards**
Cross sell (average product holding)	1.6	1.9
Approximate average lending balance[1]	£1,600	£12,100
Internet banking usage	15%	36%

Source: Experian data 2014
(1) Unsecured personal lending balance

The table below sets out information on CYBG Group's retail customer attrition and acquisition for the year ended 30 September 2015 using internal customer profile information. During that period, CYBG Group achieved a net acquisition of approximately 16,000 retail customers in targeted demographics (with a net loss of approximately 4,000 retail customers in non-targeted demographics).

	Year ended 30 September 2015	
	Acquired	**Attrition**
Bright Futures*[1]	8,606	4,521
Single Endeavours[2]	9,343	6,847
Young Essentials[3]	3,716	2,583
Growing Rewards*[4]	10,804	6,954
Family Interest*[5]	4,981	3,543
Accumulated Wealth*[6]	10,110	7,085
Consolidating Assets*[7]	12,414	9,270
Balancing Budgets[8]	14,995	12,505
Stretched Finances[9]	9,568	7,427
Established Reserves[10]	13,935	12,762
Seasoned Economy[11]	4,473	5,556
Platinum Pensions[12]	7,363	7,746
Sunset Security[13]	8,262	12,765
Traditional Thrift[14]	6,487	12,340

* Target segment

(1) Young professionals in their 20's & early 30's, building their careers whose incomes have good potential to rise.

(2) Young singles and sharers who are working to establish themselves while enjoying low commitments.

(3) Young people in their 20's with low income renting affordable accommodation.

(4) High income families with children who are making excellent financial progress.

(5) Growing families with mid-range incomes and high expenses.

(6) Affluent families with the highest incomes, expensive homes and many assets.

(7) Families in their middle years who have made a good foundation to their financial position.

(8) Families in their middle years who have average incomes and need to balance expenses against resources.

(9) Middles aged families who are striving to manage their day to day finances on very limited incomes.

(10) Pre-retirement households with good savings whose financial commitments are reducing.

(11) Pre-retirement households who are experienced in making their money go further

(12) Elderly people with good pensions who are enjoying a comfortable retirement.

(13) Retired people with the security of home ownership and a modest pension income.

(14) Ageing people with low incomes and a reliance on state provision.

In November 2014, CYBG Group launched its first current account switch campaign as part of the UK Payments Council Current Account Switch Service ("**CASS**"), pursuant to which it invited customers to transfer their PCA to CYBG Group in exchange for incentive payments, subject to certain conditions. For the year ended 30 September 2015, CYBG Group successfully processed 99.6 per cent. of the switches within the terms of the service level agreement. CYBG Group targeted this campaign at both existing and new customers. BACS reports that for the period between 1 January 2015 and 31 March 2015, CYBG Group gained 15,632 current accounts (which, according to BACS, includes data on personal customers, small businesses and small charities that have switched using CASS) compared to 8,465 current account customers switching to another bank, a net acquisition of 7,167 current account customers. CYBG Group also launched a second current account switch campaign in April 2015.

In connection with the current account switch campaigns, CYBG Group has improved its underlying PCA customer quality and regional diversity. CYBG Group has increased the percentage of its PCA customers using Clydesdale Bank or Yorkshire Bank as the primary PCA from 39 per cent. as at 30 September 2013 to 42 per cent. as at 31 July 2015. CYBG Group has also increased the number of customers using Clydesdale or Yorkshire Bank as the primary PCA from 758,660 customers as at 30 September 2014 to 767,733 customers as at 30 September 2015. During CYBG Group's current account switch campaigns, over the period from 1 November 2014 to 30 September 2015, 19 per cent. of CYBG

Annexure G: Part Two
Information on CYBG Group

Group's newly acquired PCA customers were from outside of its core regions as compared to only 2 per cent. during the three months prior to the campaign. CYBG Group's customer retention also improved during its second campaign with only one per cent. of new customers leaving after being attracted by the initial campaign incentive during the period from 1 April 2015 to 31 July 2015. This is as compared to the first campaign during the period from 1 November 2014 to 31 March 2015 when 12 per cent. of new customers subsequently switched to another bank.

The PCA campaign was undertaken in two distinct phases (1 November 2014 through 31 March 2015 and 1 April 2015 through 30 September 2015). The second phase of the campaign differed from the first phase as CYBG Group adopted a more targeted approach, through the incentive qualifying criteria, to drive improved customer quality. The criteria included a requirement to have direct debits on the new PCA. The improved customer quality is best evidenced through the change in the number of primary PCA customers, up from 40 per cent. in the first phase to 52 per cent. in the subsequent phase.

This focus on quality impacted performance in the six months ended 30 September 2015 with a net loss of 7,152 PCA accounts compared to a net gain of 3,589 PCA accounts for the six months ended 31 March 2015. Whilst volumes fell in the second phase, relative to the prior year, net movements had improved as CYBG Group had experienced a net loss of 13,484 PCA accounts in the six months ended 30 September 2014 and a net loss of 9,520 PCA accounts in the six months ended 31 March 2014. The following table compares the improvement characteristics for PCA accounts.

	Campaign 1 1 November – 31 March 2015	**Campaign 2 1 April 2015 – 30 September 2015**
	(%)	
Customer Age:		
≤ 35 years old	36	41
> 35 years old	64	59
Primary account users[1]:		
Primary	40	52
Secondary	60	48
Number of direct debits:		
≤ 5 direct debits	72	58
> 5 direct debits	28	42
Customer annual income[2]:		
≤ £20,000	60	55
> £20,000	40	45

(1) Primary (i.e. main bank) customer must be party to at least one account of a selected product type which meets the following criteria: (i) credit turnover averaging at least £1,000 in the last 3 consecutive months, (ii) three or more standing orders or direct debits (or a combination of the three) in place or (iii) three or more customer initiated transactions (ATM, point of sale, branch counter services).

(2) Income is derived from a combination of application, credit turnover and bureau data.

CYBG Group issues debit cards to support its current account portfolio, in partnership with MasterCard. CYBG Group is currently one of the UK's largest MasterCard debit card issuers. CYBG Group currently has both Maestro and Debit MasterCard cards in circulation, although the intention is to migrate Maestro branded cards to Debit MasterCard, which offers enhanced global acceptance, on a phased basis over time.

As part of its overall digital strategy, CYBG Group has also introduced contactless payment technology and improved mobile and online account capabilities. The CYBG Directors believe that these developments, along with other current account promotions and initiatives, should enable CYBG Group to remain competitive.

5.1.2 Savings accounts

As at 30 June 2015, CYBG Group had approximately 1,378,000 personal variable rate savings account customers and personal fixed rate term deposit customers and £6,013 million of personal variable rate savings account deposits. The CYBG Directors believe savings accounts are an important component of funding due to their stability. As at 30 September 2015, 78 per cent. of personal savings account customers held an account with CYBG Group for more than ten years. In the 10 months ended 31 July 2015, CYBG Group had a 4.6 per cent. share of gross new savings account deposits in its core regions.

CYBG Group offers a variety of savings accounts that pay a variable rate of interest. CYBG Group also offers cash ISAs with competitive rates that offer depositors tax free returns, which include instant access cash accounts from which customers may withdraw deposits at any time, as well as a 40 day notice account. These preferential ISAs, which had a balance of £2,431 million as at 30 September 2015, have contributed to savings account growth as well as an approximate 0.20 per cent. national market share increase and had an average yield of 1.66 per cent. for the year ended 30 September 2015. As at 30 September 2014, these preferential ISAs had a balance of £1,083 million with an average yield of 1.41 per cent. for the year ended 30 September 2014. Some of CYBG Group's variable rate savings accounts include an introductory incentive rate on top of the standard variable deposit rate to a specified end date.

5.1.3 Term deposits

As at 30 September 2015, CYBG Group had £4,519 million of personal fixed rate term deposits, with an average deposit balance per customer of £24,400. Taken together with CYBG Group's savings account customers, 83 per cent. of variable rate savings and fixed rate term deposit customers were located in the core regions as at 30 September 2015.

Term deposits (sometimes referred to as "fixed rate savings accounts" or "time deposits") offer a fixed interest rate for a fixed term. CYBG Group also offers fixed rate cash ISAs.

In 2011, following a credit rating downgrade, CYBG Group experienced a reduction in short-term wholesale funding. CYBG Group was able to successfully attract additional fixed-rate term deposits at market rates, the majority of which matured in 12 or 24 months, in order to address this reduction in wholesale funding. Subsequently, CYBG Group undertook actions to grow PCA and retail savings balances as well as managing down the volume of fixed-rate term deposits from £6,603 million as at 30 September 2012 to £4,519 million as at 30 September 2015. These actions have enhanced the structure and stability of CYBG Group's retail deposit base as well as reducing the overall funding costs.

5.1.4 Mortgage lending

As at 30 June 2015, CYBG Group had 233,000 retail mortgage customers, with 59 per cent. of mortgage balances outside of the core regions and an average mortgage balance per customer in the portfolio of £194,000. CYBG Group successfully increased its mortgage portfolio from £13,981 million as at 1 October 2011 to £18,444 million as at 30 September 2014 and £20,504 million as at 30 September 2015 (of which 68.7 per cent. were owner occupied mortgages and 31.3 per cent. were buy-to-let mortgages). CYBG Group has recorded growth in mortgage balances in excess of the UK market as a whole, with a CAGR of 10.1 per cent. in mortgage balances in the period from 30 September 2012 to 30 September 2015 versus 1.4 per cent. for the UK market as a whole over the same period (*Source: Bank of England*). Mortgage lending in the UK remains a strategic priority for CYBG Group, with a significant portion of CYBG Group's net interest income derived from interest received on its mortgage portfolio.

CYBG Group requires all mortgage loans to be fully secured by way of a first ranking charge on the residential property to which the mortgage loan relates on terms that allow for the repossession and sale of the property if the borrower fails to comply with the terms of the loan. CYBG Group provides mortgage loans on a capital repayment basis, where the loan is required to be repaid during its life, and on an interest-only basis, where the customer pays interest during the term of the mortgage loan with the principal balance required to be repaid in full at maturity. For the year ended 30 September 2015, CYBG Group had 39,000 mortgage completions and recorded a CAGR in mortgage completions of 20 per cent from the year ended 30 September 2012 to the year ended 30 September 2015.

The primary source of gross new mortgage loan origination for CYBG Group for the three years ended 30 September 2015 has been the intermediary channel. The following table sets out CYBG Group's gross new mortgage lending by distribution channel for the periods indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		(£m)		
Intermediary	3,658	3,633	2,169	2,061
Proprietary[1]	1,277	1,293	933	1,070
Gross new mortgage lending	**4,935**	**4,925**	**3,102**	**3,131**

(1) Proprietary refers to direct lending (not through an intermediary). This includes lending through branch and private bank channels.

Annexure G: Part Two
Information on CYBG Group

CYBG Group intends to continue to develop its intermediary broker network in order to further diversify its mortgage portfolio geographically, and make use of its digital platform and branch network in its core regions.

CYBG Group has established a proprietary and direct mortgage origination capability pursuant to which 171 dedicated mortgage specialists interact with new and existing customers using CYBG Group's branch network, the internet or telephone and handle queries from customers through the proprietary channels. CYBG Group's direct and branch network advisers are managed as one team, with the number of advisers determined by capacity and customer need; staffing needs are reviewed in line with anticipated customer demand on an ongoing basis. CYBG Group utilises Yorkshire Bank branded mortgage products throughout Yorkshire and Northern England and Clydesdale Bank branded mortgage products in the remainder of the English and all of the Scottish markets as well as for all of CYBG Group's intermediary mortgage lending.

(a) Composition by type – owner-occupied and buy-to-let

CYBG Group offers both owner-occupied mortgage loans (pursuant to which the borrower is the owner and occupier of the mortgaged property) and buy-to-let (**"BTL"**) loans (pursuant to which the borrower intends to let the mortgaged property). BTL gross new mortgage lending has increased from 17 per cent. of total gross new mortgage lending for the year ended 30 September 2012 to 27 per cent., 38 per cent. and 43 per cent. for the years ended 30 September 2013, 2014 and 2015, respectively (percentages are calculated excluding the unknown amounts). As at 30 September 2015, the average buy-to-let loan balance per account was £169,633.

CYBG Group's owner-occupied mortgage portfolio consists primarily of mortgage loans to individuals secured by a first charge on residential properties located in the UK. CYBG Group does not provide second charge mortgages.

CYBG Group originates BTL mortgages in the UK via mainstream and specialist intermediaries. The BTL segment comprises secured lending on property for investment purposes, including residential investment property, with a focus on lending to medium net worth clients looking to diversify their investments, with a main applicant average income for BTL loans of £104,000 as at 30 September 2015, compared to £102,000 for the six months ended 31 March 2015. CYBG Group estimates that as at 30 September 2015, 74 per cent. of its BTL borrowers could afford their mortgages with no recourse to rental income in a stressed scenario. For the year ended 30 September 2015, 67 per cent. of the total BTL portfolio had a rental cover of 150 per cent. or higher.

As at 30 September 2015, 31.3 per cent. of CYBG Group's outstanding mortgage balances, or £6,418 million, were BTL loans. Of this amount, £5,663 million were interest-only loans. The following table sets out a breakdown of CYBG Group's BTL new mortgage approvals for the year ended 30 September 2015 by borrower type:

	Value (£m)	% of BTL new mortgage approvals by value
Investor	1,482	59
Let-to-buy	776	31
Occasional	273	11
Professional (3+ properties)	2	0

As part of its ongoing risk management, CYBG Group limits the number to three properties on which it will lend to BTL landlords, with the additional exposure to landlords holding three or more properties in the table above reflecting historical risk policies. In addition, CYBG Group has a conservative approach to BTL loan origination with interest-only BTL mortgages currently limited to a maximum loan-to-value ratio of 75 per cent. and capital repayment BTL mortgages currently limited to a maximum loan-to-value ratio of 80 per cent.

CYBG Group's BTL mortgage products take the same form as its owner-occupied mortgage lending, such as fixed and variable rate mortgages.

(b) Composition by repayment type

Customers with repayment mortgages are required to make payments of both interest and capital, usually on a monthly basis. Customers with interest-only mortgages are required to make payments of interest, usually on a monthly basis, with the capital required to be repaid at maturity. Interest-only mortgages are not available through retail channels, but are available to private and business-to-business customers through the intermediary channel. Interest-only loans are generally interest-only for the full mortgage term. For fixed-rate loans, the pricing will revert to CYBG Group's standard variable rate after the fixed-rate period expires. Private and business-to-business interest-only loans are restricted to borrowers with income over a certain threshold (£75,000 sole/£100,000 joint).

The following table sets out the composition of mortgages by repayment type and product type as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		(£m)		
Owner occupied:				
Capital repayment	9,919	9,330	8,069	7,264
Interest-only	4,167	4,201	4,575	5,001
	14,086	**13,531**	**12,644**	**12,265**
Buy-to-let:				
Capital repayment	755	706	572	506
Interest-only	5,663	4,207	2,932	2,598
	6,418	4,913	3,504	3,104
Total	**20,504**	**18,444**	**16,148**	**15,369**

(c) Composition by interest rate basis

CYBG Group offers fixed rate and variable rate mortgage loans. Fixed rate mortgage loans give the customer certainty in relation to the amount of interest payable on a monthly basis for the duration of the fixed-rate term. Variable rate mortgage loans provide for a variable payment with interest rates moving with changes in interest rates generally, often linked to changes in the Bank of England base rate.

Fixed rate mortgage loans have a set interest rate for an initial pre-determined period, after which the interest rate reverts to a variable interest rate until the mortgage term expires. CYBG Group offers fixed-rate mortgage loans, with terms of two or five years, with three-year fixed-rate loans also available to first-time buyers.

Variable rate mortgage loans are available with a concessionary discount period with or without offset functionality. The offset allows customers to link a current or savings account to the mortgage and instead of earning interest on the account, the balance on the account is set against the mortgage principal in order to reduce the interest payable. Included within the variable rate mortgage portfolio are CYBG SVR mortgages. CYBG Group's standard variable rate was 4.95 per cent. for owner-occupied and 5.35 per cent. for BTL as at 30 September 2015. The SVR mortgage book balance as at 30 September 2015 was £3,081 million with an average yield of 4.96 per cent. Fixed rate mortgage products revert to the SVR rate at the end of the fixed interest rate period. The reversion of mortgages onto an SVR rate as well as repayments and refinancings result in regular changes to the overall SVR mortgage book balance. Movements in the overall SVR mortgage book balance in the year ended 30 September 2015 were not material in the context of the overall mortgage book.

Tracker rate mortgages bear a variable rate of interest directly linked to the Bank of England base rate, i.e. base rate plus a fixed percentage margin. Whilst the rate is variable, the terms under which the rate can vary are restricted. Rates are linked to the Bank of England base rate for the life of the mortgage. CYBG Group has a historic portfolio of tracker rate mortgages which were withdrawn from general sale in 2008; as at 30 September 2015 new tracker mortgages were offered on a limited basis to CYBG Group employees.

The following table sets forth the composition of CYBG Group's mortgage portfolio by product type as at the dates indicated.

	As at 30 September	
	2015	**2014**
Mortgages:	*(£m)*	
Fixed rate	12,710	9,454
Variable rate	5,169	6,124
Tracker	2,625	2,866
Total mortgages	**20,504**	**18,444**

(d) Regional distribution of mortgages

CYBG Group has a diversified portfolio of secured mortgage exposures across the United Kingdom. With the exception of Scotland and North England, the regional distribution of CYBG Group's mortgages is broadly in line with the distribution of mortgage volumes across the UK banking industry generally. The relative concentration of mortgages in Scotland and North England reflects the bank's historic footprint.

The following table sets out information on the regional distribution of CYBG Group's mortgages as at 30 September 2015 by value and as a percentage of CYBG Group's total portfolio. As the table indicates, CYBG Group has a diversified mortgage book, with significant exposures in South England as well as its core regions of Scotland and North England, with 59.0 per cent. outside of the core regions.

	As at 30 September	
	Value (£m)	**% of CYBG Group's mortgages**
South England	9,842	48.0
North England	4,921	24.0
Scotland	3,486	17.0
Midlands (England)	1,435	7.0
Other UK	820	4.0
Total	**20,504**	**100.0**

(e) Loan-to-value ratios

The average loan-to-value ratio of CYBG Group's mortgage lending, coupled with the relationship of the debt to customers' income, are key metrics in determining the credit quality of these loans. The following table below sets out the indexed loan-to-value analysis of CYBG Group's mortgages as at 30 September 2015.

	As at 30 September 2015		
	Owner occupied	**Buy-to-let**	**Total**
Less than 50%	39	24	34
50% to 75%	43	69	51
76% to 80%	7	2	5
81% to 85%	5	1	4
86% to 90%	2	1	2
91% to 95%	1	0	1
96% to 100%	0	0	0
Greater than 100%	0	0	0
Unknown(1)	3	3	3
Total	**100**	**100**	**100**
Average loan-to-value:			
Stock of mortgages (Indexed)(2)	54.5%	57.2%	55.3%
Stock of mortgages (at origination)(3)	64.7%	68.4%	65.5%
New lending(4)	70.4%	67.7%	69.7%

(1) Represents portion of portfolio where data is currently unavailable.

(2) Average indexed loan to value is weighted by balance.

(3) Average loan to value at origination is based on LTV calculation without any weighting.

(4) Average new lending loan to value is based on LTV calculation without any weighting and is based on one month's approvals (March) only.

5.1.5 Underwriting

In line with peers, CYBG Group primarily uses automated credit decision tools to support its mortgage underwriting services, supplemented by a robust manual underwriting process. All mortgages are processed through the automated decision tool, which considers information from the applicant, a credit rating agency and, for existing customers, information related to banking patterns. The automated system then decides whether an application is accepted, declined or referred for a manual credit assessment. A refer decision will result in a referral to manual underwriters while a decline decision can be referred to manual underwriters at the discretion of the mortgage advisor. In addition to the use of automated decision tools, all loans over £500,000 require a manual assessment. All manual credit decisions are made using objective criteria by accredited underwriters (of which there were 45 with an average of 22 years of banking experience as at 30 September 2015).

CYBG Group's underwriters use various types of information in reaching their decision including: credit rating agency data, external and internal credit history, financial position information, and information on stability and type of employment. The review also involves an assessment of a customer's ability to afford and repay any borrowing, including under stressed conditions, prior to any lending decision. The underwriter has the authority to approve applications in line with CYBG Group's credit policies and procedures. By combining automated credit decision strategies with manual underwriting and judgment, CYBG Group is able to offer common sense and bespoke solutions for specific customer segments. This is particularly useful for clients who may have a compensation structure that makes it difficult to calculate their future income levels. The CYBG Directors believe CYBG Group's smaller scale enables early engagement and flexible bespoke underwriting processes to assist growth.

CYBG Group requires all mortgage loans to be fully secured by way of a first ranking charge on the mortgaged property, to ensure that its claim to the property, in the event of default, is senior to those of other potential creditors. As a result, the CYBG Directors believe that CYBG Group's mortgage lending carries lower risk than certain other types of lending.

CYBG Group does not offer mortgages to borrowers who self-certify their income or who have adverse credit histories ("**sub-prime**") and conducts affordability stress testing on its mortgages using a stressed interest rate of 7.45 per cent. as at 30 September 2015.

CYBG Group originates new mortgage loans in accordance with its defined risk appetite, which is agreed by the CYBG Board and the management team. CYBG Group has established a number of risk appetite parameters designed to ensure the portfolio contains a level of risk that is viewed as acceptable and that mortgages are affordable for customers. These risk appetite parameters include:

- limited appetite for non-standard products, as CYBG Group is primarily focused on mainstream retail owner-occupied and buy-to-let mortgages;
- geographic and product concentration caps;
- LTV and loan-to-income (**"LTI"**) thresholds (including restrictions imposed by the FPC regulations); and
- Residential interest-only lending portfolio is limited to a specified percentage of the portfolio and to borrowers with a minimum property value of £400,000 and a maximum age at maturity of 70 years; in 2013, residential interest-only lending was restricted to sale through two channels only (intermediary brokers and private banking).

5.1.6 Financial Care Team

The Financial Care team supports and manages retail banking customers in financial difficulty; their primary goal is to identify affordable and sustainable solutions for customers. The Financial Care Team, supported by the Customer Banking Operations team, is part of CYBG Group's customer-centric approach which utilises a variety of support strategies, including consideration of temporary concessions or permanent contract changes. Referral into the Financial Care Team is an automated process and they utilise a variety of methods to communicate with customers. In certain cases solutions will include asset sales or litigation.

The following table sets out a breakdown of retail delinquent debt under the management of the Financial Care Team as at 30 September 2015.

As at 30 September 2015	Debt by type
	%
Secured <90 DPD	36
Unsecured <90 DPD	6
Secured 90+ DPD	34
Unsecured 90+ DPD	24
Total	**100**

As at 30 September 2015, total delinquent unsecured and secured retail debt under the management of the Financial Care Team was £416 million and comprised 62,273 accounts.

5.1.7 Unsecured Personal Lending

CYBG Group's unsecured personal lending offerings consist of personal loans, credit cards, and overdraft facilities associated with current accounts, which are originated by CYBG Group through its branch, and other direct channels (e.g. telephony). CYBG Group also remains focused on digital distribution channels (online and mobile) including aggregators, while maintaining the broader aims of cross-channel pricing.

CYBG Group's unsecured lending portfolio had an average personal loan balance per customer of £6,800 as at 30 September 2015. The following table sets out a breakdown of CYBG Group's unsecured personal lending balances as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	(£m)			
Unsecured personal lending:				
Personal loans	763	824	756	730
Credit cards	376	364	396	436
Overdrafts	79	94	122	144
Total unsecured personal lending	**1,218**	**1,282**	**1,274**	**1,310**

All applications for unsecured personal lending are initially processed through CYBG Group's automated decision tool. The underwriting process across each of the key products (personal loans, credit cards and overdrafts) and channels (online, branch and telephone) is the same. The majority of personal loans and credit card approvals (over 80 per cent.) are automated whereas a greater proportion of overdraft approvals, historically, have been manual. All applications above £25,000 require manual assessment.

(a) Personal loans

CYBG Group provides retail and private banking customers with unsecured personal loans through its branch network as well as its digital and telephone channels. CYBG Group's unsecured personal loan portfolio of £763 million as at 30 September 2015 accounted for 3.5 per cent. of total retail lending as at that date. As at 30 June 2015, the loans were held by 130,000 customers. In 2012, CYBG Group introduced an online product known as "direct personal loan" in response to the market shift toward online distribution. This product contributed to an increase in personal loan volumes although online price competition led to a fall in gross yields. The direct personal loan product successfully addressed a previous decline in personal lending and enabled CYBG Group to access a wider market than available via its then-existing distribution channels. Following a revision in CYBG Group's pricing strategy, there has been an increase in the share of personal loan customers located in CYBG Group's core regions as the distribution model for this product saw a shift away from aggregator sites, with 81 per cent. of customers located in CYBG Group's core regions as at 30 September 2015. The following table sets out the value and percentage of CYBG Group's gross new unsecured personal loans sourced via the direct channel for the periods indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	(£m, except %)			
Direct (digital & telephony)	191	327	309	140
Percentage of total gross new personal loans	61%	82%	78%	51%

The risk profile of the personal loan book improved from 30 September 2012 to 30 September 2015, with balances more than 90 days past due of 0.7 per cent. of the personal loan book as at 30 September 2015.

As at 30 September 2015, CYBG Group had a 5.6 per cent. share of the unsecured personal loan market in its core regions and, as at 31 March 2015, had a 2.4 per cent. share of the unsecured personal loan market nationally.

(b) Credit cards

CYBG Group's credit and charge card portfolio had a total outstanding balance of £376 million as at 30 September 2015, with an average balance per customer of £1,300. As at 30 September 2015, CYBG Group had 335,000 credit card customers having opened 39,282 new credit card accounts in the twelve months prior.

CYBG Group offers three credit card products: Private MasterCard, Business MasterCard and Gold MasterCard. All three cards are available under both the Clydesdale Bank and Yorkshire Bank brand names. There are also three legacy cards: Yorkshire Bank Visa Classic, Clydesdale Bank Standard MasterCard, and Clydesdale Bank Preferential Rate MasterCard, along with four legacy charge cards: Clydesdale Bank Visa Charge, Clydesdale Bank Gold Charge, Clydesdale Bank Principle Charge and Yorkshire Bank Principle Charge.

During the first quarter of 2015, CYBG Group launched a Gold MasterCard initiative, designed to provide a market-leading proposition. This initiative included making the credit card available via the online channel as well as in branches and by telephone, and offering the credit card with 26 months' interest free on purchases and 12 months' interest free on balance transfers.

As at 30 September 2015, CYBG Group had a 0.8 per cent. share of the credit card market nationally, with 83 per cent. of its customers located in its core regions. CYBG Group regards its credit card portfolio as an area of potential growth with a total of 39,282 new card issuances in the year ended 30 September 2015, compared with 19,123 new cards issued in the year ended 30 September 2014, 14,917 new cards issued in the year ended 30 September 2013 and 18,485 new cards issued in the year ended 30 September 2012.

As at 30 September 2015, approximately 0.8 per cent. of CYBG Group's total credit card balances were more than 90 days past due.

(c) Overdrafts

CYBG Group provides overdraft lending across a variety of PCA products, subject to the account holder's status. Overdrafts comprise planned borrowing and unplanned borrowing. Unplanned borrowing is subject to a fee for each working day a PCA is in an unplanned borrowing position above a buffer amount.

Personal overdrafts are deemed delinquent as soon as the relevant credit limit is exceeded or when the overdraft has expired. As at 30 September 2015, gross personal overdraft balances more than 90 days past due were £1 million or 1.3 per cent. of the personal overdraft loan book.

5.1.8 Payment and Merchant Services

CYBG Group's payment services to retail customers include prepaid cards (including Clydesdale Bank/Yorkshire Bank cash passport currency cards, Clydesdale Bank/Yorkshire Bank prepaid cards, credit union prepaid cards, and Post Office travel money plus prepaid cards). Clydesdale Bank/Yorkshire Bank merchant services is enabled by Worldpay UK Limited and enables businesses to accept credit and debit card payments. These merchant services are available to business and private banking customers.

5.1.9 Insurance

CYBG Group offers home and contents insurance, life and critical illness insurance, life insurance for individuals over 50 years of age, commercial insurance, car insurance, and travel insurance, among other insurance products. These products are underwritten by third parties and distributed by CYBG Group to customers. CYBG Group receives commissions and other payments in connection with these arrangements.

5.2 SME Banking

CYBG Group offers its SME customers a full range of business banking products and services to meet their banking needs across its Business Direct, small business, commercial and specialist and acquisition finance segments.

The following table sets out a breakdown of CYBG Group's SME banking revenue by product and customer segment for the year ended 30 September 2015.

Segment	Overdraft & term lending	Invoice finance	Asset finance	Treasury(1) & trade(2)	Payments(3)	Deposits/cash management(4)	% of total revenue per segment
Business Direct	26%	-%	1%	1%	3%	69%	10%
Small business	36%	2%	2%	2%	5%	53%	6%
Commercial	44%	8%	5%	8%	5%	30%	53%
Specialist and acquisition finance	72%	7%	2%	5%	1%	13%	31%
% of total revenue per product	50%	6%	4%	6%	4%	30%	100%

(1) Treasury solutions is defined as currency, interest rate and commodity risk management products. Prior to 1 March 2015 business and private banking allocation of treasury income was 30 per cent.; however, from 1 March 2015, 100 per cent. of such income is now allocated to business and private banking.

(2) International trade is defined as banking services to import/export companies.

(3) Payment is defined as merchant services and business online.

(4) Includes personal deposits and fee income.

5.2.1 Relationship Management Based Operating Model

CYBG Group's business and private banking services are built upon a relationship management model, providing customers with access to a relationship manager, with wide banking knowledge and access to a network of sector specialists, committed to helping the customer meet their banking needs and financial requirements.

Business customers benefit from additional product and sector expertise, with dedicated sector teams available to deliver solutions to customers. CYBG Group's agricultural sector team is the most established, with over 100 years of experience in managing the banking needs of customers in that industry, a result of CYBG Group's historically strong regional and sector presence.

As at 30 September 2015, 47 per cent. of CYBG Group's relationship managers had greater than ten years of experience, in addition to successful completion of internal and external training to deepen their business knowledge and complement their broad skill set and qualifications. CYBG Group offers a combination of telephone based relationship management through Business Direct (79 relationship managers) and face-to-face relationship management through small business, commercial and specialist & acquisition finance specialists with the offerings tailored to meet the complexity of customers' banking needs. As at 30 September 2015, CYBG Group had 37 local small business relationship managers and 209 commercial relationship managers (including specialist and acquisition finance). CYBG Group's relationship managers are well placed to serve a growing and increasingly diversified business customer base while seeking to enhance cross sell opportunities.

CYBG Group leverages a strong service proposition with a pro-active approach to customer acquisition across technological capability, the branch network and its business team to deliver a simple, transparent and competitive product aligned to customer banking needs.

5.2.2 Customers

CYBG Group offers a full range of SME banking products and services to approximately 179,000 SME businesses as at 30 September 2015, comprised of the following:

- micro businesses (which CYBG Group defines as businesses with no lending outstanding and turnover of less than £120,000, constituting approximately 55 per cent. of business customers),
- Business Direct (which CYBG Group defines as businesses with outstanding lending of less than £0.1 million and turnover of less than £750,000, constituting 29 per cent. of business customers and 10 per cent. of CYBG Group's total revenue for the business and private banking segment),
- small businesses (which CYBG Group defines as businesses with lending of £0.1 million to £0.25 million and greater than £750,000 but less than £2.0 million in turnover, constituting 4 per cent. of business customers and 6 per cent. of CYBG Group's total revenue for the segment) and
- commercial businesses (which CYBG Group defines as businesses with lending of higher than £0.25 million and greater than £2.0 million in turnover, constituting 13 per cent. of business customers (including 1,430 specialist and acquisition finance customers and 3,404 national business solutions customers) and 84 per cent. of CYBG Group's total revenue for the segment).

Across all business segments, CYBG Group provides working capital solutions to business customers through asset finance, invoice finance, international trade, merchant acquiring and treasury solutions. CYBG Group benefits from a strong commercial client base across both its loan and deposit portfolios, with specialist and acquisition finance and commercial customers accounting for 94 per cent. of CYBG Group's total business loan balances (or £6.7 billion) and 63 per cent. of total CYBG Group's business deposit balances (or £5.5 billion) respectively, as at 30 September 2015. Small business (4 per cent.) and Business Direct (2 per cent.) accounted for the balance of CYBG Group's business loan balances as at 30 September 2015. CYBG Group's remaining business deposit balances were spread across small business customers (21 per cent. of the total), Business Direct customers (11 per cent. of the total) and micro customers (7 per cent. of the total) as at 30 September 2015.

5.2.3 Private banking

CYBG Group offers private banking customers a wide variety of products such as current accounts (with or without travel insurance cover), savings products (including cash ISAs and term deposits), discounted mortgages, branded credit cards, asset finance as well as a wealth management referral to a Origen Financial Services advisor and access to foreign exchange solutions.

As at 30 September 2015, private banking portfolio lending volumes totalled £3.4 billion, representing 12 per cent. of CYBG Group's customer loans, and was comprised of variable rate mortgages (62 per cent. of the total portfolio), fixed rate mortgages (34 per cent. of the total portfolio), personal loans (3 per cent. of the total portfolio) and overdrafts (1 per cent. of the total portfolio). As at 30 September 2015, CYBG Group had total private banking deposit balances of £2.9 billion, representing 11 per cent. of CYBG Group's total customer deposits, which was comprised of savings deposits (42 per cent. of the total), term deposits (28 per cent. of the total) and current accounts (30 per cent. of the total).

5.2.4 Business Lending

CYBG Group offers SME customers a full range of business lending products and services designed to meet their needs.

CYBG Group is focussed on returns through balance sheet optimisation including the managed run-off of low-yielding assets. Taking into account the transfer of £5.7 billion of predominantly CRE assets and associated loans net of provisions to NAB in 2012, CYBG Group has reduced its business lending book from £16.5 billion as at 30 September

2012 (inclusive of the legacy CRE portfolio) to £7.1 billion as at 30 September 2015. In addition to the transfer of the legacy CRE portfolio, drivers of the reduction include a change in risk appetite away from sectors displaying weak performance, refocusing the business on SME customers and the additional run-off of £1.1 billion of low-yielding business loans by 2019.

CYBG Group's market share of the UK SME lending market as defined by the BBA was 3.6 per cent. at 31 March 2015. (*Source: BBA*). For the year ended 30 September 2015, CYBG Group made approximately 44,000 credit decisions for business customers.

In making business lending decisions, CYBG Group focuses on, among other things, the sustainability of customer earnings and cash flow as the primary credit consideration with asset security as a secondary credit consideration.

The following table sets out the composition of CYBG Group's business lending portfolio by product type as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	(£m)			
Term lending[1]	5,118	5,842	6,582	7,942
Overdrafts	1,165	1,322	1,485	1,743
Working capital solutions[2]	778	806	935	1,211
Total business lending[3]	**7,061**	**7,970**	**9,002**	**10,896**

(1) Term lending includes a portfolio of individually hedged fair value term loans classified as other financial assets at fair value for reporting purposes. Other financial assets at fair value principally comprise a portfolio of fixed rate business loans and advances, in addition to products with other forms of interest rate protection such as caps and collars.

(2) Working capital solutions includes asset finance, invoice finance and international trade services.

(3) Business lending does not include lending through the private bank.

- Term lending: CYBG Group offers a wide variety of term loans, both secured and unsecured, and offers customers a range of repayment and interest rate options. The majority of CYBG Group's business term lending is LIBOR based. These loans are used to fund the longer-term needs of customers, and include acquisition finance loans and loans to finance the purchase of specific assets. The business lending portfolio excludes the legacy CRE portfolio that was transferred to NAB, and which was included in assets held for sale at 30 September 2012.
- Overdrafts: business overdrafts are the primary type of revolving variable rate credit facility offered by CYBG Group to business customers supporting working capital requirements. These are priced at a margin over the relevant central bank base rate (depending on the currency) and an arrangement fee is also payable.
- Working capital solutions includes:
    - Invoice finance (approximately 600 customers and £319 million of lending balances as at 30 September 2015): CYBG Group advances funds against the customer's trade receivables on a confidential basis (without notification to the debtor). The customer continues to manage the credit control of their sales ledger, collecting sums due from debtors and repaying the advance provided by the bank.
    - Asset finance (approximately 8,140 agreements and £425 million in gross balances as at 30 September 2015, with 10 per cent. growth in gross new lending in the year ended 30 September 2015 as compared to the year ended 30 September 2014): these products provide a method of financing capital equipment purchases by customers. CYBG Group offers a full suite of products that enable customers to spread the cost of the expenditure, thereby protecting cash flow and helping distribute the cost of the asset over its operating life.
    - International trade services (£30 million): these products facilitate transactions between a buyer and seller located in different countries. CYBG Group offers import loans, export loans, documentary collections and currency guarantees, together with letters of credit for securing trade.

Working capital solutions also includes £4 million in acceptances.

For the year ended 30 September 2015, gross customer margin for front book lending for asset finance was 3.63 per cent., for overdrafts and term lending was 3.58 per cent., and for invoice finance was 3.05 per cent.

CYBG Group maintains a diversified business lending portfolio with limited single exposure concentrations, where the top 20 customers accounted for only 9 per cent. of total business lending in the year ended 30 September 2015.

Annexure G: Part Two
Information on CYBG Group

The following table sets out the breakdown of CYBG Group's business lending portfolio by sector as at the dates indicated.

	As at 30 September	
	2015	**2014**
	(£m)	
Agriculture (soft commodities)	1,694	1,766
Retail and wholesale trade	810	981
Business services	735	831
Government, health and education	772	848
Manufacturing	679	788
Hospitality	601	745
Commercial real estate	504	562
Entertainment and personal services	317	400
Transport and storage	279	320
Construction	194	193
Other	476	536
Total	**7,061**	**7,970**

CYBG Group splits the overall sectors shown above into 22 focused sub-sectors. To counter systemic risks, CYBG Group targets a maximum exposure across any sub-sector of £800 million, with the exception of agriculture, which has a limit of £2.0 billion, as a result of CYBG Group's long-standing expertise in this sector as well as agriculture's low loss performance history and strong and stable asset values. All sub sectors are operating within approved risk setting limits.

CYBG Group plans to focus its new business lending on sectors that it has identified as having greater potential for attractive yields, with lending reflecting a focus on SME businesses and continued commitment to agriculture. CYBG Group also has shifted to diversify its lending growth into sectors previously closed to new lending such as hospitality and CRE while also providing lending support into growth sectors such as renewables and near shore marine. CYBG Group also benefits from its strong existing customer relationships, with approximately 67 per cent. of originations from existing customers in the year ended 30 September 2015.

The following table sets forth a breakdown of CYBG Group's gross new facilities accepted and available to customers for the year ended 30 September 2015.

	For the year ended 30 September 2015		
	New customers	**Existing customers**	**All customers**
		(£m)	
Agriculture (soft commodities)	70	234	304
Retail and wholesale trade	55	241	296
Business services	80	230	310
Government, health and education	153	79	232
Manufacturing	73	175	248
Hospitality	37	22	59
Commercial real estate	53	19	72
Utilities, post, telephony	41	36	77
Transport and storage	11	71	82
Finance	41	42	83
Other[1]	22	150	172
Total	**636**	**1,299**	**1,935**

(1) Other includes resources, entertainment and personal services and construction.

CYBG Group employs a customer internal credit rating system (**"eCRS"**) to enable it to assess the probability of default within the following twelve month period, with ratings in categories ranging from "investment grade" to "default". Following separation, CYBG Group will continue to utilise NAB's credit risk engine, which supports monthly calculation of RWAs on both a standardised and Foundation IRB basis, under the TSA on a transitional basis for 12-36 months. For a summary of the terms of the TSA, see Section 4.8.5 of this Scheme Booklet.

CYBG Group's business lending portfolio has demonstrated improving portfolio eCRS ratings across the majority of sectors and a focused approach towards sectors with stable characteristics as CYBG Group has managed the portfolio to a lower risk profile. The five sectors with the largest loan exposures accounted for 66.4 per cent. of CYBG Group's total business lending as at 30 September 2015, with six business customer loans having an individual exposure in excess of £50 million. The hospitality and agriculture sectors comprise a significant portion of the watch portfolio (as discussed below under "–Strategic Business Services" and in Part 5: "*Credit Risk- Business Lending Portfolio Composition- Business Lending—Credit Risk*"), however the agricultural sector's portion is lower than its overall share of the portfolio due to the strong credit profile of the sector.

CYBG Group's business lending is concentrated in its core regions. CYBG Group had a 15.4 per cent. market share of all SME lending in Scotland, a 6.9 per cent. share of all SME lending in Yorkshire, and a 5.8 per cent. share and 4.4 per cent. share of all SME lending in North East England and North West England, respectively, compared with a 3.6 per cent. market share nationally, in each case as at 31 March 2015. (*Source: BBA*). This regional strength is rooted in the historical focus of CYBG Group and the continued presence of business and private banking centres and branches in those areas.

5.2.5 Business Current Accounts & Deposits

As at 30 September 2015, CYBG Group had an estimated 1.4 per cent. share of BCA balances in the UK, with a total BCA balance of £6.0 billion (*Source: Bank of England*). CYBG Group has increased the number of BCA accounts opened from 2,161 new accounts during the first quarter of financial year 2015 to 2,529, 3,647 and 4,311 in the second, third and fourth quarters of financial year 2015, respectively.

The following table sets out the balances of CYBG Group's business deposits as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Business deposits:				
Current accounts				
Interest-bearing demand deposits	4,131	3,756	3,677	3,691
Non-interest-bearing demand deposits	1,907	1,761	1,589	1,555
Total current accounts	6,038	5,517	5,266	5,246
Variable rate savings accounts	1,777	1,731	1,870	1,853
Fixed rate term deposits[(1)]	964	1,262	1,690	3,319
Total business deposits	**8,779**	**8,510**	**8,826**	**10,418**

(1) Business fixed rate term deposits include other financial liabilities at fair value.

5.2.6 Underwriting

CYBG Group's cash flow based business lending underwriting process is largely manual due to the diverse nature of business customers. The majority of the decisions are made by the independent credit underwriter following a request from the front line relationship manager. CYBG Group separates its relationship managers and credit assessment processes to ensure decisions are reached independently. For certain assets, the underwriting is undertaken by a limited number of credit managers with particular sector experience, such as agriculture and specialist and acquisition finance. CYBG Group's business underwriting expertise is delivered by a team of 41 dedicated staff with an average of 22 years of banking experience. CYBG Group continues to focus on enhancing underwriting staff expertise, with training and accreditation requirements established and tracked as a requirement of retaining delegated authority. The team also conducts "lessons learned" briefings for front line relationship managers and credit underwriters. The majority of business credit applications are submitted through CYBG Group's business lending platform and are subject to a joint sign-off process between the front line relationship manager and the credit underwriter reviewing the application. Higher loan amounts may require two underwriters or may be submitted to the credit committee for approval. CYBG Group assigns an eCRS rating to all business customers with aggregate borrowings greater than £25,000.

5.2.7 Strategic Business Services

Strategic Business Services (**"SBS"**) is a team within CYBG Group's risk management function, tasked with supporting business customers facing financial difficulty. SBS exercises pro-active management in order to pre-empt issues and maximise recoveries as appropriate, including the use of forbearance when appropriate to a customer's situation. Specialist teams within SBS manage turnaround, insolvency and complex cases (including multi-bank positions). CYBG Group is focused on introducing loans to SBS as early as possible to ensure appropriate action is taken. As at 30 September 2015, CYBG Group's SBS division was comprised of 49 staff members with the SBS management team having an average of 16 years' industry experience and a mix of banking and professional restructuring skills.

CYBG Group's business lending portfolio is split between non-categorised and categorised assets. Non-categorised assets are managed by the business relationship managers and are subject to annual review by credit officers. Categorised assets have been identified as representing heightened risk and are managed by SBS. All forborne business lending (except on commercial terms) is managed by SBS and classified as categorised. Assets are referred to SBS based on several factors, including a categorised asset checklist, daily or weekly excess lists, eCRS movement, deteriorating trends and identification of any covenant breaches. All business loans that are 90 days past due must be referred to SBS; as at 30 September 2015, only 4 per cent. of the categorised assets were 90 or more days past due. When a business customer in financial difficulty is referred to SBS, SBS takes control of the credit strategies however the relationship manager remains involved to ensure continuity of relationship and to retain close involvement in any commercial negotiations.

Categorised assets are divided into three categories:

- "watch" reflects assets that have adverse factors which if not reversed, will result in the customer being unable to meet its obligations;
- "in default" refers to loans with an eCRS rating of 98 (in default but no loss expected); and
- "impaired assets" refers to loans with an eCRS rating of 99 where a loss event has been recognised by the raising of a specific provision and/or interest no longer being taken to profit or "restructured loans" which refers to loans where the original terms have been amended following a loss event.

CYBG Group has taken a prudent approach to SBS classifications. As at 30 September 2015, £1.0 billion or 14.3 per cent. of total business lending was classified as categorised (3.8 per cent. as defaulted and 10.5 per cent. as watch), compared with 15.6 per cent. as at 30 September 2012 (4.8 per cent. defaulted and 10.8 per cent. watch, excluding the legacy CRE portfolio), or 24 per cent. of the total business lending including the legacy CRE portfolio, 17.8 per cent. as at 30 September 2013 (5.6 per cent. defaulted and 12.2 per cent. watch) and 18.3 per cent. as at 30 September 2014 (5.4 per cent. defaulted and 12.8 per cent. watch).

As at 30 September 2015, the amount of each type of categorised loan had declined from prior periods. The following chart sets out the composition of CYBG Group's categorised business loan portfolio by type as at the dates indicated.

	As at 30 September				
	2015	**2014**	**2013**	**2012 (excluding CRE)**	**2012 (including CRE)**
			(£bn)		
Watch loans	0.7	1.0	1.1	1.2	2.3
Defaulted (including 90+ DPD)	0.1	0.2	0.2	0.1	0.4
Impaired	0.2	0.3	0.3	0.4	1.2
Total categorised business lending	**1.0**	**1.5**	**1.6**	**1.7**	**3.9**

As at 30 September 2015, non-categorised loans comprised £6.1 billion of the total business lending portfolio. There are no agriculture loans in the 20 largest business loans (by drawn balance) and two CRE loans, reflecting a diverse range of industries across the portfolio. Of the 20 largest business loans, only two were categorised as at 30 September 2015, and none were classified as impaired.

The CYBG Directors believe that early engagement of SBS allows appropriate strategies to be developed to improve outcomes for both the customer and CYBG Group.

The following table sets out an exposure based view of the evolution of CYBG Group's SBS book during the period indicated.

	As at and for the year ended 30 September		
	2015	**2014**	**2013**
		£m	
Opening balance	**1,811**	**1,911**	**4,479**
CRE transfer	-	-	(2,438)
New	436	754	1,182
Repatriated(1)	(399)	(293)	(341)
Exited(2)	(110)	(173)	(169)
Reduction(3)	(434)	(308)	(680)
Write-off(4)	(73)	(80)	(122)
Closing balance	**1,231**	**1,811**	**1,911**

(1) Defined as files that have returned to "non-categorised".

(2) Defined as Debt repaid and account closed (due to asset sale, customer repayment or refinance to other lender).

(3) Defined as instances where the limits to customers are reduced either through the repayment of facilities or the removal of unnecessary banking limited (i.e. reduction in overdraft or reduction in payment facilities).

(4) Defined as represents the shortfall between the face value of the asset and the obtained cash flows or realised value of securities after meeting securities realisation costs.

5.2.8 Other Products & Services

CYBG Group also offers its business customers a range of other business banking products such as treasury services (e.g., interest rate risk management, commodities risk management, foreign exchange risk management, and money market deposits) and funding of professional indemnity insurance.

CYBG Group has an established track record of effectively working with key institutions to deliver services to customers. British Business Bank has announced a partnership with CYBG Group pursuant to which CYBG Group has agreed to provide certain levels of SME lending, backed by a guarantee from the British Business Bank. The pilot programme was launched in March 2015, and the Directors believe it is the first such programme for SMEs in the UK market.

Annexure G: Part Two
Information on CYBG Group

6. Distribution Channels

CYBG Group provides its products and services through an omni-channel distribution platform. CYBG Group's comprehensive distribution capability offers a product set aligned to its customers, as set forth in the retail product proposition breakdown by channel below for the year ended 30 September 2015.

In addition to its branches, CYBG Group has arrangements in place for current account holders to access their accounts through the Post Office network, which has the effect of extending CYBG Group's footprint to over 11,800 additional locations on a national basis. At Post Office locations, CYBG Group customers can conduct banking transactions (including cash withdrawal, balance enquiry and cash deposit transactions), providing additional opportunities for in-person banking services to its customers.

Customer Channel	PCAs	Savings(3)	Credit Cards	Mortgages	Personal Loans
	% of total new accounts opened			*% of total gross new lending*	
Branch network	81%	82%	37%	14%	39%
Intermediary	n.a.	n.a.	n.a.	74%	n.a.
Digital(2)	4%(1)	11%(1)	53%	3%(1)	41%
Telephony	15%	7%	10%	10%	19%
Total accounts opened (in thousands)/ total gross new lending (in £ billion)	85k	97k	34k	£4.9	£0.3

(1) Online form and post

(2) Includes aggregators

(3) Includes term deposits, cash ISAs and instant access accounts

6.1 Branch Network

As at 30 September 2015, CYBG Group has 275 retail branches in the UK (89 per cent. of which were located in the core regions), with 2,834 FTEs, including over 1,000 tellers and approximately 125 mortgage specialists. CYBG Group conducted approximately 18 million teller transactions in its branches and approximately 21.9 million account maintenance requests in the year ended 30 September 2015.

CYBG Group's branch network is key to CYBG Group's ability to meet the needs of its customers in local communities and will continue to provide an important source of customer acquisition and deposit and asset growth. During the year ended 30 September 2015, CYBG Group opened 81 per cent. of its total PCA accounts, 37 per cent. of its total credit cards issued, 82 per cent. of its total savings accounts and generated 14 per cent. of its total gross new mortgage lending and 39 per cent. of its total new unsecured personal lending through its branch network.

CYBG Group has prioritised providing quality customer service throughout its branch network and has continued to improve the branch customer experience. As compared to 30 September 2013, 30 September 2014 and 31 August 2015, CYBG Group had improved its branch interview satisfaction from 95.2 per cent. to 95.6 and 96.8 per cent. respectively and the likelihood of its customers to recommend CYBG Group from 30.9 per cent. to 42.2 per cent. and 58.4 per cent., respectively (*Source: Gusto CEA reports*).

6.2 Business and Private Banking Centres and Customer Service Centres

As at 30 September 2015, CYBG Group's physical network included 40 business and private banking centres, 28 of which are co-located with retail branches. CYBG Group's strategy of co-locating business and private banking centres with retail branches enables it to meet a wider range of customer product and service needs while achieving efficiencies across the network. CYBG Group also supports customer delivery via its four regional customer service centres.

6.3 Mortgage Intermediaries

CYBG Group has an eleven year track record with intermediary mortgage brokers and mortgage networks, with 65 per cent. of its broker panel members having a relationship with CYBG Group for four years or longer. CYBG Group's "invitation only" broker panel had a membership of 331 directly authorised brokers and network brokers as at 30 September 2015, with the top 10 brokers writing 34 per cent. of CYBG Group's gross new mortgage lending through intermediaries.

A significant proportion of the mortgages sold in the UK retail mortgage market are sold through intermediaries. The use of the intermediary mortgage market allows CYBG Group to compete effectively outside of its core regions, reducing concentration risk within those regions without having to increase the size of its branch network or add a significant number of employees.

As at 30 September 2015, approximately 95 per cent. of CYBG Group's intermediary mortgages had a loan-to-value ratio of less than 80 per cent.

6.4 Digital (internet & mobile)

CYBG Group offers online and mobile banking to its customers which are the two fastest growing distribution channels for CYBG Group as measured by log-ons and transactions. CYBG Group has seen a notable increase in mobile application and digital usage. For the year ended 30 September 2015, the number of mobile log-ons increased by 122 per cent. and the number of digital log-ons increased by 42 per cent. when compared to 30 September 2014. Following launch of the mobile application, from 1 October 2013 to 30 September 2014, CYBG Group achieved 29 million mobile log-ons.

Despite increasing competition, CYBG Group realised approximately 41.6 per cent. of its total new unsecured personal lending through online digital channels in the year ended 30 September 2015.

CYBG Group's current mobile offerings to retail customers provide functionality comparable to its peers in the UK market. Capabilities include the ability to (i) view balances and recent transactions, (ii) transfer money between accounts, (iii) receive text alerts, (iv) make and receive internal and external payments, (v) transfer money via PAYM and (vi) locate a branch. CYBG Group also rolled out full PAYM capabilities in April 2015, which integrated into the existing mobile application to send and receive secure payments using just a mobile telephone number. Together with other banks and building societies, CYBG Group has committed to a multi-million pound investment programme to deliver this service and raise awareness in the market.

CYBG Group's retail internet offering is a robust in-house solution offering servicing solutions that expand upon what is offered through the mobile application. Automated and simplified online solutions are being introduced in response to customer needs and are expected to be launched during the next two financial years ending 30 September 2016 and 2017, including increased online current account functionality which provides online origination capability across products.

As at and for the year ended 30 September 2015, CYBG Group had 13,428 business online active registrations, an increase from 11,314 as at and for the year ended 30 September 2014, 9,779 as at and for the year ended 30 September 2013 and 9,078 as at and for the year ended 30 September 2012.

As at 30 September 2015, 16 per cent. of CYBG Group's micro business customers, 31 per cent. of Business Direct customers and 33 per cent. of small business customers were registered for online banking. These percentages are calculated on an individual level as opposed to a connection level, which consolidates users common to the same account as one customer. For more information on CYBG Group's customer reporting, please see: "*Important Information Customer reporting*" of this Annexure G.

In addition to direct digital channels, CYBG Group has increased the use of aggregator channels with loans, mortgages, credit cards, PCAs and BCAs for both Clydesdale Bank and Yorkshire Bank brands marketed through 21 external websites as at 30 September 2015. CYBG Group has also increased social media usage into new assisted digital capabilities alongside the expected roll out of a video conference capability in branch and from home, increasing the use of co-browsing and screen-share technology.

6.5 Voice

CYBG Group provides retail telephony services via two principal contact centres in Clydebank and Kilmarnock in Scotland (the latter being outsourced to provide increased flexibility for call volumes) as well as two smaller centres in England to handle certain customer requirements. These centres support customers on both an inbound and outbound basis in a full range of account servicing and product sales activities, including non-voice activities such as web and social media. CYBG Group also provides SME customers with telephone support via the Business Direct channel, which services approximately 51,000 customers.

CYBG Group's Business Direct channel has delivered SME deposit growth. The following table sets out information on CYBG Group's Business Direct calls received and deposit balances for the periods indicated.

	As at and for the year ended 30 September			
	2015	**2014**	**2013**	**2012**
Business Direct calls per month	12,400[(2)]	10,720	9,475	8,114
Business Direct deposit balances (£m)[(1)]	997	945	844	497

(1) The significant step-up in 2012 versus 2013 was driven by restructuring of the business and a corresponding reclassification of deposits.

(2) Business Direct calls per month for financial year 2015 are up 2 per cent. versus the six months ended 31 March 2015.

CYBG Group's telephony channel functions 24 hours a day, 365 days a year and as at 30 September 2015, had 530 telephone banking FTEs (including 46 mortgage specialists). CYBG Group's telephone banking FTEs have an average of 7 years experience with CYBG Group. This onshore telephony capability is operated using CYBG Group-owned systems and infrastructure. The capability provided allows for intelligent call routing within sites and across sites, delivering the capability to work as one virtual contact centre. Within the existing telephony infrastructure, CYBG Group customers can use the automated "Interactive Voice Response" system to self serve for services ranging from balance updates to making bill payments.

Annexure G: Part Two
Information on CYBG Group

The CYBG Directors believe that CYBG Group's full-service telephone banking capability operated by experienced UK staff (alongside its digital capability) brings with it opportunities to reduce the costs associated with sales and servicing its customers through branches and to free up capacity in those branches to help meet more complex customer needs.

Collectively, these contact centres received approximately 3.4 million calls for the year ended 30 September 2015. Each centre is subject to rigorous monitoring and quality assessment, which has contributed to 80 per cent. of calls answered by a live operator having a wait time of less than 20 seconds in the six months ended 30 April 2015, compared to a market average of 69 per cent. (with a market high of 86 per cent. and low of 51 per cent.) (*Source: Benchmarkers – Telephone Banking Benchmark Autumn 2015 Report*).

CYBG Group has also introduced free-phone telephone numbers in order to further enhance the customer experience and inspire confidence in its telephony channel.

6.6 ATMs

CYBG Group continues to invest in its ATM network. As at 30 September 2015, CYBG Group held 894 ATMs (427 of which were Clydesdale Bank branded and 467 of which were Yorkshire Bank branded) in the CYBG Group network across the UK. In the period from June 2010 to February 2011, CYBG Group replaced over 540 ATMs. CYBG Group expects to introduce 100 new ATMs in 2015 as well as improvements for dispensing polymer notes.

7. Employees and Operational Functions

7.1 Employees

In the year ended 30 September 2015, CYBG Group had an average of 7,247 on and off payroll FTEs, including an average of 431 contractors and casual contracts primarily to supplement the permanent employee base within the operations and IT functions. As at 30 September 2015, 47 per cent. of CYBG Group business and private banking staff and approximately 50 per cent. of retail staff had more than ten years of banking experience with CYBG Group.

CYBG Group has implemented a number of changes to its organisational structure in order to streamline reporting lines and create specific teams to focus on key priority areas such as customer experience and conduct matters. The majority of these teams were transferred from retail banking areas. These changes include:

- Consolidation of a number of customer focused areas to create the Customer Experience and Marketing team in 2014 which focuses on customer service improvements. In 2014, 285 FTEs were transferred from retail banking to this team; and
- Creation of the Customer Trust and Confidence team in 2014 to provide greater focus on conduct issues, involving the transfer of 79 FTEs from retail banking and the recruitment of an additional 88 FTEs.

According to a 2015 CYBG Group employee engagement survey, 93 per cent. of employees replied favourably that they understood how to contribute to meeting the needs of customers, a one per cent. increase from 2014.

The following table shows a breakdown of the average number of CYBG Group employees by function for the periods indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
Average number of persons employed				
Managers	2,449	2,344	2,436	2,588
Clerical staff	4,367	4,355	4,355	5,078
Total on payroll FTE	6,816	6,699	6,791	7,666
Contractors	431	451	410	482
Total on and off payroll FTE	7,247	7,150	7,201	8,148

The following table shows a breakdown of the CYBG Group employees by segment as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
Business and private banking	1,164	1,221	1,173	1,883
Retail	2,834	3,065	2,976	2,993
Support	3,246	2,992	2,864	3,023
Total	**7,244**	**7,278**	**7,013**	**7,899**

As at 30 September 2015, all of CYBG Group's employees were covered by one collective bargaining agreement with Unite trade union. CYBG Group has a well-established relationship with its employees and there have been no labour disruptions or material claims by employees in the period from 1 October 2011 to 30 September 2015.

In April 2015, CYBG Group received the Best Employer Brand Award at the annual s1jobs Recruitment Awards as the employer that jobseekers in Scotland would most like to work for as voted for by s1jobs users (Scotland's largest employee recruitment site), performing better than other large corporate brands.

CYBG Group's remuneration arrangements are fully compliant with all regulatory requirements, in particular the PRA Remuneration Code. For additional information on CYBG Group's remuneration policy, see Part 8 of Annexure G: "*Additional Information on CYBG-Remuneration*".

7.2 Operational functions

CYBG Group's operations units are based in Glasgow and Leeds with certain mortgage processing outsourced to Genpact Ltd ("**Genpact**"). CYBG Group's operations function has two main areas: (i) payments and cash services, comprising payments operations, industry and scheme liaison, note issuance and cash operations; and (ii) retail and lending services, which provides back office processing and administration for all product groups. Both service centres are low cost and can be flexed on demand to accommodate changing business and customer needs.

CYBG Group relies on third-party supplier relationships to provide certain services and maintain efficiency. CYBG Group has proven operating model flexibility in response to demand changes, with demonstrated performance against service level agreements (exceeding or fully meeting availability commitments both internally and externally for eight consecutive years, with average customer facing service availability of 99.91 per cent from 31 March 2015 to 30 September 2015) and quality targets through peaks and troughs, successfully managing variations in systems and capacity, origination fulfilment and ISA processing. As at 30 September 2015, CYBG Group has designated 36 suppliers as "Category 1", meaning that the services provided under these agreements are considered critical for CYBG Group's day-to-day operations. These services include:

- Product related services such as mortgage processing, debit/credit card production, credit card processing and ATM transactions, cash management and cash in transit;
- Customer services, including call centre support;
- IT services, including application development and testing services;
- Property management; and
- Administrative services such as printing, post/couriers and document storage.

Payments to Category 1 suppliers represented approximately 40.2 per cent. of CYBG Group's total supplier expenditure for the year ended 30 September 2014 and approximately 43.1 per cent. for the year ended 30 September 2015.

7.2.1 Payments and cash services

The payment and cash services unit provides a number of critical banking services, including third-party relationship management, compliance with applicable legislation and payment scheme rules, and robust governance models for the end-to-end payment process. CYBG Group is one of only eight full clearing bank institutions in the UK and is a direct member of the following UK and International payment schemes: CHAPS, SWIFT, BACS, Faster Payment Service, Cheque and Credit Clearing, LINK, Target 2, SEPA and the managed services Current Account Switching and PAYM. CYBG Group's externally measured service availability of LINK, CHAPS and Faster Payment Service all compare favourably with UK competitors. CYBG Group processed approximately 24.5 million outgoing UK Faster Payments transactions and 151 million in inward UK BACS payment transactions for the year ended 30 September 2015. CYBG Group does not have an agency agreement for its payments and clearing bank services, resulting in retention of transaction and foreign exchange fees. CYBG Group is an authorised credit institution and account servicing payment service provider as defined in the 2015 Payment Services Directive ("**PSD 2**") and is fully engaged with PSD 2 at an industry level through the Payment UK PSD working group with other UK banks. CYBG Group has also established an internal working group comprised of key stakeholders (both business and technology) to assess the impact of this regulation on the organisation.

Clydesdale Bank is the largest of three commercial banknote issuers in Scotland and one of only ten commercial banks globally authorized to issue bank notes (in addition to the central banks), with a market share of Scottish notes in circulation as at 31 March 2015 of 44 per cent. (or £1,791 million as at 30 September 2015). Scottish banknote issuance is undertaken in accordance with the Scottish and Irish Bank Notes Act regulated by the Bank of England and all Clydesdale Bank banknotes are cash collateralised by an equivalent deposit at the Bank of England. Clydesdale Bank distributes banknotes through its branches and ATMs as well as to other financial institutions and third parties across Scotland, thereby promoting widespread recognition of the Clydesdale Bank name.

Clydesdale Bank has been issuing banknotes since 1838, and is one of only three banks in Scotland that issues banknotes. In 2009, Clydesdale Bank introduced the Scottish World Heritage paper banknote series, which celebrates the best of Scotland's heritage, people and culture and won the 2010 Best New Banknote Series Award from the International Association of Currency Affairs. In March 2015, Clydesdale Bank became the first issuer of polymer banknotes in Great Britain with a £5 polymer note incorporating the latest security features. CYBG Group's strategy for the next three years is focused on maintaining existing notes distribution partnerships with third parties, based on the CYBG Directors' belief that the note issuing market is relatively mature. The CYBG Directors believe the issuance of polymer notes will enhance Clydesdale Bank's reputation as a leading innovator in banknote issuance and help maintain its position as the predominant commercial issuer of banknotes in Scotland.

7.2.2 Retail and lending services ("RLS")

RLS processes new business via a centralised service platform to deliver product servicing and maturities across the bank, with employees based in two key centres, Clydebank and Leeds. The Clydebank centre focuses on select processes, including mortgage processing, estate administration, term deposits, cash ISAs, and unpaid cheques, while the Leeds centre processes a wider variety of services for retail as well as business and private banking.

8. Information Technology

The IT business unit is based in Glasgow. IT is focused across two areas, providing day-to-day operational services and managing the overall IT systems landscape for CYBG Group, which is done through a combination of in-house developed applications, packages and externally hosted services. The IT business unit also contains the bank procurement team and is responsible for supplier management. CYBG Group's current operating platform reflects the successful integration of the Clydesdale Bank and Yorkshire Bank systems following the merger, reducing cost and complexity of regulatory and mandatory change. Both retail and business front end applications are supported by a shared mainframe.

This team is based in Glasgow and is augmented by the use of various third-party providers, including IBM for certain technology services, BT for telecom services, Accenture and Syntel for outsourced application development and support services across a number of technology areas.

CYBG Group's existing structure is scalable to meet future demand, with recent investments in a new IBM mainframe, additional enterprise service bus (ESB) capacity, a major upgrade to the core banking lending platform and a replacement payments platform. This scalable payments platform provides a wide ranging suite of payments functionality. CYBG Group has also deployed new functionality in the mobile and digital arenas.

The IT and operations businesses benefit from an experienced and loyal workforce, with 66 per cent. of staff having been employed by the group for five years or more and 33 per cent. of this group having at least 15 years of service as at 30 September 2015.

8.1 IT systems

CYBG Group has a centralised IT model, which supports the needs of retail, business and private banking as well as enterprise support services. The IT team is structured into five fully scalable areas. These areas are:

- Strategy & Architecture: this team is responsible for defining the operations and IT business unit strategy, defining the technology strategy for CYBG Group, defining the target technology architecture for CYBG Group and associated roadmaps, and owning and administering the architectural governance framework;
- Development Centre: this team is responsible for application and software design, software development, software testing and implementation, applications maintenance and support, and infrastructure design;
- Procurement and IT Service: this team is responsible for IT operational services including telecoms, hardware and application installation, technology support and third party supplier oversight, managing IT incidents and disaster recovery processes, and undertaking third party oversight on behalf of CYBG Group via its supplier council;
- Information Security and Governance: this team is responsible for preventative and detective security controls for asset protection, threat and information security incident management and regular compliance comparisons to industry-recognised security configurations; and
- Management Assurance: this team is responsible for ensuring that the bank maintains an appropriate risk framework across the business unit, oversight of the risk profile and risk reporting and independent risk control testing.

The IT resourcing strategies across these five areas balance the need for continuity and agility. Relationships with market-leading third-party providers have been and will continue to be undertaken selectively in areas where niche skills are more difficult to maintain at a consistent level. However, maintaining a permanent skilled in-house team is critical to the success and functionality of the IT framework. While most of the key applications are run by CYBG Group, NAB will continue to provide certain services in the areas of credit and risk, finance, human resources and treasury under the TSA. For additional information, please see Section 4.8.5 of this Scheme Booklet.

CYBG Group has made a significant investment in upgrading the core lending platform to the current version resulting in all mortgage and personal lending being consolidated into one location. Other investments include delivery of a mobile banking platform with PAYM functionality, replacement of a legacy high value payments platform with a modern packaged solution, enhancements to online banking including a simplified registration process, introduction of customer two factor authentication and a redesigned customer interface. In March 2014, CYBG Group's IT team received the Data Governance Project of the Year Award from FStech, an industry organisation that recognises excellence and innovation in the field of information technology in the UK and EMEA financial services sector. CYBG Group has also received awards for the performance of its data centres, achieving silver level status for compliance with the EU Code of Conduct for Energy Efficiency as well as business continuity awards.

8.2 Streamlined operational efficiencies

CYBG Group has a proven track record of execution of simplification initiatives to streamline operational efficiency and de-risk the franchise.

- Customer Platform Delivery: Current account switching and mobile application rollout. CYBG Group's state of the art solution for executing its current account switching scheme with sophisticated automation resulted in the elimination of manual processes, saving approximately 145 FTEs, while providing a seamless service. CYBG Group's introduction of the mobile application (rolled out in eight months) led to mobile logins surpassing internet logins within 15 months of launch. CYBG Group has been rated as having the best switching service and mobile banking app in the March 2015 uSwitch.com survey.

- Outsourcing: CYBG Group uses selected outsourcing arrangements with reliable and industry-leading third-party suppliers to maintain flexibility in its cost base and facilitate scalability. Projects included UK market first ATM/POS outsourcing which delivered new large screen ATMs, 95 per cent. ATM cash dispensing availability, and 100 per cent. availability to LINK for ATM interchange between March and August 2015. However, CYBG Group does not outsource any of its core banking or payment systems.
- Procurement: CYBG Group operates a hybrid procurement model with critical, strategic procurement managed by a specialist in-house team and all other procurement activity outsourced to Xchanging plc achieving gross savings of £12 million in the year ended 30 September 2015.
- Platform and Systems Migration: Platform convergence, entity sale and exit and data centre replacement. CYBG Group successfully merged its back-end systems, improving functionality and performance of sales and service offerings. CYBG Group also shared systems with two Irish banks and successfully extracted and transferred the data as well as migrated the systems dedicated to the Irish banks as part of the entity sale and exit. The migration of 1.2 million customer records was completed within three days and the data migration was completed over 4 days. CYBG Group's data centre replacement was the single largest UK "lift and shift" hardware operation at the time. CYBG Group's data centres have the capacity to grow by approximately 50 per cent. CYBG Group has also consolidated four banking licenses into one.
- Large Scale Business Change: CYBG Group undertook an FTE reduction and enterprise optimisation exercise, alongside comprehensive branch rationalisation and branch modernisation initiatives. As a result, CYBG Group reduced headcount by 44 per cent. which lead to direct reductions to the cost base of approximately 30 per cent. during the period from the year ended 30 September 2011 to year ended 30 September 2013. CYBG Group also moved 23,000 customers to Business Direct from the year ended 30 September 2012 to the year ended 30 September 2015, closed 53 properties, 35 branches, and 18 business and private banking centres as well as migrated administration workload from 72 business and private banking centres into 4 regional customer service centres, going from only 15 per cent. of business sites being co-located to 70 per cent. as at 30 September 2015.

9. Relationship with NAB

This section describes the ongoing relationship CYBG Group will have with NAB following UK Admission and, in particular, sets out operational details of the transitional services arrangements with NAB under the TSA and RTSA.

9.1 Transitional Services Arrangements

In preparation for its separation from NAB, and operation on a standalone basis, CYBG Group has developed its own operational capabilities in certain functional areas including shareholder services and investor relations.

However, from separation, CYBG Group will continue to receive a range of banking operation services from NAB under the TSA on a transitional basis.

Each of the transitional arrangements agreed between CYBG Group and NAB under the TSA will be accompanied by a plan to migrate from the transitional arrangement to a CYBG Group standalone solution within a certain timeframe. It is intended that CYBG Group will have full standalone arrangements in place by 31 December 2018. The TSA services that are proposed to be provided by NAB to CYBG Group include:

- Risk (3-34 months) – processing of CYBG Group's data on NAB's credit risk engine to support regulatory reporting on credit risk weighted assets (including monthly calculations on both standardised and Foundation IRB basis); liquidity, IRRBB, market risk management and reporting systems; maintenance and support services for customer rating and credit stress testing models, as well as data consolidation services for stress testing; calculation of credit economic capital, regulatory and economic operational risk capital; and lastly, technology support for the operational risk portal;
- Treasury (3-34 months) – access, infrastructure and application support to NAB's deal capture and processing systems for treasury transactions; operational support for confirmation, management of collateral, payment and settlement of transactions entered into by CYBG Group; maintenance of static data; premises (dealing room, infrastructure and desk space); and temporary housing of CYBG Group's London-based Treasury team. In addition, services to be provided include reporting from treasury platforms to support monitoring of market risk, non-traded market risk, liquidity and balance sheet risk, as well as access and support for the credit risk exposure management and reporting system;
- Human Resources (12 months) – technology support services for CYBG Group's human resources management system; and
- Finance (12 months) – technology and business support services for financial consolidation and reporting systems, as well as calculation of funding and credit valuation adjustments for CYBG Group's derivative portfolio.

For a summary of the contractual terms of the TSA, see Section 4.8.5 of this Scheme Booklet, and for additional information on a range of potential risks in connection with CYBG Group's reliance on service arrangements with NAB, see Part 1 of Annexure G: "*CYBG Risk Factors-Risks relating to CYBG Group's relationship with NAB*".

9.2 CYBG Group's support of NAB's London Branch

As part of CYBG Group's operational separation from NAB, CYBG Group will provide certain operational support services to NAB's London branch under the RTSA. Each of the transitional arrangements agreed between NAB and CYBG Group under the RTSA are accompanied by a plan to migrate from the transitional arrangement to a NAB standalone solution within a certain timeframe. It is intended that CYBG Group will no longer be providing transitional services to NAB by 31 December 2018. The transitional services that are proposed to be provided by CYBG Group to support NAB's London branch are limited to technology services including hosting, data centre, domain name and network connectivity services in the UK.

9.3 Swaps

NAB is intending to provide a third party clearing service to CYBG Group for central clearing of derivatives transactions (primarily swaps), in compliance with the clearing obligations under EMIR (which obligations are yet to come into force), through LCH. Clearnet Ltd. The clearing relationship is on an arm's length basis, and both CYBG Group and NAB utilise market standard third-party technology to support the clearing of trades and novation to LCH.Clearnet Ltd. It will be contracted under market standard documentation.

9.4 CRE loans

Discussions are ongoing between NAB and CYBG Group about whether CYBG Group may repurchase specific CRE loans (up to approximately £200 million) within the legacy CRE portfolio previously disposed of to NAB where it may be appropriate for the customer relationship or to enable any disputes to be retained and managed directly by CYBG Group. Should any such repurchases proceed then NAB and CYBG Group currently intend that the relevant transfer agreements will be entered into and completed over the 12 months following the Demerger.

10. Liquidity and Funding

CYBG Group has a diversified funding mix, a strong base of predominantly lower-cost retail customer deposits, proven access to wholesale secured funding and limited reliance on short-term wholesale funding, which the CYBG Directors believe provide a stable source of funding for the growth of its business. CYBG Group has improved its funding position and reduced its funding costs in recent years by growing its lower-cost current account funding, which increased from £10.7 billion as at 30 September 2012 to £13.0 billion as at 30 September 2015, increasing its medium and long-term wholesale funding and reducing the volume of its more expensive fixed-rate term deposits. As at 30 September 2015, customer deposits of £26,349 million accounted for 83.6 per cent. of CYBG Group's funding base (defined as customer deposits, bonds and notes, amounts due to related entities and amounts due to other banks, which totalled £31,506 million at 30 September 2015).

10.1 Liquidity

CYBG Group undertakes a conservative approach to liquidity management by imposing internal limits, including limits based on stress and scenario testing, in addition to regulatory requirements. CYBG Group manages liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of CYBG Group and to enable CYBG Group to meet its financial obligations.

As at 30 September 2015, CYBG Group's LCR ratio was 136 per cent. and its NSFR ratio was 120 per cent.

CYBG Group maintains a liquid asset portfolio that includes primarily cash in deposits with central banks and UK Government gilts. CYBG Group manages this portfolio to meet PRA liquidity requirements while diversifying the mix to reduce basis risk and optimise the yield on liquid assets.

Overall, liquid assets decreased from £8,968 million as at 30 September 2012 to £7,695 million as at 30 September 2013 and £7,154 million as at 30 September 2014. During this period, CYBG Group reduced excess liquidity by reducing low yielding cash and balances with central banks while maintaining a prudent level of liquid assets in excess of PRA regulatory requirements. As at 30 September 2015, liquid assets increased to £7,893 million, reflecting strong growth in retail funding in excess of lending in the year and partial pre-funding of customer asset growth.

For further information regarding CYBG Group's liquidity, see Part 5 of Annexure G: "*CYBG Operating and Financial Review —Funding, Liquidity and Capital Resources—Liquidity*".

10.2 Funding

CYBG Group has a diversified funding base, with the majority of CYBG Group's funding for its loan portfolio generated through customer deposits in the form of current accounts and savings accounts. In recent years, CYBG Group has experienced strong growth in current accounts balances, while more expensive term deposits have significantly decreased.

CYBG Group aims to manage its balance sheet so that customer asset growth is matched with sustainable retail deposit growth, which CYBG Group monitors through the loan-to-deposit ratio. CYBG Group's loan-to-deposit ratio was 115 per cent. as at 30 September 2014 and 109 per cent. as at 30 September 2015.

CYBG Group also actively seeks to diversify its funding mix through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding in terms of the type of instrument and product, maturity, currency, counterparty, term structure and markets through such programmes. CYBG Group issued £1.1 billion of external covered bonds in June 2012. In terms of external RMBS, CYBG Group issued €615 million in March 2012, $800 million and £525 million in July 2012, £350 million and $300 million in July 2013, £350 million and €300 million in March 2014, €550 million and £275 million in December 2014 and £300 million and €280 million in August 2015 through the Lanark securitisation programme. The tenor of the bonds to their call date ranges from 3 to 14 years, which helps to provide a stable funding base for CYBG Group.

10.3 Due to related entities

Since 2012, CYBG Group has significantly reduced the extent of senior funding from NAB and obtained an increasing proportion of its funding from retail deposits and secured wholesale term funding (in the form of RMBS and covered bonds). In 2012, CYBG Group repaid intragroup funding to NAB in the amount of £5,084 million with proceeds from the disposal of the legacy CRE portfolio to NAB. In December 2013, CYBG Group redeemed £300 million of Additional Tier 1 capital. In December 2014, £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties was also redeemed. These instruments would have become progressively ineligible for Tier 2 treatment under CRD IV's transitional rules from 1 January 2015 as well as the introduction of a 25 per cent. capital limit under Pillar 2A. These instruments were replaced by an issue of £350 million of ordinary shares to NAB related parties and issues of Additional Tier 1 capital instruments of £450 million to NAB. As a result of these and other transactions, total amounts due to related entities decreased to £998 million as at 30 September 2015 from £7,716 million as at 30 September 2012. As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's current interest in CYBG Group's existing Additional Tier 1 capital instruments and Tier 2 subordinated debt, with an equivalent amount of new Additional Tier 1 capital instruments and Tier 2 subordinated debt. For additional information, please see Part 8 of Annexure G: "*Additional Information on CYBG—Funding Programmes*," Part 5 of Annexure G: "*CYBG Operating and Financial Review—Funding, Liquidity and Capital Resources—Capital Position*" and Part 8 of Annexure G: "*Additional Information on CYBG—Material Contracts—Demerger Implementation Deed*".

As at 30 September 2015, deposit amounts due to related parties amounted to £125 million. This included a £100 million loan that was repaid in October 2015, three months earlier than the maturity date. In July 2015, CYBG Group repaid £312 million of senior funding from NAB at contractual maturity. Following the demerger of CYBG Group from NAB and the Institutional Offer, CYBG Group expects amounts due to NAB to further decrease as NAB funding is replaced at maturity through like for like issuance. For additional information, please see Part 5 of Annexure G: "*CYBG Operating and Financial Review—Funding, Liquidity and Capital Resources—Funding and Funding Strategy—Due to related entities*".

11. Capital Adequacy

CYBG Group's CET 1 ratio was 9.6 per cent. at 30 September 2013, 9.4 per cent. at 30 September 2014 and 13.2 per cent. at 30 September 2015.

On 20 December 2013, CYBG Group replaced £100 million of perpetual non-cumulative preference shares and £200 million of hybrid Tier 1 capital instruments, which were not compliant with Basel III requirements for loss absorbency, with the issue to NAB of £300 million of perpetual capital notes. The perpetual capital notes are structured to qualify as Additional Tier 1 capital under CRD IV. CYBG Group also issued an additional £300 million of ordinary shares to NAB on 27 March 2014.

In December 2014, CYBG Group redeemed £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties, which would have been ineligible under CRD IV as at 1 January 2015, and replaced it with an issue of £350 million of ordinary shares to NAB related parties and Additional Tier 1 capital instruments of £150 million to NAB.

The gains arising as a result of CYBG Group's regulatory capital actions in 2014 were held to enhance CYBG Group's CET 1 capital and CET 1 capital ratio. The capital benefits from balance sheet optimisation in 2014 resulted in a reduction in credit risk-weighted assets, however this was partially offset by the impact of conduct charges incurred in the year and the capital deductions arising from the introduction of CRD IV.

Between June and September 2015, CYBG Group issued to NAB 2 ordinary shares at their nominal value of £0.10 per share with a total share premium of £670 million as part of the preparation for the Demerger and the Institutional Offer. These actions led to a significant strengthening of the CET1 ratio.

On 24 September 2015, £465 million forming part of the £670 million total share premium was provided to CYBG Group by NAB by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters under the Capped Indemnity in its accounts for the year ended 30 September 2015.

The table below sets out the capital position and capital ratios of CYBG Group on a CRD IV basis and includes grandfathered legacy Tier 2 instruments under the transitional rules implemented by the PRA. For additional information, please see Part 5 of Annexure G: "*CYBG Operating and Financial Review —Funding, Liquidity and Capital Resources—Capital Position*".

Annexure G: Part Two
Information on CYBG Group

	As at 30 September	
	2015	**2014**
	CRD IV	**CRD IV**
	(£m, except %)	
CET 1 capital	2,405	1,747
Additional Tier 1 capital instruments	450	300
Total Tier 1 capital	2,855	2,047
Tier 2 capital	598	1,260
Total capital	**3,453**	**3,307**
Capital ratios:		
CET 1 ratio	13.2%	9.4%
Tier 1 ratio	15.7%	11.0%
Total capital ratio	**18.9%**	**17.7%**

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's current interest in CYBG Group's existing Additional Tier 1 capital instruments and Tier 2 subordinated debt, with an equivalent amount of new Additional Tier 1 capital instruments and Tier 2 subordinated debt. For additional information, please see Part 5: *"Operating and Financial Review – Funding, Liquidity and Capital Resources – Capital Position"* and Part 14: *"Additional Information—Material Contracts—Demerger Implementation Deed"*.

12. Community Outreach and Charitable Giving

The Yorkshire and Clydesdale Bank Foundation provides support to a large number of charities across the UK, distributing over £864,000 to over 350 causes in the year ended 30 September 2015, including £149,562 to CYBG Group's employee volunteer grants programme. CYBG Group's charity relationship with Hospice UK is now in its eighth year and over £4.5 million has been raised in this time, including matching donations from CYBG Group. In addition, as of 30 September 2015, 19 per cent. of employees donated to their chosen charities through payroll giving, and CYBG Group's employees volunteering policy offers all employees the opportunity to take two days paid leave to work in their local communities.

13. Corporate Structure

The Company is the ultimate parent company of Clydesdale Bank (after giving effect to the Demerger and the Institutional Offer) and indirectly owns 100 per cent. of the ordinary shares of Clydesdale Bank. A list of what will, following implementation of the Demerger, be the Company's significant subsidiaries is set out in Part 8 of Annexure G: *"Additional Information on CYBG"*.

The Company is a public limited company, incorporated in England and Wales, whose principal activity will, following Demerger, be to act as the holding company for CYBI and Clydesdale Bank. Clydesdale Bank has no material operations outside the UK. Neither the Company nor CYBI holds a UK banking licence and only CYBI undertakes limited economic activity beyond its principal activity, with all operations undertaken through UK registered entities. The only non UK registered entities of CYBG Group are two trustee companies that are part of CYBG Group's securitisation vehicles. Clydesdale Bank is an "authorised person" under the Financial Services and Market Act 2000 and is regulated by the PRA and FCA. For more information on Clydesdale Bank's regulatory status, see Part 7 of Annexure G: *"Supervision and Regulation"*.

14. Conduct

Conduct-related issues, including PPI customer redress, have had a significant impact on the profitability of participants in the UK retail banking market, including CYBG Group, in recent years. CYBG Group has been implementing a comprehensive programme intended to ensure continued improvements in the handling of all complaints, and work continues to be done to address identified legacy conduct issues. In response to regulatory actions and legacy conduct issues, CYBG Group has raised PPI customer redress provisions, as well as provisions for other conduct-related matters, including the sale of IRHP (which includes Standalone IRHP and Voluntary Scope TBLs) and certain FRTBLs which are, or previously have been, subject to customer complaint. For additional information, see Part 5 of Annexure G: *"CYBG Operating and Financial Review—Significant Factors Affecting Results of Operations and Financial Position—Legacy conduct-related redress"*. As a consequence of the changes that have been made in response to regulatory actions, as well as the changes implemented by CYBG Group's conduct framework, as described below, the CYBG Directors believe that both oversight and governance of CYBG Group's historical PPI complaints have been overhauled.

CYBG Group is working to remediate a number of other issues which have not had and are not expected to have a material impact on CYBG Group's financial position, operations or profitability. A training and competency framework has been implemented for complaint handling teams, with all staff enrolled in ongoing fair outcome training programmes.

CYBG Group has a clear set of objectives and desired outcomes to achieve in respect of its conduct towards its customers. These target objectives and outcomes are designed to ensure fair customer outcomes and are described within CYBG Group's conduct framework (the "**Conduct Framework**"). At the core of CYBG Group's Conduct Framework are the six Treating Customers Fairly ("**TCF**") outcomes as defined by the FCA. The overall Conduct Framework is the responsibility of the CEO and the implementation of each element of the Conduct Framework is assigned to an executive team member. CYBG Group undertakes regular assessment of these elements with a view to monitoring that the Conduct Framework is executed properly. CYBG staff complete, as part of their annual compliance training, a Customer Focused e-Learning module which covers the importance of being customer focused and delivering fair customer outcomes. CYBG Group places importance on customer outcomes in staff performance scorecards of all staff, creating employee accountability and incentivising better customer engagement.

In addition to the Conduct Framework, CYBG Group has a customer fairness model for the identification and management of potential conduct issues (the "**Customer Fairness Model**"). The Customer Fairness Model is governed through CYBG Group's Customer Fairness Board. In 2013, CYBG Group also implemented an enhanced product governance framework with a standardised "best practice" model across product management (the "**Product Governance Framework**") that the CYBG Directors believe has led to improved and consistently delivered fair customer outcomes. This Product Governance Framework incorporates a review of new products and changes to existing products, and is designed to ensure that both on and off-sale products are subject to a periodic formal review, with higher risk products being subject to approval by the CYBG Board risk committee and then reviewed annually. CYBG Group has assessed its products in order to categorise products by risk category into high, medium and low risk products. CYBG Group has conducted a detailed review of products it has categorised as high risk products and is in the process of reviewing products that it has categorised as medium and low risk products. For example, CYBG Group has conducted two in-depth annual product reviews of its packaged bank account product under the Product Governance Framework and did not identify any systemic issues with this product. The frequency of these periodic reviews is risk based and driven by an assessment of an individual product against five key risk factors: target market, complexity, performance, reputation and commercial risk, taking into account customer feedback. Additionally, five new product manager roles and 11 new senior product analyst roles were created to support this strengthened focus on product governance.

In January 2014, CYBG Group created a Customer Trust and Confidence division to provide clear accountability for all conduct-related matters and centralise activity across legacy back book issues. The Customer Trust and Confidence division is led by an executive director. Within the Customer Trust and Confidence division, CYBG Group has established a Customer Remediation Centre of Excellence, which includes a team of skilled employees working across customer remediation activities. These employees are responsible for developing and implementing and seeking to ensure that a consistent approach to best practices, project structure and discipline as well as that agreed remediation principles are followed to facilitate consistent and fair customer outcomes. A redress forum is responsible for agreeing the redress approach for all remediation initiatives, which is intended to ensure a consistent approach to redress.

Management use a detailed conduct performance dashboard to monitor CYBG Group's progress in becoming a trusted UK retail bank, including monitoring the processes for managing conduct redress activity.

Conduct Mitigation

Introduction and Scope of Coverage

As part of the Demerger, NAB and the Company have entered into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide the Company with the Capped Indemnity in respect of certain historic liabilities relating to conduct in the period prior to the Demerger Date. The conduct issues covered by the Capped Indemnity are referred to as "**Relevant Conduct Matters**". The Capped Indemnity provides CYBG Group with economic protection against certain costs and liabilities (including financial penalties imposed by a regulator) resulting from conduct issues relating to:

(i) PPI, Standalone IRHP, Voluntary Scope TBLs and FRTBLs; and

(ii) other conduct matters, measured by reference to the following thresholds (a) claims relating to an industry wide compensation customer redress programme entered into as part of a settlement with a regulator exceeding £2.5 million, in aggregate, and (b) all other claims that exceed £5 million, in aggregate, and affect more than 50 customers,

which, in each case, relate to conduct in the period prior to the Demerger Date whether or not known at the Demerger Date. For these purposes, "conduct in period prior to the Demerger Date" includes acts, omissions and agreements by or on behalf of CYBG Group with respect to CYBG Group or CRE customers in relation to the period prior to the Demerger Date which either constitute a breach of or failure to comply with, or are determined by the Company in good faith to be reasonably likely on a balance of probabilities to constitute a breach of or failure to comply with, applicable law or regulations.

Claims may be made by the Company under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter. Any existing provisions for Relevant Conduct Matters are, where possible, to be utilised by CYBG Group prior to a member of CYBG Group raising new provisions or increasing existing provisions that fall within the scope of the Capped Indemnity (and thereby giving rise to a claim under the Capped Indemnity).

Amounts payable under the Capped Indemnity include, subject to certain limitations, provisions raised or increased in respect of payments to customers to satisfy, settle or discharge a Relevant Conduct Matter and of the direct costs and expenses of satisfying, settling, discharging or administering such Relevant Conduct Matter. The Capped

Indemnity does not extend to indirect costs nor penalties or other financial losses which may be incurred by CYBG Group in respect of the mishandling of a Relevant Conduct Matter by CYBG Group during the period following the Demerger. In addition, whilst the Capped Indemnity covers claims resulting from changes in the generally accepted application or interpretation of laws or regulations, it does not cover claims arising from the retrospective application of new laws and regulations.

Capped Indemnity Amount, Unutilised Provisions and Unutilised Indemnity Amount

At the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion. This figure is determined as follows:

- To achieve the Demerger, the PRA required there to be a capital support package amounting to £1.7 billion for potential losses of CYBG Group related to legacy conduct costs not covered by existing provisions raised by CYBG Group as at 31 March 2015.
- Of this £1.7 billion, the Company will take responsibility for £120 million of the aggregate liability for Relevant Conduct Matters under the Loss Sharing Arrangement (described below), with NAB being responsible for the remainder (being £1.58 billion).
- Of this £1.58 billion for which NAB is responsible, £465 million was provided to CYBG Group by NAB on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters in its accounts for the year ended 30 September 2015. This amount of £465 million, plus the amount of any further provisions in respect of Relevant Conduct Matters raised or increased by the CYBG Group in respect of which capital support is provided by NAB prior to the Demerger, is the "**Pre-Covered Provision Amount**".

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is expected to be £1.115 billion, assuming that no further provisions in respect of Relevant Conduct Matters are raised or increased by CYBG Group and funded by way of capital support from NAB prior to the Demerger Date and that as a result the Pre-Covered Provision Amount is £465 million.

The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities as at the Demerger Date (the amount of such provisions, including the Pre-Covered Provision Amount, "**Pre-Demerger Provision Amounts**"), being as at 30 September 2015, £986 million in aggregate, comprising: (i) a provision of £774 million for PPI; (ii) provisions of £192 million for Standalone IRHP, Voluntary Scope TBLs and FRTBLs; and (iii) provisions of £20 million for other conduct related matters. The support provided by the Capped Indemnity, in addition to the £986 million in unutilised provisions remaining as at 30 September 2015, provides total cover for conduct costs of £2.1 billion (without taking account of the Loss Sharing Arrangement).

The amount of support available pursuant to the Capped Indemnity at any given time following the Demerger Date will be the "**Unutilised Indemnity Amount**", being the Capped Indemnity Amount less the following agreed deductions:

- The Unutilised Indemnity Amount will be reduced to the extent of any payments made pursuant to the Capped Indemnity (net of any repayments to NAB made by the Company following a release or reduction of a provision of a member of CYBG Group for Relevant Conduct Matters).
- The Unutilised Indemnity Amount will also be reduced to the extent of any interest or tax deduction applied or required to be applied by CYBG Group against provisions of a member of CYBG Group for Relevant Conduct Matters pursuant to the Conduct Indemnity Deed.
- The Company and NAB will use reasonable endeavours to ensure that the PRA undertakes a periodic reassessment of the potential remaining exposure of CYBG Group to conduct costs in conjunction with the submission of CYBG Group's ICAAP to the PRA. The Unutilised Indemnity Amount will be permanently reduced following any reassessment by the PRA that the potential remaining exposure of CYBG Group to Relevant Conduct Matters is less than the sum of the outstanding Unutilised Indemnity Amount from time to time plus any unutilised Pre-Demerger Provision Amounts and the Company's outstanding liability under the Loss Sharing Arrangement (being any unused portion of the Company's £120 million share under such arrangement).

In addition, under the terms of the Conduct Indemnity Deed, NAB will reimburse the Company for any reasonable out-of pocket costs of CYBG Group in implementing investments in its operational efficiency programmes (less the Company's Loss Share of such costs), provided that, where such costs are in excess of £2 million in any financial year of CYBG Group, NAB and the Company have each approved such investments. The Unutilised Indemnity Amount will be reduced by the amount of any reimbursements made by NAB for such costs.

Loss Sharing Arrangement

In order to align the interests of NAB and the Company with respect to each claim under the Capped Indemnity, it has been agreed that NAB will pay to the Company an amount equal to any new provisions (or the amount of any increases in existing provisions) raised by a member of CYBG Group for Relevant Conduct Matters on a fixed proportional basis ("**Loss Sharing Arrangement**"). Under the Loss Sharing Arrangement, the Company will be responsible for that portion of the relevant conduct liabilities forming part of the relevant provision which equates to the proportion that £120 million bears to the sum of the Capped Indemnity Amount plus £120 million at the Demerger Date (the

"**Aggregate Exposure Amount**"), expressed as a percentage (the "**Loss Share**"). At the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion and therefore the Loss Share is expected to be fixed at 9.7 per cent. If there is no further specific support provided by NAB for Relevant Conduct Matters prior to implementation of the Demerger, the Loss Share will remain fixed at 9.7 per cent.

Collateral Account

NAB will collateralise certain of its obligations under the Capped Indemnity from the Demerger Date by placing a cash deposit with The Bank of England in an amount equal to the Unutilised Indemnity Amount from time to time (the "**Collateral Account**") and over which a security interest at least equivalent to a floating charge will be granted in favour of the Company. If NAB wishes to implement an alternative collateral arrangement to replace the Collateral Account, the Company and NAB will discuss and seek to agree in good faith such alternative arrangements. The Company may not unreasonably withhold its consent to such arrangements if such alternative arrangements would not reasonably be expected to prejudice the ability of the Company to obtain payment of amounts otherwise payable from the Collateral Account. If any such arrangements are agreed between the Company and NAB, they must obtain the approval of the PRA before implementing those arrangements. The Collateral Account is only for the purposes of providing security for NAB's obligations under the Capped Indemnity. Claims under the Capped Indemnity will therefore be met by NAB directly with an equivalent amount being released from the Collateral Account back to NAB upon satisfaction of NAB's payment obligations. Any interest payable on the Collateral Account
is payable to NAB.

Designated Account

Any amount paid to the Company pursuant to the Capped Indemnity will be deposited in a designated account at Clydesdale Bank in the name of the Company. The Company may, at its option, downstream the funds received to members of CYBG Group by way of one or a series of equity subscriptions, provided that the funds are credited to a designated account in the name of a member of CYBG Group (a "**Designated Account**") at all times. The Company will also transfer to a Designated Account prior to the Demerger Date, any portion of the Pre-Covered Provision Amount which is unutilised at the date of such transfer. Funds in a Designated Account will only be released when CYBG Group incurs and pays a conduct cost that falls within the scope of the Capped Indemnity. If CYBG Group incurs and pays such a cost, it may withdraw from a Designated Account(s) an amount equal to such costs on a quarterly basis. The amounts standing to the credit of the Designated Account(s) may not be withdrawn or allocated by CYBG Group for any other purpose (but without prejudice to the use by Clydesdale Bank in the ordinary course of its business of the deposit placed with it). Any interest earned on amounts standing to the credit of a Designated Account is to be applied in respect of the next relevant provision raised or increased by a member of the CYBG Group or in discharging conduct costs falling within the scope of the Capped Indemnity.

Release or Reduction of Provisions

If any provision forming part of a Pre-Demerger Provision Amount or any portion of CYBG Group's unutilised provisions for Relevant Conduct Matters which have been covered by the Capped Indemnity (the "**Unutilised Covered Amount**"), is no longer required such that it is released or reduced, the aggregate amounts of provisions released or reduced (or, in the case of the Unutilised Covered Amount, the proportion thereof reflecting NAB's share under the Loss Sharing Arrangement) must be applied against the next relevant provision raised or increased by a member of CYBG Group or in discharging conduct costs falling within the scope of the Capped Indemnity. Where the aggregate amounts of provisions released or reduced are greater, by £15 million or more, than the provisions or increases within the scope of the Capped Indemnity which the Company believes will be raised by CYBG Group in the following 12 months, such excess amount shall be repaid to NAB (with a corresponding adjustment to the Unutilised Indemnity Amount in the amount of any excess which is repaid to NAB).

Information Rights and Dispute Resolution

Although the Company has sole conduct of Relevant Conduct Matters, NAB has the benefit of certain information, consultation and audit rights in relation to Relevant Conduct Matters and claims made under the Capped Indemnity. In addition, a joint conduct review committee comprising representatives of the Company and NAB has been established which is responsible for the oversight and governance of the Capped Indemnity arrangements.

The Capped Indemnity is also subject to a dispute resolution procedure which may result in any unresolved issues being determined by a third party expert or by court proceedings. If the dispute relates to a matter which is determined to be a continuing material breach by the Company of its obligations under the Conduct Indemnity Deed to, among others, cooperate in relation to the assessment by the PRA of the potential remaining exposure to claims within the scope of the Capped Indemnity and provide information to NAB to enable it to review the validity of claims made under the Capped Indemnity and withdrawals from the Designated Account(s), NAB will be entitled to suspend any part of a Capped Indemnity payment and the Company will be prohibited from withdrawing an amount from the Designated Account(s) for so long as such breach is continuing, in each case which relates to the Relevant Conduct Matter in relation to which the Company is in material non-compliance. All other amounts under the Capped Indemnity will remain payable by NAB.

Annexure G: Part Two
Information on CYBG Group

Duration and Termination

The indemnity protection provided by NAB to the Company in respect of Relevant Conduct Matters under the Capped Indemnity is perpetual in nature, except in the following circumstances:

(a) it is fully utilised by CYBG Group;

(b) in the event that, at any time post-Demerger:

(i) the PRA determines that NAB's remaining exposure under the Capped Indemnity; or

(ii) the Unutilised Indemnity Amount,

is £100 million or less, NAB will have the right (with the approval of the PRA (at its sole discretion)) to terminate the Capped Indemnity by subscribing for CYBG Shares (at a price equivalent to the prevailing five-day average market price for the CYBG Shares) in an amount equal to the Unutilised Indemnity Amount, provided that the maximum value of the CYBG Shares to be subscribed for does not exceed a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**£100 million Termination**"); and

(c) NAB and the Company may also agree arrangements to terminate or replace the Capped Indemnity with the consent of the PRA. In particular, NAB and the Company have agreed that they will, on the fifth anniversary of the Demerger (and, if relevant, each subsequent anniversary of the Demerger), seek to agree arrangements to terminate the Capped Indemnity. If any such arrangements are agreed between NAB and the Company, they will be required to obtain the approval of the PRA (at its sole discretion) before commencing the implementation of such arrangements. In relation to proposals made by NAB to the Company in connection with such termination of the Capped Indemnity, the Company cannot unreasonably withhold its agreement to the Capped Indemnity being replaced by a payment equal to the Unutilised Indemnity Amount to be applied (in whole or in part) in subscribing for CYBG Shares (at a price equivalent to the prevailing five-day average market price for the CYBG Shares), provided that the maximum value of the CYBG Shares to be subscribed for pursuant to such proposal would not exceed £200 million or if lower, a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**Post-5 Year Equity Subscription Termination**").

If £100 million Termination or Post-5 Year Equity Subscription Termination occurs, the Company will not be entitled to make any further claims under the Capped Indemnity, but will be entitled to retain in the Designated Account(s) for a period of three years following such termination, any Unutilised Covered Amount and any amount to be withdrawn from the Designated Account in respect of conduct costs that fall within the scope of the Capped Indemnity which have been incurred and paid by CYBG Group prior to such termination. The Company will be required to return to NAB any other amounts in the Designated Account(s) and to release to NAB all amounts remaining in the Collateral Account. Following the expiry of such three-year period, the Company will be required to repay all remaining amounts in the Designated Account(s) net of any amount to be withdrawn from the Designated Account in respect of conduct costs that fall within the scope of the Capped Indemnity which have been incurred and paid by CYBG Group prior to such anniversary.

It would not be necessary for the Company to seek shareholder approval pursuant to Chapter 10 or 11 of the UK Listing Rules nor to obtain shareholder authority under the *Companies Act (UK)* to allot CYBG Shares to NAB, in order to implement a £100 million Termination. If the Company and NAB agree, with the PRA's consent, to terminate the Capped Indemnity pursuant to a Post-5 Year Equity Subscription Termination, it would not be necessary for the Company to seek shareholder approval pursuant to Chapter 10 or 11 of the Listing Rules (unless, in the case of Chapter 11, such arrangements are subject to material amendment) nor to obtain shareholder authority under the *Companies Act (UK)* to allot CYBG Shares to NAB, in order to implement a Post-5 Year Equity Subscription Termination.

The Company has been granted an authority to issue and allot CYBG Shares up to an aggregate nominal value of £200 million post-implementation of the Demerger in connection with any termination of the Capped Indemnity and to disapply pre-emption rights in respect of such issuances and allotments.

The Capped Indemnity will not automatically cease to apply nor will it automatically terminate upon any change of control of the Company, CYBI or Clydesdale or in the event of a sale of the relevant business and assets of a member of CYBG Group. However, prior to any change of control, the parties must cooperate in good faith to facilitate an assessment by the PRA to determine whether the Capped Indemnity should continue in the then amount or whether it should be terminated in whole or part. Any such assessment will be at the sole discretion of the PRA.

Taxation

It is not expected that payments to the Company under the Capped Indemnity (or subsequent subscriptions for equity in other members of CYBG Group using the proceeds of such payments) will be taxable in the hands of CYBG Group but if tax were to be payable, then the Conduct Indemnity Deed contains provisions pursuant to which NAB has, as a term of the Sale and Purchase Agreement, agreed to compensate the Company for any actual tax incurred that would not have been incurred but for receipt of amounts by the Company under the Capped Indemnity or by members of CYBG Group pursuant to subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments. In certain circumstances, CYBG Group may be liable to a tax charge in respect of payments to customers for Relevant Conduct Matters and NAB has also agreed, subject to certain limitations, to compensate the Company for those tax costs net of deductible expenses if they arise in respect of NAB's share of liability under the Loss Sharing Arrangement for Relevant Conduct Matters (together with the matters referred to in the preceding sentence, the "**Tax Indemnity Provisions**"). It is not expected that the Tax Indemnity Provisions will give rise to any net payment to the Company. Compensation will be paid when tax is incurred on the receipts or, where DTAs are used to shelter tax on the receipts, when other income is subject to tax which would not have arisen but for the use of the DTAs to shelter tax on the receipt of amounts under the Capped Indemnity, taking into account whether payments under the Capped Indemnity are taxable and whether the underlying customer compensation payments and related costs and expenses give rise to tax relief. To the extent actual tax becomes due, NAB will pay the Company an amount equal to such tax. The Unutilised Indemnity Amount will not be reduced for any payments made under the Tax Indemnity Provisions.

Should any amounts paid to the Company under the Capped Indemnity (or subsequent subscriptions for equity in members of CYBG Group in consequence of receipt of such payments) be subject to tax, it is not possible to determine the amount that may be payable under the Tax Indemnity Provisions as this will depend on tax legislation at the time the relevant payments (or subscriptions) become subject to tax. No changes to tax legislation are currently anticipated that would make such payments (or subscriptions) subject to tax however changes to UK tax legislation may be enacted at any time including before payments are due under the Tax Indemnity Provisions. Save for the Capped Indemnity and the Tax Indemnity Provisions, the Company has agreed to release the NAB Group from liability for any other conduct related claims by any member of CYBG Group against any member of the NAB Group.

Annexure G: Part Three
CYBG Directors, CYBG Senior Management and Corporate Governance

1. Directors

The CYBG Directors are:

Name	Age	Position	Date Appointed
James Pettigrew	57	Chairman, Non-Executive CYBG Director	27 August 2015
David Duffy	54	CYBG Chief Executive Officer	29 September 2015
Ian Smith	49	CYBG Chief Financial Officer	27 August 2015
Debbie Crosbie	45	CYBG Chief Operating Officer	27 August 2015
David Bennett	53	Independent Non-Executive CYBG Director, Deputy Chairman	22 October 2015
Richard Gregory OBE	61	Senior Independent Non-Executive CYBG Director	29 September 2015
David Allvey	70	Independent Non-Executive CYBG Director	29 September 2015
David Browne	57	Independent Non-Executive CYBG Director	29 September 2015
Adrian Grace	52	Independent Non-Executive CYBG Director	29 September 2015
Barbara Ridpath	59	Independent Non-Executive CYBG Director	29 September 2015
Teresa Robson-Capps	60	Independent Non-Executive CYBG Director	29 September 2015
Alex Shapland	55	Independent Non-Executive CYBG Director	29 September 2015
Richard Sawers(1)	61	Non-Executive CYBG Director	29 September 2015

(1) It is proposed that Richard Sawers will resign from the CYBG board prior to pricing and placing of the Institutional Offer. If the Institutional Offer does not proceed or it proceeds but NAB retains an interest in CYBG Shares representing at least 20% of CYBG's Shares, Richard Sawers will be re-appointed to the CYBG Board as a non-executive Shareholder Director in accordance with NAB's rights under the terms of the Relationship Agreement. For further details of the Relationship Agreement, see Section 5.3 of this Scheme Booklet.

The management expertise and experience of each of the executive CYBG Directors ("**Executive CYBG Directors**") and the non-executive CYBG Directors ("**Non-Executive CYBG Directors**") is set out below:

James Pettigrew, Chairman, Non-Executive CYBG Director

James Pettigrew joined CYBG Group in September 2012 and is a member of CYBG Board's Remuneration Committee. He has over 30 years of experience as a chartered accountant. James' previous roles include Group Finance Director of ICAP PLC, Chief Executive Officer of CMC Markets PLC, Chief Operating Officer of Ashmore Group PLC and Group Treasurer of Sedgwick Group Plc. James is President of the Institute of Chartered Accountants of Scotland. James is also Chairman and Non-Executive Director of The Edinburgh Investment Trust PLC, Senior Independent Non-Executive Director of Crest Nicholson Holdings PLC and Chairman of its Remuneration Committee, Deputy Chairman and Non-Executive Director of RBC Europe Limited (which is a Manager of the Institutional Offer) and Non-Executive Director of Aberdeen Asset Management PLC and Chairman of its Audit Committee.

David Duffy, CYBG Chief Executive Officer

David Duffy joined CYBG Group in June 2015 as CEO. David has held a number of senior roles in the international banking industry including, most recently, the position of Chief Executive Officer of Allied Irish Banks. David was also previously Chief Executive Officer of Standard Bank International covering Asia, Latin America, the UK and Europe. He was also previously Head of Global Wholesale Banking Network of ING Group and President and Chief Executive Officer of the ING franchises in the US and Latin America. Prior to that he worked with Goldman Sachs International in various senior positions including Head of Human Resources Europe.

Ian Smith, CYBG Chief Financial Officer

Ian Smith has over 20 years' experience in finance, audit and consultancy across the UK banking sector. He joined CYBG Group in November 2014 from Deloitte where he was a partner specialising in financial services for a combined total of 13 years. Ian has also held senior finance roles in HBOS PLC and Lloyds Banking Group plc between 2008 and 2010.

Debbie Crosbie, CYBG Chief Operating Officer

Debbie Crosbie has over 20 years of experience in banking and is a fellow of the Chartered Institute of Bankers. Since joining CYBG Group in 1997, Debbie has held a variety of positions in CYBG Group including Head of Technology Governance, Head of Strategic Projects and Head of CYBG Group's Development Centre. She was Chief Information Officer from 2008 to 2011 and, from 2011, Operations and IT Director. She was a Non-Executive Director of the Scottish Court Service and Chairman of its Audit Committee from 2009 to 2014.

David Bennett, Independent Non-Executive CYBG Director & Deputy Chairman

David Bennett joined CYBG Group in October 2015 and is the Deputy Chairman of the Company and Clydesdale Bank. He is a member of the Company Board's Audit Committee, Risk Committee, Remuneration Committee and Governance and Nomination Committee. He has over 30 years' experience in banking, having held a range of executive and senior positions in retail banking both in the UK and overseas, including the USA and Australasia. He was Group Finance Director of Alliance & Leicester for six years before becoming its Group Chief Executive in 2007. Following the acquisition of Alliance & Leicester by Santander, he was appointed to the Board of Abbey Plc as an Executive Director in 2008. He is a Non-Executive Director of Ashmore Group plc, Paypal (Europe) S.a.r.l et Cie, S.C.A., Jerrold Holdings Ltd and is Chair of Homeserve Membership Ltd. Until March 2015 he was a Non-Executive Director of Bank of Ireland UK, and he left easyJet plc after 9 years as a Non-Executive Director in September 2014.

Richard Gregory OBE, Senior Independent Non-Executive CYBG Director

Richard Gregory joined CYBG Group in March 2000 and is a member of the CYBG Board's Audit Committee, Governance and Nomination Committee and is the Chairman of the CYBG Risk Committee. He is the senior independent non-executive director. Richard represents Yorkshire Bank within the business community and at customer events as Yorkshire Bank Chair. Richard has more than 20 years board experience across banking, television, digital media, the NHS, innovation and higher education. Chairmanships have included Chesterfield Royal Hospital NHS Foundation Trust, Science City York CLG, Imagesound PLC, Sheffield Hallam University, Yorkshire Innovation, Chairman of the Yorkshire Bank Pension Trust, Chairman of the Yorkshire Initiative International Business Convention Limited and Deputy Chairman of Yorkshire Forward. Directorships have included the Foundation Trust Network, Sheffield University Enterprises Ltd and Business in the Community. His 22 year executive career was in ITV, with Granada, Yorkshire Tyne-Tees, and Yorkshire TV in programming and broadcasting including membership of the ITV Broadcast Board. He retired as managing director broadcasting of YTV in 2002. He is also a non-executive director of Sheffield Children's Hospital NHS Foundation Trust.

David Allvey, Independent Non-Executive CYBG Director

David Allvey joined CYBG Group in May 2012 and is a member of the CYBG Risk Committee and Chairman of the Audit Committee. He has over 35 years of experience as a chartered accountant. Previous roles included Group Finance Director of BAT Industries PLC, Chief Operating Officer for Zurich Financial Services Group and Group Finance Director of Barclays Bank Plc. David was a member of the UK Accounting Standards Board for 11 years and of the Insurance International Accounting Committee. David was the Senior Independent Director for Intertek Group PLC, William Hill Plc and Resolution Plc and was a Non-Executive director of Thomas Cook PLC. David is the Non-Executive Chairman of Costain Group Plc and Non-Executive Director of Aviva Life Group Limited and other Aviva group companies. David has indicated his intention to retire from the CYBG Board. The exact date for his departure is yet to be agreed but is expected to be during the first half of 2016 following the appointment of a successor.

Annexure G: Part Three
CYBG Directors, CYBG Senior Management and Corporate Governance

David Browne, Independent Non-Executive CYBG Director

David Browne joined CYBG Group in May 2012 and is a member of CYBG Board's Audit, Risk and Remuneration Committees. He has over 30 years of experience in debt capital markets, treasury and investor relations. Between 1987 and 2001 David held the positions of Assistant Vice President, Vice President and Managing Director at JP Morgan and from 2001 to 2011 was Head of Group Funding & External Relations at Man Group PLC. He was a founding partner of Pinnacle Partners Limited, a treasury consulting firm. David is a trustee and director of the charity London Youth Rowing.

Adrian Grace, Independent Non-Executive Director

Adrian Grace joined CYBG Group in December 2014 and is Chairman of CYBG Board's Remuneration Committee. He started his career with Leeds Permanent Building Society in 1979, before joining Mercantile Credit in 1984. In 2001, he joined Sage Group PLC as Managing Director of the Small Business Division. In 2004 Adrian joined Barclays Insurance as Chief Executive.

In 2007 Adrian joined HBOS as Managing Director of Commercial Banking within the Corporate Division. In 2009, Adrian joined Aegon UK as Group Business Development Director and on 4 April 2011 he became the Chief Executive Officer.

Adrian has been a member of the Global Management Board for AEGON N.V. since February 2012.

Barbara Ridpath, Independent Non-Executive CYBG Director

Barbara Ridpath joined CYBG Group in May 2012 and is a member of the CYBG Risk Committee and Chairperson of the Governance and Nomination Committee. She has over 30 years of experience as an economist and financial analyst. Barbara joined the Federal Reserve Bank of New York as an economist in 1980 and Standard & Poors in 1983. From 1986 Barbara held various positions across the Standard & Poors European network including Executive Managing Director and Head of Ratings Services, Europe. Barbara was Senior Credit Officer at JP Morgan from 1993-1998. Barbara is also a member of the World Economic Forum's Global Advisory Council on the Global Financial System and head of department, St Paul's Institute at St Paul's Cathedral. Barbara has indicated her intention to retire from the CYBG Board shortly after completion of the Demerger and UK Admission. The exact date for her departure has not yet been agreed but is expected to be during the first half of 2016.

Teresa Robson-Capps, Independent Non-Executive CYBG Director

Teresa Robson-Capps joined CYBG Group in October 2014 and is a member of the CYBG Board's Audit Committee. She has over 30 years of experience as a chartered management accountant across a number of industries including telecommunications, financial services and banking. She has a Doctorate in Accounting and Management Control. For four years from 1991 Teresa held the positions of Finance Director, Chief Operating Officer and Acting Managing Director with BT Mobile. From 1995 onwards she held a variety of Executive positions at Sears plc, Eagle Star/Zurich Financial Services, Cable & Wireless, Reality and Accenture. She joined HSBC in 2006 and from 2010 was Deputy Head, Direct Bank & First Direct.

Alex Shapland, Independent Non-Executive CYBG Director

Alex Shapland joined CYBG Group in May 2012 and is a member of the CYBG Risk Committee and Governance and Nomination Committee. He has over 34 years of experience in the financial services industry. From 1997, Alex was Director, Financial Services Regulatory Practice with PricewaterhouseCoopers. From 1999, he became Deputy Chief Executive and Chief Operating Officer of Dealwise Ltd and later Managing Director of Amber Credit Ltd (part of the Skipton Building Society Group). In 2001, Alex returned to PricewaterhouseCoopers and was made a Partner in 2006 in the Financial Services Regulatory Practice. Alex has indicated his intention to retire from the CYBG Board shortly after completion of the Demerger and UK Admission. The exact date for his departure has not yet been agreed but is expected to be during the first half of 2016.

Richard Sawers, Non-Executive Director

Richard Sawers joined CYBG Group in July 2012 as a director appointed by NAB and will remain on the CYBG Board as a proposed CYBG non-executive Shareholder Director if NAB retains an interest in CYBG Shares representing at least 20 per cent. of the Company's issued share capital. He has over 43 years of experience in banking and financial market risk in Australia including 33 years with the NAB Group and 10 years with the ANZ Banking Group. In previous roles Mr Sawers served on NAB's Group Executive Committee leading Products & Markets, led global Wholesale Banking activities, was Deputy Chief Executive Officer of NAB Capital and Group Treasurer for NAB. He is a member of the Australian Institute of Company Directors, a Fellow of the Financial Services Institute of Australia and a Director (and past Chairman) of the Australian Financial Markets Association.

2. CYBG Senior Management

The senior managers of CYBG Group are as follows:

Name	Age	Position
Derek Treanor(1)	49	Acting Chief Risk Officer
James Peirson	37	General Counsel
Lynn McManus	47	Communications Director
Helen Page	45	Propositions & Marketing Director
Paul Shephard	44	Business & Private Bank Director
Kate Guthrie(2)	52	Human Resources Director
Steve Fletcher	52	Retail Bank Director
Robert Beattie	49	Internal Audit Director
Miles Storey	51	UK Treasurer
Gavin Opperman	50	Customer Banking Director

(1) Derek Treanor is currently operating as the Acting Chief Risk Officer whilst a search is undertaken for a Chief Risk Officer
(2) Subject to regulatory approval.

Derek Treanor, Chief Credit Officer (Acting Chief Risk Officer)

Derek Treanor joined CYBG Group in 1995 and since July 2015 is the Acting Chief Risk Officer, whilst a search is undertaken for a Chief Risk Officer. Prior to this role he held the position of Chief Credit Officer with responsibility for all Credit processes and the control of Credit Risk and prior to that the positions of Head of Internal Audit and Head of Financial Governance. He has also held various roles in Risk Management, Retail and Business Banking with extensive experience in audit, financial control and credit risk. Prior to joining the CYBG Group Derek held roles at Deloitte. Derek is a chartered accountant and holds a degree in accountancy.

James Peirson, General Counsel

James Peirson joined NAB in 2005 and was appointed General Counsel for CYBG Group in November 2014. His previous roles at NAB include leading NAB's London Branch legal team and roles supporting NAB and Clydesdale Bank Treasury activities as part of CYBG Group's Capital & Funding legal team in Melbourne and London. Prior to joining NAB, James worked in private legal practice at Hogan Lovells in London.

Lynn McManus, Communications Director

Lynn McManus joined CYBG Group in 1994 and has worked in a variety of positions across Finance and Risk functions, including time in Australia in NAB Group Finance. In 2008 Lynn took up the position of Head of the Chief Executive Office. In November 2012 she was appointed to the role of People & Communications Director becoming responsible for Human Resources, Internal and External Communications and Corporate Support. Lynn has over twenty years' experience in financial services and prior to joining CYBG Group, Lynn held positions with Life Association of Scotland and Britannia Life. A qualified chartered management accountant, Lynn has a degree in Business Economics and is a Fellow of the Chartered Institute of Bankers in Scotland.

Helen Page, Propositions & Marketing Director

Helen Page joined CYBG Group in December 2012 and has over 20 years' experience in marketing, consultancy and product development. Almost 15 years of those have been spent in financial services. Prior to joining CYBG Group, Helen spent eight years at RBS in a number of roles. She became Managing Director for Marketing and Innovation and held responsibility for all UK brands across the Retail, Commercial and Corporate divisions. During this time,

Annexure G: Part Three
CYBG Directors, CYBG Senior Management and Corporate Governance

Helen was responsible for developing and delivering "Helpful Banking" for NatWest. Helen was also Head of Brand Marketing at Argos, where she re-launched the catalogue company as a Retailer and played a key role when the business became 'Retailer of the Year' and 'Advertiser of the year' in 2003. Prior to Argos, Helen held a number of product and marketing roles at Abbey National (now Santander), where she became Head of Marketing. She also has experience in research, consultancy and central government roles. Helen has a degree in economics, development and planning and holds a diploma in Marketing from the Chartered Institute of Marketing.

Paul Shephard, Business & Private Bank Director

Paul Shephard joined CYBG Group in 1992 on the Graduate Development Scheme and has undertaken a variety of leadership positions including Regional Business Manager in the North West of England and Regional Director, Acquisition Finance across the North West & Midlands. In 2009 Paul took up the position of Divisional Director for Corporate & Structured Finance where he led a team of leveraged finance and corporate banking specialists. In 2012 he was appointed to the role of Director, Business & Private Bank within the CYBG Group with responsibility for all business banking and private banking operations within the UK. Paul has spent a number of years in front line leadership roles and has extensive knowledge of both general banking and corporate finance having completed a range of transactions including traditional management buy-outs, private equity backed investments and corporate acquisitions. Paul has a degree in Accounting & Financial Analysis from Newcastle University.

Kate Guthrie, Human Resources Director

Kate Guthrie agreed to join CYBG Group in January 2016 subject to regulatory approval. Kate has over 30 years of domestic and international HR experience, having worked in six different blue chip organisations in four industrial sectors. Kate joins from Lloyds Banking Group after 11 years of service in a number of senior HR Director positions, most recently HR Director, Culture, Capability and Engagement.

Steve Fletcher, Retail Bank Director

Steve Fletcher joined CYBG Group in 2005 as Head of Sales Development and, having held a number of roles, was appointed Director, Retail Banking in 2015. Steve has extensive management experience in the Retail Financial Services industry, gained through working in large financial services organisations in the UK. Steve's experience includes significant operational, people and financial responsibilities and the management of a large retail branch network. He has benefited from over 30 years' experience in the financial services industry, working in Sales Management roles of growing complexity over this time. He has responsibility for the leadership and oversight of the Retail Network. Steve is responsible for the achievement of the Retail Network's business objectives, the delivery of the customer value proposition and ensuring that the trading performance is effectively managed at entity level. In addition, since August 2014 he has resumed responsibility for Contact Centres and the Mortgage Broker Business.

Robert Beattie, Internal Audit Director

Robert Beattie joined CYBG Group in June 2012 from Resolution Plc where he was Director of Internal Audit. Robert has over 20 years experience in banking and is a Member of the Chartered Institute of Bankers and a Chartered Member of the Institute of Internal Auditors (CMIIA). Prior roles included Director Risk Services at Ernst & Young, Director of Audit at British Energy Group plc, and senior audit and operational roles at HBOS PLC. Robert is a former Council Member of the CMIIA and past Chair of its Scottish Region.

Miles Storey, UK Treasurer

Miles Storey joined NAB in 2009 as Managing Director and Regional Treasurer and was appointed Treasurer of CYBG Group in November 2010. His role covers the management of capital, funding, liquidity and interest rate risk for CYBG Group, formulating and executing strategies to manage the risks associated with the UK balance sheets, as well as management of the relationship with regulators, rating agencies and debt investors. Prior to joining CYBG Group, Miles was a money market and derivative trader with nine years' experience in London and New York at both Chemical/Chase and Barclays Capital. Immediately prior to working at NAB, Miles spent 10 years at Barclays Group Treasury in a role encompassing group balance sheet, liquidity and interest rate risk management responsibilities.

Gavin Opperman, Customer Banking Director

Gavin Opperman agreed to join CYBG Group in December 2015 subject to regulatory approval. Gavin has over 30 years of leadership experience in risk, operations and across front line digital, retail, commercial, corporate and investment banking services. Gavin was previously Regional Head of Consumer Banking, Standard Chartered based in China, and prior to that held a number of senior positions across Asia in a career spanning 20 years with Barclays Group.

Going forward, the CYBG Board and the Governance and Nomination Committee will seek to maintain a strong executive and non-executive leadership team with an appropriate balance of skills, experience and diversity and this may result in further changes over time. In particular the company intends to appoint a Product Director in due course.

3. Corporate Governance

The CYBG Board is committed to the highest standards of corporate governance. As of the date of this Prospectus, the CYBG Board complies and, on and following UK Admission, intends to continue to comply with the requirements of the UK Corporate Governance Code (the "**Code**"). The Company will report to its shareholders on its compliance with the Code in accordance with the UK Listing Rules.

3.1 CYBG Board Composition

The Code recommends that at least half the members of the board of directors (excluding the chairman) should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

Currently, the CYBG Board comprises twelve members, or thirteen members if Richard Sawers remains on the CYBG Board, consisting of the Chairman, three Executive CYBG Directors and eight independent Non-Executive CYBG Directors. No individual or group of individuals dominates the CYBG Board's decision-taking.

The Code also recommends that the CYBG Board should appoint one of the independent non-executive directors to be a senior independent director to provide a sounding board for the chairman and to serve as a conduit for the other directors when necessary. Richard Gregory has been appointed to fill this role. The Code states that the senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors have failed to resolve or for which such contact is inappropriate. Richard Gregory will make himself available, as necessary, to perform this role.

Accordingly, on UK Admission, the Company will comply with the provisions of the Code recommending that at least half of the CYBG Board (excluding the Chairman) should comprise independent non-executive directors.

The Code further recommends that directors should be subject to annual re-election. The Company also intends to comply with this recommendation.

3.2 CYBG Board Committees

Consistent with the recommendations of the Code, the CYBG Board has established Governance and Nomination, Remuneration, Audit and CYBG Risk Committees, each with formally delegated duties and responsibilities with written terms of references. From time to time, separate committees may be set up by the CYBG Board to consider specific issues when the need arises.

(a) Governance and Nomination Committee

The Governance and Nomination Committee assists the CYBG Board in discharging its responsibilities relating to the composition and make up of the CYBG Board. The Governance and Nomination Committee is responsible for evaluating the balance of skills, experience, independence and knowledge on the CYBG Board, the size, structure and composition of the CYBG Board, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the CYBG Board on such matters. The Governance and Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the CYBG Board in the future.

The Code provides that a majority of the members of a company's Nomination Committee should be independent non-executive directors.

CYBG's Governance and Nomination Committee is composed of four members, namely Richard Gregory, Barbara Ridpath, Alex Shapland and David Bennett who are Independent Non-Executive CYBG Directors. The chairman of the Governance and Nomination Committee is Barbara Ridpath. The Company therefore considers that it complies with the Code recommendations regarding the composition of a company's Nomination Committee.

The Governance and Nomination Committee will meet at least twice a year and otherwise as required.

(b) Remuneration Committee

The Remuneration Committee assists the CYBG Board in determining its responsibilities in relation to remuneration, including making recommendations to the CYBG Board on CYBG Group's policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors within the CYBG Group, including pension rights and any compensation payments and determining the remuneration arrangements of CYBG Group senior management who sit below CYBG Board level.

Annexure G: Part Three
CYBG Directors, CYBG Senior Management and Corporate Governance

The CYBG Board itself will determine the remuneration of non-executive directors within the limits set out in the Articles. See Part 8 of this Annexure G: *"Additional Information on CYBG Group – Articles of Association CYBG Directors – Remuneration"* for further information. No director or senior manager shall be involved in committee decisions as to his or her own remuneration.

The UK Corporate Governance Code provides that the Remuneration Committee should consist of at least three members who are all independent non-executive directors. In addition, the Chairman of the Company may be a member of, but not chair, the Committee if he/she was considered independent on appointment as Chairman.

Following the Demerger, the membership of CYBG's Remuneration Committee will comprise four Non-Executive CYBG Directors namely Adrian Grace, David Browne, James Pettigrew, the Chairman of the Company and David Bennett. The chairman of the Remuneration Committee is Adrian Grace. The Company therefore considers that following the Demerger it will comply with the Code recommendations regarding the composition of the Remuneration Committee.

The Remuneration Committee will meet at least four times a year and otherwise as required.

(c) Audit Committee

The Audit Committee assists the CYBG Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the CYBG Board.

The UK Corporate Governance Code recommends that the audit committee should comprise of at least three members who should all be independent non-executive directors, and that at least one member should have recent and relevant financial experience.

The membership of the Company's Audit Committee comprises five Independent Non-Executive CYBG Directors (namely, David Allvey, David Browne, Richard Gregory, Teresa Robson-Capps and David Bennett), all of whom are considered by the CYBG Board to have recent and relevant financial experience. The chairman of the Audit Committee is David Allvey. The Company therefore considers that it complies with the Code recommendations regarding the composition of the Audit Committee.

The Audit Committee will meet at least four times a year and otherwise as required and will meet jointly with the CYBG Risk Committee at least annually.

(d) CYBG Risk Committee

The CYBG Risk Committee is responsible for providing oversight and advice to the CYBG Board in relation to current and potential future risk exposures of CYBG Group and future risk strategy, reviewing and approving various formal reporting requirements, promoting a risk awareness culture within CYBG Group and ensuring that CYBG Group's strategy, principles, policies and resources are aligned to its risk appetite, as well as to regulatory and industry best practices.

The membership of the CYBG Risk Committee comprises six Independent Non-Executive CYBG Directors (namely, Richard Gregory, David Allvey, David Browne, Barbara Ridpath, Alex Shapland and David Bennett). The chairman of the CYBG Risk Committee is Richard Gregory.

The CYBG Risk Committee will meet at least four times a year and hold a joint meeting with the CYBG Board Audit Committee at least annually.

4. Share Dealing

Upon UK Admission, the Company will adopt a code of securities dealings in relation to CYBG Securities which is based on, and is at least as rigorous as, the Model Code as published in the UK Listing Rules. The code adopted will apply to the CYBG Directors and other relevant employees of CYBG Group.

Annexure G: Part Four
Selected financial information on CYBG Group

*The selected financial information relating to CYBG Group set out below has been extracted or derived from the financial reports of CYBG Group for the years ended 30 September 2012, 30 September 2013, 30 September 2014 and 30 September 2015, adjusted to reflect consistent accounting policies to all years (the "**CYBG HFI**") and CYBG Group's accounting records and financial reporting systems.*

1. Consolidated Income Statement Data

The following table sets out the CYBG HFI Income Statement.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Interest income and similar income	1,110	1,135	1,209	1,461
Interest expense and similar charges	(323)	(350)	(441)	(584)
Net interest income	**787**	**785**	**768**	**877**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	238	205	225	399
Non-interest income	240	197	190	255
Total operating income	1,027	982	958	1,132
Personnel expenses	(266)	(287)	(302)	(329)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(868)	(777)	(485)	(645)
Restructuring expenses	(17)	-	-	(149)
Total operating and administrative expenses before impairment losses	**(1,234)**	**(1,142)**	**(863)**	**(1,198)**
Operating profit/(loss) before impairment losses	**(207)**	**(160)**	**95**	**(66)**
Impairment losses on credit exposures	(78)	(74)	(144)	(737)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Analysed as: Profit/(loss) before tax, Net gain on capital restructuring and debt buy-back, Pension benefits, PPI redress expense, PPI complaint handling fine, Restructuring expenses, IRHP/FRTBL redress expense, Other conduct expenses, Separation costs and Impairment of intangible assets and goodwill	159	222	131	(464)
Net gain on capital restructuring and debt buy back	61	-	-	-
Pension scheme reforms benefit	-	-	-	130
Pension increase exchange gain	18	-	-	-
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	-	-	-
IRHP/FRTBL redress expense	(75)	-	-	-
Other conduct expenses	-	(13)	(50)	(23)
Restructuring expenses	(17)	-	-	(149)
Separation costs	(10)	-	-	-
Impairment of intangible assets and goodwill	(10)	(23)	-	(177)

Annexure G: Part Four
Selected financial information on CYBG Group

Continued	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to: Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	-	8	-	9
	(225)	**(190)**	**(44)**	**(647)**

2. Consolidated Income Statement Data – Management Basis

The following table sets out consolidated income statement data for CYBG Group that unless otherwise specified, has been extracted or derived, without material adjustment from the CYBG HFI. The income statement data for the year ended 30 September 2012 includes adjustments relating to the disposed CRE portfolio that are unaudited. The consolidated income statement data is presented on the Management Basis, which the CYBG Directors believe provides useful supplemental information to assist in evaluating the underlying operating performance of CYBG Group's business in the years ended 30 September 2015, 2014, 2013 and 2012 (collectively, the "**period under review**") and to facilitate more meaningful period-to-period comparisons. The Management Basis information includes adjustments to present items that the CYBG Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the CYBG HFI to the Management Basis information presented in paragraph 5 of this Part 4 of Annexure G. These adjustments and CYBG Group's underlying results of operations on the Management Basis are both discussed in Part 5 of this Annexure G: "*CYBG Group Operating and Financial Review*".

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
				(unaudited)
		£m		
Interest income and similar income	1,110	1,135	1,209	1,300
Interest expense and similar charges	(323)	(350)	(441)	(494)
Net interest income	**787**	**785**	**768**	**806**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	175	205	225	264
Non-interest income	**177**	**197**	**190**	**120**
Total operating income	**964**	**982**	**958**	**926**
Personnel expenses	(282)	(287)	(302)	(315)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(362)	(321)	(305)	(325)
Total operating and administrative expenses before impairment losses	**(727)**	**(686)**	**(683)**	**(715)**

Continued	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
				(unaudited)
		£m		
Operating profit before impairment losses	**237**	**296**	**275**	**211**
Impairment losses on credit exposures	(78)	(74)	(144)	(173)
Underlying profit on ordinary activities before tax	**159**	**222**	**131**	**38**
Pension scheme reforms benefit	-	-	-	130
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	-	-	-
IRHP/FRTBL redress expense	(75)	-	-	-
Other conduct	-	(13)	(50)	(23)
Impairment of intangible assets	(10)	(23)	-	(36)
Impairment losses on goodwill	-	-	-	(141)
Disposed legacy CRE portfolio impact	-	-	-	(502)
Restructuring expenses	(17)	-	-	(149)
Separation costs	(10)	-	-	-
Net gain on capital restructuring and debt buy back	61	-	-	-
Pension increase exchange gain	18	-	-	-
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	-	8	-	9
	(225)	**(190)**	**(44)**	**(647)**

Annexure G: Part Four
Selected financial information on CYBG Group

3. Consolidated Balance Sheet Data

The following table sets out the CYBG HFI Balance Sheet. The legacy CRE portfolio was reported in assets held for sale as at 30 September 2012. As a result, there is no Management Basis of presentation applicable to the consolidated balance sheet data. For information on CYBG Group's average balances of interest-earning assets and interest-bearing liabilities, see paragraph 6 of this Part 4 of Annexure G. See the Audited Annual Reports for further information.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
Assets		*£m*		
Customer loans[(1)]	28,783	27,696	26,424	27,575
Cash and balances with central banks	6,431	5,986	6,720	7,927
Investments – available for sale	1,462	1,168	975	1,041
Due from related entities	786	1,487	1,390	1,256
Defined benefit pension assets	52	49	-	-
Accrued interest receivable on customer loans	80	92	81	101
Assets held for sale[(2)]	-	-	-	5,225
Other assets	1,111	914	1,158	1,257
Total assets	**38,705**	**37,392**	**36,748**	**44,382**
Liabilities				
Customer deposits[(3)]	26,349	23,989	24,266	26,528
Bonds and notes	3,766	3,453	3,085	3,187
Notes in circulation	1,791	1,831	1,709	1,567
Due to related entities	998	2,677	3,036	7,716
Provisions	1,006	952	315	292
Accrued interest payable on customer deposits	125	175	212	236
Retirement benefit obligations	4	4	202	306
Other liabilities	1,223	1,773	1,474	1,931
Total liabilities	**35,262**	**34,854**	**34,299**	**41,763**
Total equity	3,443	2,538	2,449	2,619
Total liabilities and equity	**38,705**	**37,392**	**36,748**	**44,382**

(1) Customer loans comprise gross loans and advances to customers, loans and advances included in other financial assets at fair value and due from customers on acceptances (excluding accrued interest receivable).

(2) Assets held for sale were £5,225 million as at 30 September 2012 and comprised predominantly legacy CRE assets and associated loans net of provisions. CYBG Group transferred assets held for sale to NAB in October 2012.

(3) Customer deposits comprise amounts due to customers and other financial liabilities at fair value (excluding accrued interest payable).

4. Key Performance Indicators and Other Financial Data

4.1 Key performance indicators

Management uses a variety of key performance indicators to aid in assessing CYBG Group's financial performance. The CYBG Directors believe that each of these measures provides useful supplemental information with respect to the performance of CYBG Group's business and operations. The following table sets out key performance indicators for CYBG Group as at and for each of the years ended 30 September 2015, 2014, 2013 and 2012.

The key performance indicators presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides CYBG Group with certain discretion in making its calculations. Because of the discretion that CYBG Group and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these measures with similar measures used by other banks. See "*Important Information—Presentation of certain financial and other information—Non-IFRS financial information*" of this Annexure G for further information.

	As at and for the year ended 30 September			
	2015	**2014**	**2013**	**2012**
	(%, unless otherwise specified)			
Profitability ratios:				
Net interest margin(1)	2.20	2.30	2.18	2.07
Management Basis net interest margin(2)	2.20	2.30	2.18	2.20
Return on tangible equity ("**ROTE**")(3)	(10.3)	(9.4)	(2.1)	(26.1)
Management Basis ROTE(4)	5.1	7.7	4.4	0.5
Cost-to-income ratio(5)	120	116	90	106
Management Basis cost-to-income ratio(6)	75	70	71	77
Asset quality ratios:				
Impairment charge to average customer loans(7)	0.21	0.30	0.60	0.74
90+ DPD to customer loans(8)	0.50	0.66	0.84	0.84
Gross impaired assets to customer loans(9)	0.91	1.35	1.61	1.64
90+ DPD plus gross impaired assets to customer loans(10)	1.41	2.01	2.45	2.48
Specific provision to gross impaired assets(11)	39.2	37.3	36.9	30.3
Total provision to customer loans(12)	0.93	1.15	1.39	1.36
Indexed loan-to-value ("**LTV**") of mortgage portfolio(13)	55.3	58.8	63.5	66.6
Regulatory capital ratios:				
CET 1 ratio(14)	13.2	9.4	9.6	7.7
Tier 1 ratio(15)	15.7	11.0	11.1	8.9
Total capital ratio(16)	18.9	17.7	17.5	14.4
Leverage ratio(17)	7.1	5.2	5.1	4.6
Liquidity ratios:				
Loan-to-deposit ratio(18)	109	115	109	104
LCR(19)(21)	136	110	119	n/a
NSFR(20)(21)	120	108	106	n/a

(1) Net interest margin is defined as net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(2) Management Basis net interest margin is defined as Management Basis net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

continued

(3) ROTE is defined as profit/(loss) after tax less preference share dividends, non-controlling interest distributions and Additional Tier 1 distributions as a percentage of average tangible equity (total equity less intangible assets excluding non-controlling interest, Additional Tier 1 and preference shares) for a given period. Average tangible equity has been calculated using tangible equity spot balances at each of the month ends of the applicable period. Average tangible equity was £2,366 million, £2,102 million, £2,138 million and £2,537 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively.

(4) Management Basis ROTE is defined as underlying profit after tax less preference share dividends, non-controlling interest distributions and Additional Tier 1 distributions as a percentage of average tangible equity (total equity less intangible assets excluding non-controlling interest, Additional Tier 1 and preference shares) for a given period. Underlying profit after tax is defined as underlying profit before tax less tax charge (or plus tax credit, as the case may be). Underlying profit after tax was equal to £28 million, £94 million, £171 million and £139 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. The Management Basis tax credit/(charge) is calculated by applying the statutory tax rate for the relevant period (30 September 2015: 20.5 per cent.; 30 September 2014: 22.0 per cent.; 30 September 2013: 23.5 per cent.; 30 September 2012: 25.0 per cent.) to the taxable items adjusted on the Management Basis. The taxable items comprise PPI redress expense, IRHP and FRTBL redress expense, other conduct, disposed legacy CRE portfolio impact, part of separation costs and part of restructuring expenses. In computing taxable profits, the gross gain on the capital restructure was non-taxable and distributions on Additional Tier 1 capital were taken as a deduction for tax purposes although recorded as a dividend payable for accounting purposes. Distributions on Additional Tier 1 instruments are expected to be deductible based on the prevailing mainstream rate of corporation tax and, commencing 1 January 2016, the banking surcharge. The pension scheme reform benefit and the pension increase exchange gain were also non-taxable. CYBG Group had an unrecognised deferred tax asset of £16 million (representing trading losses with a gross value of £80 million) at 30 September 2015, reflecting the uncertainty of projections towards the end of the period over which such differences might be expected to reverse. Average tangible equity has been calculated using the tangible equity spot balances at each of the month ends of the applicable period. Average tangible equity was £2,366 million, £2,102 million, £2,138 million and £2,537 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively.

(5) Cost-to-income ratio is defined as total operating expenses as a percentage of total operating income for a given period.

(6) Management Basis cost-to-income ratio is defined as Management Basis total operating expenses as a percentage of Management Basis total operating income for a given period.

(7) Impairment charge to average customer loans is defined as impairment charges on total customer loans as a percentage of average customer loans for a given period. Impairment charge is defined as impairment losses on credit exposures plus credit risk adjustments on fair value loans. This ratio excludes £564 million of impairment charges and £5,652 million of loans from the average loan balance in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average customer loans were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(8) 90+ DPD to customer loans is defined as customer loans that are more than 90 days overdue as a percentage of total customer loans at a given date. This ratio excludes £144 million of more than 90 days overdue loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(9) Gross impaired assets to customer loans is defined as gross impaired assets as a percentage of total customer loans at a given date. This ratio excludes £842 million of gross impaired loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012. Unsecured personal lending is written-off once it becomes 180 days past due and is never designated as impaired.

(10) 90+ DPD plus gross impaired assets to customer loans is defined as customer loans that are more than 90 days overdue plus gross impaired assets as a percentage of total customer loans at a given date. This ratio excludes £144 million of more than 90 days overdue loans, £842 million of gross impaired loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(11) Specific provision to gross impaired assets is defined as the specific impairment provision on credit exposures as a percentage of gross impaired assets at a given date. This ratio excludes £309 million of specific provisions and £842 million of gross impaired loans in respect of the disposed CRE portfolio at 30 September 2012.

(12) Total provision to customer loans is defined as total impairment provision on credit exposures as a percentage of total customer loans at a given date. This ratio excludes £463 million of provisions and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(13) Indexed LTV of mortgage portfolio is defined as mortgage portfolio weighted by balance and indexed using the Halifax house price index at a given date.

(14) CET 1 ratio is defined as CET 1 capital divided by risk-weighted assets at a given date. The CET 1 ratios as at 30 September 2012 and 2013 were calculated under Basel II. The CET 1 ratio as at 30 September 2014 was calculated under CRD IV regulations. As at 30 September 2015, the CET 1 ratio was calculated in accordance with the revised CRD IV regulations applicable from 1 January 2015.

(15) Tier 1 ratio is defined as Tier 1 capital resources divided by risk-weighted assets at a given date.

(16) Total capital ratio is defined as total capital resources divided by risk-weighted assets at a given date. As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's interest in CYBG Group's existing AT1 Notes and Tier 2 Notes, with new AT1 Notes and Tier 2 Notes to be issued by CYBG PLC on the Demerger Date and initially held by NAB. For further information see Part 8 of this Annexure G: *"Additional Information on CYBG-Funding Programmes"*.

(17) Leverage ratio is calculated in accordance with the relevant EU legislation and applicable guidance at the balance sheet date.

(18) Loan-to-deposit ratio is defined as customer loans as a percentage of customer deposits at a given date.

(19) CYBG Group monitors the LCR based on its own interpretations of current guidance available for CRD IV LCR reporting. Therefore, the reported LCR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, CYBG Group's ratio may not be directly comparable with those of other financial institutions.

(20) CYBG Group monitors the NSFR based on its own interpretations of current guidance available for CRD IV NSFR reporting. Therefore, the reported NSFR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, CYBG Group's ratio may not be directly comparable with those of other financial institutions.

(21) CYBG Group reports this ratio for all material operating entities within CYBG Group, excluding consolidated securitisation entities. This ratio reflects the regulatory view with respect to oversight of CYBG Group's liquidity position and resources.

4.2 Other financial data

The following table sets out other financial data for CYBG Group as at and for each of the years ended 30 September 2015, 2014, 2013 and 2012. The other financial data presented below includes measures that are not defined under IFRS. See "*Important Information—Presentation of certain financial and other information—Non-IFRS financial information*" of this Annexure G for further information.

	As at and for the year ended 30 September			
	2015	**2014**	**2013**	**2012**
	(%, unless otherwise specified)			
Profitability ratios:				
Return on assets(1)	(0.58)	(0.51)	(0.12)	(1.43)
Management Basis return on assets(2)(3)	0.36	0.46	0.25	0.06
Return on risk-weighted assets(4)	(1.2)	(1.0)	(0.2)	(2.8)
Management Basis return on risk-weighted assets(3)(5)	0.8	0.9	0.5	0.1
Return on equity(6)	(9.3)	(8.5)	(1.9)	(24.1)
Management Basis return on equity(3)(7)	4.7	7.0	4.0	0.5
Customer lending yield(8)	3.77	3.97	4.06	4.13
Asset quality:				
Net write-offs to customer loans ratio(9)	0.36	0.44	0.62	0.54
Impairment charge to mortgages ratio(10)	0.09	0.03	0.09	0.07
Impairment charge to business lending ratio(11)	0.37	0.62	1.16	1.41
Impairment charge to unsecured personal lending ratio(12)	1.18	1.70	2.18	2.14
Impaired loans to gross loans ratio – mortgages(13)	0.32	0.35	0.47	0.46
Impaired loans to gross loans ratio – business lending(14)	2.79	3.90	3.89	3.50
Customer funding gap(£m)(15)	2,434	3,707	2,158	1,047

(1) Return on assets is defined as profit/(loss) after tax as a percentage of average assets for a given period. Average assets have been calculated using the asset spot balances at each of the month ends in the applicable period.

(2) Management Basis return on assets is defined as underlying profit after tax (as defined in footnote 3) as a percentage of average assets for a given period. Average assets have been calculated using the asset spot balances at each of the month ends in the applicable period.

(3) Underlying profit after tax is defined as underlying profit before tax less tax charge (or plus tax credit, as the case may be). Underlying profit after tax was equal to £28 million, £94 million, £171 million and £139 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. The Management Basis tax credit/(charge) is calculated by applying the statutory tax rate for the relevant period (30 September 2015: 20.5 per cent.; 30 September 2014: 22.0 per cent.; 30 September 2013: 23.5 per cent.; 30 September 2012: 25.0 per cent.) to the taxable items adjusted on the Management Basis. The taxable items comprise PPI redress expense, IRHP and FRTBL redress expense, other conduct, disposed legacy CRE portfolio impact, part of separation costs and part of restructuring expenses. In computing taxable profits, the gross gain on the capital restructure was non-taxable and distributions on Additional Tier 1 capital were taken as a deduction for tax purposes although recorded as a dividend payable for accounting purposes. Distributions on Additional Tier 1 instruments are expected to be deductible based on the prevailing mainstream rate of corporation tax and, commencing 1 January 2016, the banking surcharge. The pension scheme reform benefit and the pension increase exchange gain were also non-taxable. CYBG Group had an unrecognised deferred tax asset of £16 million (representing trading losses with a gross value of £80 million) at 30 September 2015, reflecting the uncertainty of projections towards the end of the period over which such differences might be expected to reverse.

(4) Return on risk-weighted assets is defined as profit/(loss) after tax as a percentage of average risk-weighted assets for a given period. Average risk-weighted assets have been calculated using the risk weighted asset spot balances at each of the month ends in the applicable period.

(5) Management Basis return on risk-weighted assets is defined as underlying profit after tax (as defined in footnote 3) as a percentage of average risk-weighted assets for a given period. This ratio excludes £4,670 million of average risk-weighted assets in respect of the disposed CRE portfolio at 30 September 2012. Average risk-weighted assets have been calculated using the risk weighted asset spot balances at each of the month ends in the applicable period.

(6) Return on equity is defined as profit/(loss) after tax less preference share dividends, non-controlling interest distributions and Additional Tier 1 distributions as a percentage of average equity (total equity excluding non-controlling interest, Additional Tier 1 and preference shares) for a given period. Average equity has been calculated using the equity spot balances at each of the month ends of the applicable period.

(7) Management Basis return on equity is defined as underlying profit after tax (as defined in footnote 3) less preference share, dividends, non-controlling interest distributions and Additional Tier 1 distributions as a percentage of average equity (total equity excluding non-controlling interest, Additional Tier 1 and preference shares) for a given period. Average equity has been calculated using the equity spot balances at each of the month ends of the applicable period.

continued

(8) Customer lending yield is defined as gross interest income on customer loans divided by average balances of customer loans for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average balances of customer loans were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(9) Net write-offs to customer loans ratio is defined as amounts written-off on credit exposures, including loans held at fair value (net of recoveries of amounts written-off in previous periods), as a percentage of average customer loans at a given date. This ratio excludes £221 million of amounts written-off and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(10) Impairment charge to mortgages ratio is defined as impairment charges on mortgages for a given period as a percentage of average mortgages for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average mortgages were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(11) Impairment charge to business lending ratio is defined as impairment charges on business loans plus impairment charges on other financial assets at fair value for a given period as a percentage of average business loans plus other financial assets at fair value for a given period. This ratio excludes £564 million of impairment charges and £5,652 million of total business lending in respect of the disposed CRE portfolio for the year ended and as at 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average business loans plus other financial assets at fair value were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(12) Impairment charge to unsecured personal lending ratio is defined as impairment charges on unsecured personal lending for a given period as a percentage of average unsecured personal lending for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average unsecured personal lending was calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(13) Impaired loans to gross loans ratio-mortgages is defined as impaired mortgages as a percentage of total gross mortgages at a given date.

(14) Impaired loans to gross loans ratio-business lending is defined as impaired business loans and impaired other financial assets at fair value as a percentage of total business loans plus other financial assets at fair value at a given date. This ratio excludes £842 million of impaired loans and £5,652 million of business loans in respect of the disposed CRE portfolio at 30 September 2012.

(15) Customer funding gap is defined as customer loans less customer deposits at a given date.

5. Consolidated Income Statement Data – Reconciliation of the CYBG HFI to the Management Basis

The following tables set out a reconciliation of the CYBG HFI to the Management Basis information for the years ended 30 September 2015, 2014, 2013 and 2012. Unless otherwise specified, the information in the tables below has been extracted or derived, without material adjustment, from the CYBG HFI.

	Year ended 30 September 2015			Year ended 30 September 2014		
	HFI Income Statement	**Presentation Differences**	**Management Basis**	**HFI Income Statement**	**Presentation Differences**	**Management Basis**
		£m			*£m*	
Interest income and similar income	1,110	-	1,110	1,135	-	1,135
Interest expense and similar charges	(323)	-	(323)	(350)	-	(350)
Net interest income	**787**	**-**	**787**	**785**	**-**	**785**
Gains less losses on financial instruments at fair value	2	-	2	(8)	-	(8)
Other operating income[1]	238	(63)	175	205	-	205
Non-interest income	**240**	**(63)**	**177**	**197**	**-**	**197**
Total operating income	1,027	(63)	964	982	-	982
Personnel expenses[2][9]	(266)	(16)	(282)	(287)	-	(287)
Depreciation expense	(83)	-	(83)	(78)	-	(78)
Other operating and administrative expenses[1][3][4][5][6][7]	(868)	506	(362)	(777)	456	(321)
Restructuring expenses[8]	(17)	17	-	-	-	-
Total operating and administrative expenses before impairment losses	**(1,234)**	**507**	**(727)**	**(1,142)**	**456**	**(686)**
Operating profit/(loss) before impairment losses	**(207)**	**444**	**237**	**(160)**	**456**	**296**
Impairment losses on credit exposures	(78)	-	(78)	(74)	-	(74)
Underlying profit on ordinary activities before tax	**(285)**	**444**	**159**	**(234)**	**456**	**222**
PPI redress expense[3]	-	(390)	(390)	-	(420)	(420)
PPI complaint handling fine[4]	-	(21)	(21)	-	-	-
IRHP/FRTBL redress expense[5]	-	(75)	(75)	-	-	-
Other conduct[6]	-	-	-	-	(13)	(13)
Impairment of intangible assets[7]	-	(10)	(10)	-	(23)	(23)
Restructuring expenses[8]	-	(17)	(17)	-	-	-
Separation costs[9]	-	(10)	(10)	-	-	-

Annexure G: Part Four
Selected financial information on CYBG Group

Continued	Year ended 30 September 2015			Year ended 30 September 2014		
	HFI Income Statement	**Presentation Differences**	**Management Basis**	**HFI Income Statement**	**Presentation Differences**	**Management Basis**
		£m			*£m*	
Net gain on capital restructuring and debt buy-back[1]	-	61	61	-	-	-
Pension increase exchange gain[2]	-	18	18	-	-	-
Loss on ordinary activities before tax	**(285)**	**-**	**(285)**	**(234)**	**-**	**(234)**
Tax credit	60	-	60	44	-	44
Loss for the year	**(225)**	**-**	**(225)**	**(190)**	**-**	**(190)**
Attributable to:						
Equity holders of the parent	(225)	-	(225)	(198)	-	(198)
Non-controlling interest	-	-	-	8	-	8
	(225)	**-**	**(225)**	**(190)**	**-**	**(190)**

(1) During the year ended 30 September 2015, other operating income included a gain of £61 million relating to the December 2014 capital restructure, which was undertaken to replace instruments that were non-compliant for CRD IV purposes with CRD IV compliant instruments. The gain was a result of the repurchase of £650 million of subordinated liabilities at fair value. The subordinated debt was replaced with an issue of £350 million of ordinary shares to NAB related parties and Additional Tier 1 capital instruments of £150 million to NAB. Other operating and administrative expenses included costs incurred in connection with the capital restructuring of £2 million. A further gain of £2 million was made in the year ended 30 September 2015 on the early redemption of medium-term funding with NAB. There is no equivalent amount for the year ended 30 September 2014.

(2) During the year ended 30 September 2015, CYBG Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After taking independent financial advice, the member may be entitled to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. This policy change resulted in a credit to the income statement of £18 million within personnel expenses, resulting in a reduction in the defined benefit pension expense to £11 million. There is no equivalent amount for the year ended 30 September 2014.

(3) PPI redress expense provision costs of £390 million and £420 million for the years ended 30 September 2015 and 2014, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

(4) On 14 April 2015, the FCA issued a fine of £21 million against CYBG Group for failings in CYBG Group's PPI complaint handling processes between May 2011 and July 2013. As a result, CYBG Group recorded other operating expenses of £21 million relating to a PPI complaint handling fine in the year ended 30 September 2015. There is no equivalent amount for the year ended 30 September 2014.

(5) CYBG Group recorded a charge of £75 million for IRHP and FRTBL redress expenses for the year ended 30 September 2015 within other operating and administrative expenses. These expenses have been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2014.

(6) Other conduct charges of £13 million for the year ended 30 September 2014 were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2015.

(7) Impairment charges on intangible assets of £10 million and £23 million for the years ended 30 September 2015 and 2014, respectively, were recorded within other operating and administrative expenses. These costs comprise impairment on capitalised software costs and have been excluded from the results on the Management Basis.

(8) CYBG Group recorded a charge of £17 million in restructuring costs for the year ended 30 September 2015, principally for headcount reductions across the front and back offices. There is no equivalent amount for the year ended 30 September 2014.

(9) Separation costs of £10 million for the year ended 30 September 2015 were recorded within personnel expenses (£2 million) and within other operating and administrative expenses (£8 million). These costs were incurred for pre day one separation activities, and, due to their non-recurring nature, have been excluded from the results on the Management Basis.

	Year ended 30 September 2013			Year ended 30 September 2012			
	HFI Income Statement	**Presentation Differences**	**Management Basis**	**HFI Income Statement**	**Presentation Differences**	**Presentation Differences relating to the disposed CRE portfolio[1]**	**Management Basis**
		£m				*(unaudited)* *£m*	
Interest income and similar income	1,209	-	1,209	1,461	-	(161)	1,300
Interest expense and similar charges	(441)	-	(441)	(584)	-	90	(494)
Net interest income	**768**	**-**	**768**	**877**	**-**	**(71)**	**806**
Gains less losses on financial instruments at fair value	(35)	-	(35)	(144)	-	-	(144)
Other operating income[1]	225	-	225	399	(130)	(5)	264
Non-interest income	**190**	**-**	**190**	**255**	**(130)**	**(5)**	**120**
Total operating income	**958**	**-**	**958**	**1,132**	**(130)**	**(76)**	**926**
Personnel expenses	(302)	-	(302)	(329)	-	14	(315)
Depreciation expense	(76)	-	(76)	(75)	-	-	(75)
Other operating and administrative expenses[3][4][5][6]	(485)	180	(305)	(645)	320	-	(325)
Restructuring expenses	-	-	-	(149)	149	-	-
Total operating and administrative expenses before impairment losses	**(863)**	**180**	**(683)**	**(1,198)**	**469**	**14**	**(715)**
Operating profit/(loss) before impairment losses	**95**	**180**	**275**	**(66)**	**339**	**(62)**	**211**
Impairment losses on credit exposures	(144)	-	(144)	(737)	-	564	(173)
Underlying profit on ordinary activities before tax	**(49)**	**180**	**131**	**(803)**	**339**	**502**	**38**
Pension scheme reforms benefit[2]	-	-	-	-	130	-	130
PPI redress expense[3]	-	(130)	(130)	-	(120)	-	(120)
Other conduct[4]	-	(50)	(50)	-	(23)	-	(23)
Impairment of intangible assets[5]	-	-	-	-	(36)	-	(36)
Impairment losses on goodwill[6]	-	-	-	-	(141)	-	(141)
Disposed legacy CRE portfolio impact[1]	-	-	-	-	-	(502)	(502)
Restructuring expenses[7]	-	-	-	-	(149)	-	(149)
Loss on ordinary activities before tax	**(49)**	**-**	**(49)**	**(803)**	**-**	**-**	**(803)**
Tax credit	5	-	5	156	-	-	156

Annexure G: Part Four
Selected financial information on CYBG Group

Continued	Year ended 30 September 2013			Year ended 30 September 2012			
	HFI Income Statement	**Presentation Differences**	**Management Basis**	**HFI Income Statement**	**Presentation Differences**	**Presentation Differences relating to the disposed CRE portfolio[1]**	**Management Basis**
						(unaudited)	
		£m				*£m*	
Loss for the year	**(44)**	**-**	**(44)**	**(647)**	**-**	**-**	**(647)**
Attributable to:							
Equity holders of the parent	(44)	-	(44)	(656)	-	-	(656)
Non-controlling interest	-	-	-	9	-	-	9
	(44)	**-**	**(44)**	**(647)**	**-**	**-**	**(647)**

(1) These amounts are unaudited. The £502 million amount disclosed above represents the impact of the disposed CRE portfolio on the results for the year ended 30 September 2012. The legacy CRE portfolio was reclassified as held for sale at 30 September 2012 and the £5,225 million of predominantly CRE assets and associated loans net of provisions was transferred to NAB in October 2012. The presentation of results on the Management Basis excludes the results, including impairment losses, of the disposed legacy CRE portfolio during the year ended 30 September 2012. Accordingly, interest income of £161 million, interest expense of £90 million, other operating income of £5 million, personnel expenses of £14 million and an impairment loss on credit exposures of £564 million have all been removed from the results on the Management Basis and are instead shown as a single loss on the disposed legacy CRE portfolio of £502 million. The interest expense of £90 million has been calculated by applying the contractual rates that were in place for the majority of the funding to all of the funding arrangements supporting the CRE portfolio prior to the disposal. There is no equivalent amount for the year ended 30 September 2013.

(2) In the year ended 30 September 2012, CYBG Group received a one-off pension contribution of £130 million from NAB in respect of the defined benefit pension scheme. This amount was recognised as a one-off gain in other operating income, but has been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

(3) PPI redress expense provision costs of £130 million and £120 million for the years ended 30 September 2013 and 2012, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

(4) Other conduct charges of £50 million and £23 million for the years ended 30 September 2013 and 2012, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

(5) Impairment charges on intangible assets of £36 million for the year ended 30 September 2012 were recorded within other operating and administrative expenses. These costs comprise impairment on capitalised software costs, predominantly with respect to business banking systems in 2012 and have been excluded from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

(6) A goodwill impairment charge of £141 million was recorded within other operating and administrative expenses for the year ended 30 September 2012. It represents a reduction in the value of CYBG Group's investment in Clydesdale Bank, reflecting the results, including impairment losses, on the legacy CRE portfolio and other restructuring costs that the business incurred in that period. This cost has been removed from the results on the Management Basis due to its non-recurring nature. There is no equivalent amount for the year ended 30 September 2013.

(7) CYBG Group recorded a charge of £149 million for restructuring for the year ended 30 September 2012, principally for headcount reductions and the closure or relocation of certain business and private banking centres and back office locations, as part of the 2012 strategic review. This charge has been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

6. Average Balance Sheet and Interest Rate Data

The following tables set out the average balances of interest-earning assets and interest-bearing liabilities, interest income earned and interest expense incurred by CYBG Group and average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities for the years indicated. The financial information below has been extracted or derived from the CYBG HFI for the years ended 30 September 2015, 2014, 2013 and 2012 and CYBG Group's financial reporting systems. For further information, see "*Important Information—Presentation of certain financial and other information—Average balance sheet and interest rate data*" of this Annexure G.

	Year ended 30 September 2015			**Year ended 30 September 2014**		
	Average Balance	**Interest Income/ Expense**	**Average yield/rate**	**Average Balance**	**Interest Income/ Expense**	**Average yield/rate**
		(£m, except %)			*(£m, except %)*	
Interest-earning assets:						
Mortgages	19,576	647	3.31%	17,155	584	3.40%
Business lending(1)	7,339	278	3.78%	8,337	324	3.89%
Unsecured personal lending	1,274	138	10.83%	1,295	155	11.99%
Liquid assets	6,781	36	0.53%	6,180	33	0.54%
Due from related entities	810	3	0.40%	1,102	4	0.33%
Swap income/other	-	8	n/a	-	35	n/a
Total average interest-earning assets	**35,780**	**1,110**	**3.10%**	**34,069**	**1,135**	**3.33%**
Interest-bearing liabilities:						
Current accounts	10,416	12	0.11%	9,741	12	0.12%
Savings accounts	7,171	54	0.75%	5,911	35	0.59%
Term deposits	5,500	129	2.35%	5,975	165	2.77%
Other wholesale deposits	96	1	0.85%	171	1	0.69%
Bonds and notes	3,868	82	2.11%	3,280	81	2.47%
Due to related entities	1,956	40	2.07%	2,961	50	1.69%
Liquid liabilities	978	5	0.54%	808	6	0.72%
Total average interest-bearing liabilities	**29,985**	**323**	**1.08%**	**28,847**	**350**	**1.21%**
Total average equity attributable to equity holders of the parent	**3,029**			**2,324**		
Net interest margin			**2.20%**			**2.30%**

(1) Average business lending balances include other financial assets at fair value.

Annexure G: Part Four
Selected financial information on CYBG Group

	Year ended 30 September 2013			Year ended 30 September 2012		
	Average Balance	**Interest Income/ Expense**	**Average yield/rate**	**Average Balance**	**Interest Income/ Expense**	**Average yield/rate**
		(£m, except %)			*(£m, except %)*	
Interest-earning assets:						
Mortgages	15,698	545	3.47%	14,617	493	3.37%
Business lending[1]	9,983	385	3.86%	11,779	479	4.06%
Unsecured personal lending	1,282	164	12.79%	1,352	174	12.84%
Liquid assets	7,220	40	0.55%	6,488	40	0.62%
Due from related entities	1,072	5	0.43%	2,475	14	0.55%
Swap income/other	-	70	n/a	-	100	n/a
Total average interest-earning assets	**35,255**	**1,209**	**3.43%**	**36,711**	**1,300**	**3.54%**
Interest-bearing liabilities:						
Current accounts	9,194	11	0.12%	8,776	11	0.12%
Savings accounts	5,458	31	0.57%	5,546	30	0.54%
Term deposits	8,284	261	3.15%	9,497	301	3.17%
Other wholesale deposits	565	4	0.70%	814	8	0.95%
Bonds and notes	3,098	75	2.43%	2,791	52	1.87%
Due to related entities[2]	2,919	57	1.94%	3,777	86	2.27%
Liquid liabilities	535	2	0.44%	837	6	0.75%
Total average interest-bearing liabilities	**30,053**	**441**	**1.47%**	**32,038**	**494**	**1.54%**
Total average equity attributable to equity holders of the parent	**2,345**			**2,743**		
Net interest margin[3]			**2.18%**			**2.20%**

(1) Average business lending balances include other financial assets at fair value. Average business lending assets for the year ended 30 September 2012 have been adjusted to remove an average balance of £5,652 million of predominantly CRE assets and associated loans excluding provisions, which were transferred to NAB on 5 October 2012.

(2) Average balances due to related entities for the year ended 30 September 2012 excludes £5,084 million, which was repaid to NAB in October 2012.

(3) Net interest income and net interest margin for the year ended 30 September 2012 is presented on the Management Basis and excludes the impact of the disposed CRE portfolio on the results for the year ended 30 September 2012. Management Basis net interest margin is defined as Management Basis net interest income divided by average interest-earning assets for a given period.

The following tables set out CYBG Group's average balances of interest-earning assets and interest-bearing liabilities, interest income earned and interest expense incurred by CYBG Group and average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities for mortgage lending, business lending and unsecured personal lending for the years indicated.

	Year ended 30 September 2015			**Year ended 30 September 2014**		
	Average Balance	**Interest Income**	**Average yield/rate**	**Average Balance**	**Interest Income**	**Average yield/rate**
		(£m, except %)			*(£m, except %)*	
Interest-earning assets:						
Mortgages lending:						
Front book pricing(1)			3.21%			3.53%
Variable	5,559	202	3.63%	6,734	250	3.71%
Tracker	2,808	40	1.42%	3,002	43	1.42%
Fixed rate	11,207	405	3.61%	7,422	286	3.85%
Deferred fee income	2	-	n/a	(3)	5	n/a
Total mortgage lending	**19,576**	**647**	**3.31%**	**17,155**	**584**	**3.40%**
Business lending:						
New term lending(2)			3.58%			3.80%
Overdrafts	1,212	46	3.79%	1,397	56	3.99%
Term lending	5,413	162	3.00%	6,183	185	3.00%
Working capital solutions	741	30	4.04%	786	33	4.22%
Deferred fee income	(27)	40	n/a	(29)	50	n/a
Total business lending	**7,339**	**278**	**3.78%**	**8,337**	**324**	**3.89%**
Unsecured personal lending:						
Personal loans	800	73	9.16%	793	82	10.40%
Fixed rate	689	70	10.17%	670	78	11.74%
Variable rate	111	3	2.97%	123	4	3.17%
Credit cards	370	52	14.05%	379	58	15.19%
Overdrafts	104	13	12.19%	123	15	12.36%
Total unsecured personal lending	**1,274**	**138**	**10.83%**	**1,295**	**155**	**11.99%**

(1) Front book pricing is defined as the weighted average of gross interest rates on loans originated for a given period.

(2) New term lending is defined as the weighted average of gross interest rates on business term loans originated for a given period.

Annexure G: Part Four
Selected financial information on CYBG Group

	Year ended 30 September 2013			Year ended 30 September 2012		
	Average Balance	**Interest Income**	**Average yield/rate**	**Average Balance**	**Interest Income**	**Average yield/rate**
		(£m, except %)			*(£m, except %)*	
Interest-earning assets:						
Mortgages lending:						
Front book pricing[1]			3.59%			3.63%
Variable	8,181	297	3.64%	7,699	264	3.43%
Tracker	3,252	47	1.44%	3,452	50	1.44%
Fixed rate	4,274	187	4.38%	3,481	171	4.92%
Deferred fee income	(9)	14	n/a	(15)	8	n/a
Total mortgage lending	**15,698**	**545**	**3.47%**	**14,617**	**493**	**3.37%**
Business lending:						
New term lending[2]			3.79%			4.17%
Overdrafts	1,651	66	4.00%	1,822	75	4.12%
Term lending	7,383	216	2.93%	8,726	266	3.04%
Working capital solutions	989	44	4.40%	1,282	59	4.60%
Deferred fee income	(40)	59	n/a	(51)	79	n/a
Total business lending	**9,983**	**385**	**3.86%**	**11,779**	**479**	**4.06%**
Unsecured personal lending:						
Personal loans	714	83	11.60%	713	83	11.60%
Fixed rate	595	78	13.12%	564	77	13.67%
Variable rate	119	5	3.96%	149	6	3.71%
Credit cards	413	63	15.30%	454	71	15.55%
Overdrafts	155	18	11.64%	185	20	10.95%
Total unsecured personal lending	**1,282**	**164**	**12.79%**	**1,352**	**174**	**12.84%**

(1) Front book pricing is defined as the weighted average of gross interest rates on loans originated for a given period.

(2) New term lending is defined as the weighted average of gross interest rates on business term loans originated for a given period.

	Year ended 30 September 2015			Year ended 30 September 2014		
	Average Balance	**Interest Expense**	**Average yield/rate**	**Average Balance**	**Interest Expense**	**Average yield/rate**
		(£m, except %)			*(£m, except %)*	
Customer deposits:						
Business deposits:						
Current accounts	5,803	9	0.16%	5,497	9	0.16%
Variable rate savings accounts	1,785	10	0.55%	1,723	11	0.61%
Fixed rate term deposits	1,082	13	1.21%	1,433	21	1.52%
Total business deposits	**8,670**	**32**	**0.37%**	**8,653**	**41**	**0.47%**
Personal deposits:						
Current accounts	6,539	3	0.04%	6,046	3	0.04%
Variable rate savings accounts	5,386	44	0.82%	4,188	24	0.58%
Fixed rate term deposits	4,418	116	2.63%	4,542	144	3.17%
Total personal deposits	**16,343**	**163**	**1.00%**	**14,776**	**171**	**1.15%**
Other wholesale deposits	**96**	**1**	**0.85%**	**171**	**1**	**0.69%**
Current accounts:						
Interest-bearing current accounts	10,416	12	0.11%	9,741	12	0.12%
Non-interest-bearing current accounts	1,925	-	n/a	1,802	-	n/a
Total current accounts (non-interest-bearing and interest-bearing)	**12,342**	**12**	**0.10%**	**11,543**	**12**	**0.10%**
Total customer deposits	**25,108**	**196**	**0.78%**	**23,600**	**213**	**0.90%**

Annexure G: Part Four
Selected financial information on CYBG Group

	Year ended 30 September 2013			Year ended 30 September 2012		
	Average Balance	**Interest Expense**	**Average yield/rate**	**Average Balance**	**Interest Expense**	**Average yield/rate**
		(£m, except %)			*(£m, except %)*	
Customer deposits:						
Business deposits:						
Current accounts	5,483	10	0.18%	5,309	10	0.18%
Variable rate savings accounts	1,879	14	0.74%	2,137	15	0.70%
Fixed rate term deposits	2,536	53	2.09%	3,673	76	2.07%
Total business deposits	**9,898**	**77**	**0.77%**	**11,119**	**101**	**0.92%**
Personal deposits:						
Current accounts	5,434	1	0.01%	5,006	1	0.02%
Variable rate savings accounts	3,579	17	0.48%	3,409	15	0.44%
Fixed rate term deposits	5,748	208	3.62%	5,823	225	3.86%
Total personal deposits	**14,761**	**226**	**1.53%**	**14,238**	**241**	**1.69%**
Other wholesale deposits	**565**	**4**	**0.70%**	**814**	**8**	**0.95%**
Current accounts:						
Interest-bearing current accounts	9,194	11	0.12%	8,776	11	0.12%
Non-interest-bearing current accounts	1,723	-	n/a	1,539	-	n/a
Total current accounts (non-interest-bearing and interest-bearing)	**10,917**	**11**	**0.10%**	**10,315**	**11**	**0.10%**
Total customer deposits	**25,224**	**307**	**1.22%**	**26,171**	**350**	**1.34%**

7. Changes in Interest Income and Interest Expense – Volume and Rate Analysis

The following table sets out a comparative analysis of changes in interest income and interest expense of CYBG Group for the years indicated. For further information, see "*Important Information—Presentation of certain financial and other information—Average balance sheet and interest rate data*" of this Annexure G.

	Year ended 30 September 2015 compared to year ended 30 September 2014			Year ended 30 September 2014 compared to year ended 30 September 2013			Year ended 30 September 2013 compared to year ended 30 September 2012		
	Increase/(decrease) in net interest income due to changes in:								
	Volume	**Rate**	**Total net change**	**Volume**	**Rate**	**Total net change**	**Volume**	**Rate**	**Total net change**
		£m			*£m*			*£m*	
Interest income:									
Mortgages	82	(19)	63	51	(12)	39	36	16	52
Business lending(1)	(39)	(7)	(46)	(64)	3	(61)	(73)	(21)	(94)
Unsecured personal lending	(3)	(14)	(17)	2	(11)	(9)	(9)	(1)	(10)
Liquid assets	3	-	3	(6)	(1)	(7)	5	(5)	-
Due from related entities	(1)	-	(1)	-	(1)	(1)	(8)	(1)	(9)
Swap income	n/a	(27)	(27)	n/a	(35)	(35)	n/a	(30)	(30)
Total interest income			**(25)**			**(74)**			**(91)**
Interest expense:									
Current accounts	(1)	1	-	(1)	-	(1)	(1)	1	-
Savings accounts	(7)	(12)	(19)	(3)	(1)	(4)	-	(1)	(1)
Term deposits	13	23	36	73	23	96	38	2	40
Other wholesale deposits	1	(1)	-	3	0	3	2	2	4
Bonds and notes	(15)	14	(1)	(4)	(2)	(6)	(6)	(17)	(23)
Due to related entities(2)	17	(7)	10	(1)	8	7	19	10	29
Liquid liabilities	(1)	2	1	(1)	(3)	(4)	2	2	4
Total interest expense			**27**			**91**			**53**
Net interest income			**2**			**17**			**(38)**

(1) The volume and rate variance on average business lending includes the volume and rate variances on the average balances of other financial assets at fair value. The volume and rate variance on average business lending excludes the impact of the disposal of an average £5,652 million of predominantly CRE assets and associated loans excluding provisions, which were transferred to NAB on 5 October 2012.

(2) The volume and rate variance on amounts due to related entities for the year ended 30 September 2012 excludes £5,084 million which was repaid to NAB in October 2012.

Annexure G: Part Five
CYBG Group operating and financial review

The following discussion of the financial condition and results of operations of CYBG Group should be read in conjunction with the CYBG HFI and other financial information relating to the business of CYBG Group included elsewhere in this Annexure G, including Part 4: "Selected Financial Information on CYBG Group" and "Important Information".

The Management Basis information in this Part 5 of Annexure G includes adjustments to present items that the CYBG Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the CYBG HFI to the Management Basis information presented in paragraph 5 of Part 4 of this Annexure G: "Selected Financial Information on CYBG Group". These adjustments and CYBG Group's underlying results of operations on the Management Basis are both discussed below.

The following discussion of CYBG Group's results of operations and financial condition contains forward-looking statements which reflect the current views of management. CYBG Group's actual results could differ materially from those anticipated in any forward-looking statements as a result of the factors discussed below and elsewhere in this Annexure G, particularly Part 1: "CYBG Risk Factors".

1. Overview

With over 175 years of history, CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, CYBG Group offers, through its strong local community brands Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services. Clydesdale Bank is also one of only a small number of banks in the world that issues banknotes.

CYBG Group's long established retail and SME franchises have significant scale and strong market shares in personal current accounts, business current accounts, SME business lending and mortgages in its core regions. As at 30 September 2015, CYBG Group had 2.8 million retail and business customers, with £26,349 million of customer deposits and a £28,783 million customer loan portfolio, of which £20,504 million were mortgage loans, £7,061 million were business lending and the remainder of the portfolio was comprised of unsecured personal lending (including credit cards and overdrafts).

CYBG Group has a standalone operating platform, with limited ongoing support required from NAB under a TSA until CYBG Group's planned separation is fully implemented.

CYBG Group's operating platform supports its full service customer proposition and enables CYBG Group to provide services to customers through multiple distribution channels. As at 30 September 2015, these distribution channels included 275 retail branches (121 Clydesdale Bank-branded branches and 154 Yorkshire Bank-branded branches) and 40 business and private banking centres (including 28 centres integrated with retail branches), strong and well-established relationships with leading third-party mortgage intermediaries, a rapidly evolving digital platform (including proprietary website and mobile offerings as well as participation in third-party aggregator sites), access to certain banking services through the Post Office's over 11,800 branches, telephony and voice services, and an ATM network. CYBG Group's distribution platform continues to develop to allow Clydesdale Bank and Yorkshire Bank customers to complete their retail and SME banking needs across multiple distribution channels with an emphasis on digital and non-branch channel usage which reflects changing customer behaviour and preferences for omni-channel interactions.

Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened. The CYBG Directors believe that CYBG Group's balance sheet is now more resilient and strongly capitalised, which together with the capital protection provided by the Capped Indemnity package, provides a strong foundation to support CYBG Group's targeted future growth. Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring.

The Directors believe CYBG Group has the key strengths and capabilities to enable its experienced leadership team to execute the strategy as set forth herein.

2. Recent Developments

CYBG Group's trading performance since 30 September 2015 has progressed largely in line with recent trends.

3. Significant Factors Affecting Results of Operations and Financial Position

As a UK retail and SME bank, CYBG Group's business, financial condition and results of operations are affected by various factors, both external and internal. External factors include economic, political and social developments and conditions in the UK, the markets for retail and SME financial services including lending, deposits and complementary products, and the UK and European regulatory environment.

Internal factors include CYBG Group's strategic objectives and initiatives to simplify and grow the business, reduce operating costs and increase operational efficiency; provisioning; CYBG Group's prudent risk appetite and risk management policies and procedures; and balance sheet, liquidity and funding management.

The Directors believe that the following factors have had a significant effect on CYBG Group's historical results of operations and financial condition and/or are likely to have a significant effect on CYBG Group's future results of operations and financial condition.

3.1 2012 Strategic Review

In 2012, CYBG Group and NAB conducted a strategic review of CYBG Group and the UK banking market in response to the weak macro-economic environment in the UK in 2011 and 2012. During this period, CYBG Group had experienced financial challenges due to declining UK commercial property values, challenging regulatory and political conditions facing the UK banking market and the UK economy generally and higher funding costs. On 30 April 2012, CYBG Group and NAB announced the results of the strategic review, which principally consisted of a decision to simplify CYBG Group's business model to focus on retail operations and SME business lending across CYBG Group's traditional core regions and to improve CYBG Group's balance sheet structure by transferring a significant majority of its CRE assets to NAB. As part of the 2012 strategic review, CYBG Group retained the majority of its retail network of over 300 branches and retail frontline staffing levels. With respect to business lending, CYBG Group made the strategic decision to reshape the geography, risk appetite and composition of its service proposition by moving to a tiered service model for business banking, ranging from a direct telephone-based service to a full relationship manager-based service in its core regions, operating through 40 business and private banking centres focused on the core regions in Scotland and the North of England/Yorkshire and nine business and private banking centres serving the South of England. CYBG Group also announced in 2012 that it would streamline its operations, technology and support functions with a view to increasing efficiency and reducing operating costs. The impact of the strategic review and resulting actions led to:

- the transfer to NAB of £5,225 million of predominantly CRE assets and associated loans net of provisions on 5 October 2012;
- growth in the retail business and, in particular, the mortgage book;
- tightened business lending risk appetite and the resulting managed decline in business lending;
- improving asset quality as a result of tightened risk appetite and changes in the lending book mix, combined with the general economic conditions during the period under review; and
- restructuring and other cost management activities in response to the above.

Each of the above factors is discussed in further detail below.

3.2 UK macro-economic and regulatory conditions

Substantially all of CYBG Group's operations are in the UK and substantially all of its loans and advances are to customers in the UK. Accordingly, CYBG Group's income is derived almost entirely from UK customers. As a result, CYBG Group's business, financial condition and results of operations are, and will continue to be, significantly affected by macro-economic conditions in the UK, in particular with respect to business confidence, business lending and investment activity, commercial property prices, the housing and savings markets, GDP, interest rates, unemployment and government and regulatory actions related to the economy.

The overall performance of the UK economy drives employment levels, house prices and aggregate savings balances, which affect CYBG Group's performance. The following table sets out selected economic indicators for the UK as at and for the years ended 30 September 2015 and as at and for the years ended 31 December 2014, 2013 and 2012.

Annexure G: Part Five
CYBG Group operating and financial review

	As at and for the year ended 30 September	As at and for the year ended 31 December		
	2015	2014	2013	2012
		%		
Real GDP growth(1)	2.1	2.8	1.7	0.7
Inflation(2)	0.2	1.5	2.6	2.8
Unemployment(3)	5.3	6.2	7.6	8.0
House Price Index(4)	n/a(10)	10.0	3.5	1.6
House Price Index(5)(peak to trough % change)	n/a(10)	11.5	1.6	(3.7)
Average system growth (housing)(6)	1.6	0.3	0.7	1.2
Average system growth (business lending)(7)	(4.0)	(4.5)	(6.1)	(4.2)
System savings growth(8)	5.2	6.0	10.4	(0.2)
Bank of England base rate(9)	0.50	0.50	0.50	0.50

(1) Source: Office of National Statistics, Economic Intelligence Unit.

(2) Source: Office of National Statistics, Economic Intelligence Unit.

(3) Source: Office of National Statistics, Economic Intelligence Unit.

(4) Office of National Statistics. Housing market: house prices from 1930, annual house price inflation, United Kingdom, from 1970.

(5) Office of National Statistics. Period-end figures.

(6) Bank of England Money and Financial Statistics: Lending secured on dwellings. These amounts reflect the total lending secured on dwellings less mortgages in connection with housing associations and other data that may be affected by securitisations and loan transfers up to December 2009 and loan transfers from January 2010. These amounts are not seasonally adjusted.

(7) Bank of England Money and Financial Statistics: Industrial analysis of monetary financial institutions' lending to UK residents. These amounts reflect the amount of lending outstanding to UK residents less total amounts from individuals and individual trusts, activities auxiliary to financial institutions, total insurance companies and pension funds and financial intermediation (excluding insurance and pension funds). These amounts are not seasonally adjusted.

(8) Bank of England. These amounts reflect the average retail amounts of deposits and cash outstanding for a given period. These amounts are not seasonally adjusted.

(9) Bank of England base rate at period end.

(10) Data is not available.

Banking performance in the UK is correlated with the health of the UK economy. UK real GDP growth, which has been higher than real GDP growth of European peers, was 3.0 per cent. in 2014, and UK real GDP was forecast to grow 2.6 per cent. in 2015 (*Source: Office for National Statistics, HM Treasury*).

Other key UK macro-economic indicators have also shown improvements. In the three months to August 2015, the unemployment rate fell to a seven year low of 5.4 per cent. and the employment rate rose to 73.6 per cent., which was the highest rate since records began in 1971 (*Source: Office for National Statistics*). In the three months to August 2015, workers' total earnings were also up 3 per cent. compared to the prior year. Inflation, as measured by the Consumer Price Index fell to -0.1 per cent. in September 2015. Core inflation, which excludes volatile elements like food and energy, remained low at 1.0 per cent. The British Chamber of Commerce expects inflation to remain at or below 0 per cent. for the remainder of 2015 but to remain below the Monetary Policy Committee target of 2 per cent. until 2017.

The Bank of England base rate has been set at 0.5 per cent. since March 2009. The prolonged low interest rate environment has had a significant impact on CYBG Group's performance. In particular, CYBG Group enters into two and five year rate swaps to stabilise the returns on low or non-interest-bearing liabilities such as current accounts, and equity. As a result, the returns on low-interest-bearing liabilities have declined and this has influenced CYBG Group's results of operations and financial condition during the period under review. In addition, rates on term deposits, although currently lower than they were three years ago, have tended to be higher than the Bank of England base rate, which has resulted in compressed spreads and a reduction in net interest margin for UK banks, including CYBG Group, during the period under review. In the event of an increase in the Bank of England base rate, CYBG Group plans to take into account the commercial and market environment at the time when considering its response to, and the impact of, such an increase. Subject to the commercial and market environment, with respect to liabilities such as current accounts, CYBG Group would expect to retain a proportion of any increase(s) in the Bank of England base rate, and with respect to assets priced on the basis of the Bank of England base rate, CYBG Group would expect that interest rates on such assets would move in line with the base rate in the event of increases in the base rate.

In response to the prevailing economic conditions, the trends in both retail and business banking at the beginning of 2012 were for customers to deleverage, borrow less and save more. The combination of increased customer confidence in the UK economy since 2013, rising house prices and lower mortgage rates led to retail customers beginning to borrow again, as evidenced by growth in overall mortgage lending in the UK. However, demand remains weak relative to the pre-recession environment, in particular in the business lending sector. Lower mortgage rates and declining unemployment have also made it easier for borrowers to service their debt. CYBG Group's impairment charge to average customer loans ratio improved from 0.74 per cent. for the year ended 30 September 2012 to 0.21 per cent. for the year ended 30 September 2015.

The macro-economic environment has also affected the level of competition in the UK banking market, which has had an impact on CYBG Group's financial performance. The increasingly competitive environment among UK banks has, *inter alia*, placed downward pressure on mortgage rates, and therefore margins.

UK banks, including CYBG Group, will need to continue to adapt to the changing political and regulatory environment, with a focus on achieving fair outcomes for customers and building resilient business models. The regulatory implications for the UK banking sector include reduced fee and commission income, additional operating costs associated with improving the customer experience and managing conduct risk and requirements to hold higher quality capital. The UK banking industry, including CYBG Group, will need to continue to invest in each of these areas.

3.3 Commercial real estate portfolio transfer to NAB

CYBG Group's CRE portfolio was established in the pre-recession environment and, in 2012, had increased credit risk arising from, among other things, the fall in property prices, exposure to development risk, lack of demand for property and concentration risk, in addition to carrying a high capital requirement. The strategic review conducted by CYBG Group and NAB in 2012 concluded that the majority of the CRE portfolio did not fit within CYBG Group's risk appetite and that CYBG Group should dispose of substantially all of this portfolio to NAB.

CYBG Group recognised an impairment charge of £564 million in respect of the legacy CRE portfolio in the year ending 30 September 2012 and the transfer of £5,225 million of predominantly CRE assets and associated loans net of provisions was completed on 5 October 2012. The proceeds of the transfer were used to repay £5,084 million of funding from NAB.

The transfer of the legacy CRE portfolio enabled CYBG Group to substantially reduce its risk profile, in terms of the levels of total risk-weighted assets, the average risk weighting of the asset portfolio and asset quality terms. In addition to improving CYBG Group's risk profile, the repayment to NAB, following the transfer of the CRE portfolio, resulted in reduced reliance on parental funding, which decreased from £7,716 million as at 30 September 2012 to £998 million as at 30 September 2015.

Following the transfer of the CRE portfolio, CYBG Group has provided services to NAB in connection with the legacy CRE portfolio, for which it received a service charge of £15 million in the year ended 30 September 2013, £10 million in the year ended 30 September 2014 and £5 million in the year ended 30 September 2015. The service charge has decreased due to the reduction in the size of the legacy CRE portfolio during the period under review.

The presentation of results on the Management Basis excludes the results, including impairment losses, of the disposed legacy CRE portfolio during the year ended 30 September 2012. Accordingly, interest income of £161 million, interest expense of £90 million, other operating income of £5 million, personnel expenses of £14 million and an impairment loss on credit exposures of £564 million have all been removed from the results on the Management Basis and are instead shown as a single loss on the legacy CRE portfolio disposal of £502 million. The effect of these adjustments had a significant impact on the position and performance of CYBG Group during the period under review and are further discussed in paragraph 7.9.7 "*Disposed legacy CRE portfolio impact*" below.

3.4 Mortgage book growth

As part of the 2012 strategic review, CYBG Group decided to reduce business lending and focus on mortgage growth. The transfer of CRE assets resulted in a significant reduction in CYBG Group's capital requirements. As a result, CYBG Group was able to redeploy capital to mortgage lending, with the objectives of improving return on risk-weighted assets and using capital more efficiently. The ability of CYBG Group to generate mortgage growth is a key factor in determining its financial performance. During the period under review, CYBG Group has increased its mortgage portfolio from £15,369 million as at 30 September 2012 to £20,504 million as at 30 September 2015, representing a CAGR of 10.1 per cent. The CAGR of mortgage loans in the UK market as a whole over the same period was 1.4 per cent., according to statistics from the Bank of England. While the principal source of gross new mortgage lending has been intermediary mortgage lending, CYBG Group has also increased gross new mortgage lending volumes through its private bank and branch networks (collectively, the "**proprietary channels**").

CYBG Group operates a multi-channel distribution strategy, utilising the intermediary channel to provide national capability alongside direct sales through its proprietary channels, including the branch and the private banking networks, which deliver loan volumes in its core regions. There has been a particular focus on using the intermediary channel to diversify the portfolio across different geographic regions with customer acquisition in the South East expanding CYBG Group's customer base outside of Scotland and the North of England. The use of the intermediary channel has enabled CYBG Group to compete both effectively and cost efficiently outside of its core regions, reducing concentration risk within those regions without having to increase the size of its branch network or add a significant number of employees. As at 30 September 2015, CYBG Group's outstanding intermediary mortgage balances outside of its core regions constituted 86 per cent. of total intermediary mortgage balances.

CYBG Group's mortgage lending through the intermediary channel has enabled it to grow its loan portfolio at above-market rates without compromising the asset quality of the mortgage book and has facilitated diversification across the mortgage book. CYBG Group's longstanding intermediary relationships and its intermediary mortgage processing capability has also contributed to diversification and growth in CYBG Group's mortgage portfolio. CYBG Group has increased the balance of intermediary mortgages from £3,798 million as at 1 October 2011 (representing 27 per cent. of CYBG Group's total mortgage book) to £10,910 million as at 30 September 2015 (representing 53.2 per cent. of CYBG Group's total mortgage book). Intermediary mortgages represented 74.1 per cent. of CYBG Group's gross new mortgage lending during the period under review. The UK intermediary mortgage market has grown in recent years, from representing 48 per cent. of gross new UK mortgage lending by value in the year ended 30 September 2012 to representing 67 per cent. of gross new UK mortgage lending in the year ended 30 September 2015, according to CML Regulated Mortgage Survey data. See Part 2 of this Annexure G: "*Information on CYBG Group – Strengths – Long established franchise in its core regional and selected national markets*" for further information.

The remaining 25.9 per cent. of CYBG Group's gross new mortgage lending during the period under review comprised gross new lending through its proprietary channels. CYBG Group's ability to generate mortgage growth through its proprietary channels is supported by its established and well-located branch operating model. Mortgage lending through the proprietary channels has extended CYBG Group's brand presence whilst meeting the needs of customers in its local communities. CYBG Group expects to continue to leverage its key distribution channels in the future to support its mortgage growth strategy.

3.5 Changes in mortgage book mix

CYBG Group's mortgage book is comprised of fixed rate, variable rate and tracker rate mortgages, which have different gross yields. The composition of the mortgage book has a material impact on the net interest income, net interest margin and overall returns of CYBG Group. The fixed rate, variable rate and tracker book margins were lower than CYBG Group's net interest margin during the period under review. However, the returns on risk-weighted assets for CYBG Group's fixed rate and variable rate mortgages were higher than CYBG Group's overall returns on risk-weighted assets during the period under review due to relatively lower levels of risk-weighted assets held against mortgages.

During the period under review, there has been a strong customer preference for fixed rate products, which is reflected in the level of new mortgage loans at fixed rates (86.0 per cent. of gross new mortgage lending in the UK market as a whole comprised fixed rate mortgage lending in the year ended 31 August 2015 according to CML industry data). This customer preference has driven growth in the size of CYBG Group's fixed rate mortgage book from £3,851 million as at 30 September 2012 to £12,710 million as at 30 September 2015. Over the same period, there has been a decrease, although to a lesser extent, in variable rate mortgages from £8,152 million as at 30 September 2012 to £5,169 million as at 30 September 2015, mainly driven by customers switching to fixed rate mortgages and refinancing elsewhere. The variable rate mortgage book includes mortgages at CYBG Group's SVR, which is currently set at 4.95 per cent. The interest rate on fixed rate mortgages generally reverts to the SVR rate at the end of the fixed rate period. The average balance of the variable rate book was £5,559 million for the year ended 30 September 2015 with an average yield of 3.63 per cent. The balance of mortgages on the SVR rate as at 30 September 2015 was £3,081 million with an average yield of 4.96 per cent. The lower average yield on the variable rate mortgage book was largely driven by the impact of offset facilities and discount products.

As is the case with other UK banks, CYBG Group's mortgage portfolio contains base rate tracker mortgages. The average yield on these tracker mortgages was approximately 1.42 per cent. for the year ended 30 September 2015. In the current interest rate environment, the gross yield is lower than CYBG Group's funding cost for these tracker mortgages, resulting in a negative interest margin and a drag on its return on equity. In 2008, CYBG Group ceased sales of its tracker rate mortgage portfolio, except on a limited basis to CYBG Group's employees under a staff scheme, and balances have continued to fall during the period under review from £3,366 million as at 30 September 2012 to £2,625 million as at 30 September 2015. The tracker mortgages are running off at a contractual maturity of £200 million to £300 million per annum. CYBG Group estimates that the benefit to the average yield of its total mortgage portfolio from the run-off of the tracker book from the year ended 30 September 2012 to the year ended 30 September 2015 was approximately 6 basis points in aggregate, or approximately 2 basis points per annum in each of the three years ended 30 September 2015.

CYBG Group expects the mortgage book mix to continue to have a material impact on its financial performance in the future.

3.6 Refocused business lending

CYBG Group's business lending has declined at a CAGR of 13.5 per cent. from 30 September 2012 to 30 September 2015. This rate of decline excludes the impact of the transfer to NAB of the legacy CRE portfolio, which was included in assets held for sale at 30 September 2012. The decline in business lending during the period under review is due to a combination of factors. The economic environment has led to businesses de-leveraging, with lower loan utilisation and increased cash deposits. This is evident in the system data for business lending, which has shown a contraction in business lending of approximately 5 per cent. per annum on average during the period under review, according to statistics from the Bank of England.

As part of the 2012 strategic review, CYBG Group focussed on its core regions by reducing its business network through the closure of business and private banking centres. CYBG Group made the strategic decision to reshape the geography, risk appetite and composition of its service proposition by moving to a tiered service model for business banking, ranging from a direct telephone-based service to a full relationship manager-based service in its core regions. Following the 2012 strategic review, CYBG Group tightened its business lending risk appetite and effectively withdrew from certain segments of the market during the period under review. CYBG Group also reduced the number of business banking personnel. Additionally, CYBG Group has managed the reduction of lower yielding assets across the business with the aim of improving overall returns. This strategic shift, together with reduced business lending in the UK market generally, drove the reduction in CYBG Group's business lending portfolio.

CYBG Group's strategy for business lending is to focus on SME businesses in its core regions. See Part 2 of this Annexure G: "*Information on CYBG Group – Strategy – Grow the customer franchises by leveraging capabilities in existing core regional markets and continue its successful national growth strategy – Grow the SME franchise*" for further information.

3.7 Improving asset quality

During the period under review, the change in composition of CYBG Group's balance sheet, in addition to improving macro-economic conditions, has resulted in a material and sustained improvement in asset quality. In particular, CYBG Group has actively managed to achieve a lower risk lending profile through the transfer of the majority of the legacy CRE portfolio to NAB in October 2012, controlled growth of the mortgage portfolio and further reductions in business lending. The unsecured personal lending portfolio has remained relatively stable.

Credit risk associated with the business lending portfolio initially improved through the transfer of the majority of the legacy CRE portfolio to NAB in 2012. As a result of the rationalisation of CYBG Group's business banking footprint and changes to CYBG Group's risk appetite during a period of subdued market demand the business lending portfolio has contracted. Within business lending, the level of corporate exposure and the 'single name' exposure risk have each reduced. Following the transfer of CRE assets to NAB, the agriculture (soft commodities) sector became the largest sector concentration for CYBG Group comprising 24 per cent. of CYBG Group's total business lending as at 30 September 2015 compared to 17 per cent. as at 30 September 2012. CYBG Group has long-established expertise in the agricultural sector which, in combination with generally stable market conditions and growth in agricultural asset values, has resulted in low levels of impairment losses. Reduced exposures to higher risk sectors such as hospitality and construction have been a key element of the portfolio contraction which have contributed to the material and sustained improvement in the portfolio's aggregate asset quality.

A key factor in CYBG Group's improved overall portfolio asset quality has been the increased proportion of secured mortgage lending within its portfolio. As the mortgage market has recovered, CYBG Group has grown its market share of stock from 1.3 per cent. as at 30 September 2012 to 1.5 per cent. as at 30 September 2014 and 1.6 per cent. as at 30 September 2015, according to statistics from the Bank of England. CYBG Group has a national market share of gross new mortgage lending of 2.4 per cent. for the year ended 30 September 2015 according to CML data, while the average indexed LTV of CYBG Group's mortgage book decreased from 66.6 per cent. as at 30 September 2012 to 55.3 per cent. as at 30 September 2015.

As a result of the improved asset quality and more favourable macro-economic conditions, the impairment losses on credit exposures on the Management Basis fell from £173 million for the year ended 30 September 2012 to £144 million for the year ended 30 September 2013, £74 million for the year ended 30 September 2014 and £78 million for the year ended 30 September 2015. Impairment losses on credit exposures on the Management Basis for the year ended 30 September 2012 exclude a charge of £564 million in connection with the transfer of the legacy CRE portfolio to NAB in October 2012. In the year ended 30 September 2015, impairment losses on credit exposures marginally increased reflecting a modest rise in the charge for CYBG Group's growing mortgage portfolio. Business lending losses on the amortised cost portfolio were flat in 2015 compared to 2014, but reduced when combined with the fair value loan book, which experienced a reduction in the credit risk charge.

CYBG Group expects the asset quality of the mortgage and business lending portfolios to continue to be a primary factor in determining levels of impairment charges in CYBG Group's results of operations moving forward. The Directors believe that a material and sustained improvement in asset quality has been achieved. As a result of an improved economic environment, the CYBG Directors believe the impairment charge to average customer loans ratio at the end of the fiscal year 2015 will be close to or at a cyclical low.

3.8 Funding mix changes

CYBG Group has improved its funding position and mix in the period under review by replacing a significant volume of short-term wholesale funding with retail deposits and secured term wholesale funding. In addition, following the transfer of the legacy CRE portfolio, CYBG Group repaid funding due to

NAB, which further improved its mix of funding. Combined funding from the wholesale markets and funding from related entities has declined from £10,903 million as at 30 September 2012 to £4,764 million as at 30 September 2015.

As the level of wholesale funding decreased, CYBG Group has also been able to reduce the size of its liquid asset portfolio from £8,968 million as at 30 September 2012 to £7,893 million as at 30 September 2015, while maintaining prudent levels of liquidity in excess of regulatory requirements.

The loan-to-deposit ratio was 115 per cent. as at 30 September 2014 and 109 per cent. as at 30 September 2015. The decrease in the loan-to-deposit ratio primarily resulted from deposits growing at a faster rate than lending.

In 2011, following a credit rating downgrade, CYBG Group experienced sudden withdrawal of short-term wholesale funding. In response, CYBG Group was able to quickly replace this funding through fixed-rate term customer deposits. The majority of these fixed-rate term customer deposits had a maturity of 12 or 24 months and were a relatively expensive source of funding. CYBG Group proactively managed down the volume of fixed-rate term deposits from £9,922 million as at 30 September 2012 to £5,483 million as at 30 September 2015.

Since 2011, CYBG Group has also been able to proactively respond to the change in market conditions by reducing its customer deposit costs. In particular, CYBG Group has increased volumes of its non-interest-bearing or low-interest current account deposits and lower cost variable rate savings account deposits. The overall impact has been to decrease the average cost of customer deposits from 1.34 per cent. for the year ended 30 September 2012 to 0.78 per cent. for the year ended 30 September 2015. This has been a key driver of net interest margin stability during the period under review.

In addition to reducing funding costs, CYBG Group has been actively seeking to maintain a diverse, sustainable funding base, and over time, to further reduce its reliance on short-term wholesale funding sources. Since 2011, CYBG Group has worked further to diversify its funding mix through collateralised debt programmes (including RMBS and covered bonds) and other wholesale funding. As at 30 September 2015, CYBG Group had £3,766 million of outstanding RMBS and covered bonds with maturities ranging from August 2016 to June 2026. As a result of these issuances, the majority of CYBG Group's wholesale funding is now long-term funding (with a maturity greater than one year).

While term wholesale deposits and securitisation vehicles provide funding with a more predictable maturity profile, customer deposits provide low cost and stable funding, and as a result, will continue to be the most important source of funding for CYBG Group moving forward. CYBG Group will continue to manage the overall funding composition in terms of mix of retail and wholesale, mix of on demand deposits and term deposits and overall stability of funding, while seeking to limit reliance on short-term wholesale funding in order to effectively manage risk and return.

3.9 Restructuring and cost reduction

As part of the 2012 strategic review, CYBG Group implemented a restructuring plan that primarily comprised a reduction in staff, the closure of 29 business and private banking centres, the relocation of nine business and private banking centres and the closure of six back office locations.

CYBG Group recorded a restructuring provision of £149 million in 2012. A related charge of £36 million was also taken in the year ended 30 September 2012 for software impairment, predominantly for business banking systems.

The restructuring programme following the strategic review led to annualised cost savings of £82 million, which were above the original target of £74 million, and a reduction of over 1,400 FTEs. While the majority of staff reductions came from business banking, CYBG Group completed some broader streamlining activity across other areas of the bank. In the year ended 30 September 2015, CYBG Group closed 24 branches and spent £10 million on various improvements to its banking network, including the relocation of 4 branches, the extensive refurbishment of 15 branches as well as minor improvements to a number of other branches.

CYBG Group continues to review its operational efficiencies across middle and back office activities; this review has focussed on process improvements to enhance the customer experience and has included a review of CYBG Group's property footprint across the UK. As a result of these ongoing projects, CYBG Group recorded a charge of £17 million to the income statement for restructuring expenses in the year ended 30 September 2015. As at 30 September 2015, the closing balance of the restructuring provision was £18 million.

3.10 Legacy conduct-related redress

3.10.1 PPI Redress

During the period under review, conduct-related issues have had a significant impact on the profitability of a number of participants in the UK retail banking market. PPI redress, in particular, is one of the most significant factors affecting profitability for UK retail banks, including CYBG Group, in recent years. Prior to 2012, CYBG Group raised provisions of £136 million to address PPI-related misconduct. CYBG Group has raised PPI customer redress provisions of £120 million, £130 million, £420 million and £390 million during the years ended 30 September 2012, 2013, 2014 and 2015, respectively. These provisions were recorded in other operating and administrative expenses and have been excluded from CYBG Group's results of operations on the Management Basis.

Following an initial review of sample PPI complaint files by the FSA (now the FCA), in 2013, CYBG Group became subject to an FCA s166 "skilled persons" review into PPI complaint handling policies and procedures and an FCA enforcement process. As a result, CYBG Group has made significant changes to its PPI complaint handling processes, implementing a revised PPI complaint handling policy in August 2014. Prior to the introduction of the revised PPI complaints handling policy, CYBG Group had processed and closed approximately 180,000 PPI complaints (as at the end of July 2014). CYBG Group will re-open these complaints and subject them to review under the revised PPI complaint handling policy and a plan for the remediation programme has been prepared. The process is expected to begin in early 2016 and is expected to run for a period of approximately two to three years.

On 14 April 2015, the FCA issued a fine of £21 million against Clydesdale Bank for failings related to its PPI complaint handling processes between May 2011 and July 2013. This amount is recorded within other operating expenses for the year ended 30 September 2015 and has been excluded from CYBG Group's results of operations on the Management Basis.

CYBG Group has also commenced a Past Business Review of PPI sales. In August 2015, CYBG Group concluded its review and determined that a further PPI provision should be raised incorporating an estimate of the cost of contacting and redressing customers who have faced actual detriment or may have experienced potential detriment. While the provision for this matter has not yet been utilised, proactive customer mailings are expected to commence in early 2016 and run for a period of approximately two years, and so key inputs to the calculation such as the level of customer response to mailings are not known but based on historical experience of CYBG Group and industry data. As such, this and other factors discussed above mean there is a risk that existing provisions for PPI customer redress may not cover all potential losses and further provisions will need to be made which, notwithstanding the terms of the Capped Indemnity (described below), could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

CYBG Group has reassessed the level of provision that is considered appropriate to meet current and future expectations in relation to mis-selling of PPI policies and has concluded that a further provision of £390 million should be recognised for the year ended 30 September 2015; in addition to the provision of £420 million raised in 2014, resulting in total unutilised provisions of £774 million at 30 September 2015. This includes recognition of a provision for a proactive customer contact and redress programme following the Past Business Review, increased costs of administering the remediation programme and higher than expected customer initiated complaint volumes.

3.10.2 Interest Rate Hedging Products and Other Conduct

Although PPI redress is the most significant conduct-related risk for CYBG Group, CYBG Group has raised provisions for other conduct-related matters during the period under review. The most significant item covered by the provision for other conduct was the provision for the review of IRHP/FRTBL matters, which had an unutilised amount of £192 million as at 30 September 2015 with the provision including the amount set aside for the Standalone IRHP review, Voluntary Scope TBLs and the complaint-led review of FRTBLs. As at 30 September 2015, CYBG Group had raised cumulative provisions of £506 million in respect of IRHP/FRTBL matters. The income statement effect of the provision for IRHP/FRTBL matters for the years ended 30 September 2012, 2013 and 2014 was nil, due to the recognition of an off-setting receivable from NAB. In August 2015, CYBG Group recognised a charge of £75 million for IRHP/FRTBL matters. The total provision for customer redress and other conduct-related matters, including IRHP and FRTBLs, was £212 million as at 30 September 2015. The reduction in the unutilised amount was mainly due to the utilisation of £245 million during the year ended 30 September 2015 to cover programme costs and customer acceptance of redress offered for the complaint led review of FRTBLs and the move towards completion of the Standalone IRHP and Voluntary Scope TBL reviews.

On 29 June 2012, the FSA announced that it had reached agreement with eight other UK banks in relation to a review and redress exercise on sales of Standalone IRHP to small and medium businesses. CYBG Group agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and embarked on a programme to identify small and medium sized customers that may have been affected since 2001. The exercise also encompasses a voluntary review of certain of CYBG Group's Voluntary Scope TBLs as well as the regulated review of Standalone IRHP identified in the FSA's notice. In order to be included within the FSA redress exercise, claims had to be submitted by 31 March 2015 and accordingly, the Standalone IRHP scheme has been closed to new entrants. All redress offers had been delivered to all customers affected by the Standalone IRHP review by 31 October 2015 (as well as those customers within the Voluntary Scope TBLs review). The scheme is fully provided for with an amount of unutilised provisions remaining of £55 million as at 30 September 2015 to cover future costs. Whilst the FCA's response to the Treasury Select Committee report is unknown and there can be no certainty that further action will not be required, the Directors expect that any outstanding offers of redress will settle by the first quarter of 2016 and the Directors believe that the risk of any formal reopening of this issue is low. Notwithstanding the closure of the scheme, customers will continue to have the ability to complain and decide to proceed with litigation or with an alternative method of seeking redress.

In addition, CYBG Group has agreed to undertake a complaints-led review of FRTBLs, which fall outside the scope of the FSA's review. This review encompasses new walk-in and previously closed complaints. CYBG Group has estimated that it sold approximately 10,000 FRTBLs, with more than half of such loans having an original maturity of 5 years or less. The Directors believe that loans having an original maturity of 5 years or less are generally less likely to have a basis for demonstrating detriment. The redress paid per upheld complaint varies significantly based on a number of factors including the nature of the specific product sold, loan size, maturity, interest rates over the life of the loan and break fees. The number of new complaints received declined in the second and third quarter of 2015, compared to the first quarter of 2015, and the Directors expect complaints to continue to decline and the issue to be substantially resolved by the first half of 2017. CYBG Group currently estimates that unutilised provisions of £137 million as at 30 September 2015 in respect of FRTBLs will cover approximately 18 months of redress and settlement of these matters is progressing though the provision remains sensitive to an increasing trend in the number of complaints received and accordingly remains under review.

Other conduct provisions also include provisions in respect of legal proceedings and claims arising in the ordinary course of CYBG Group's business. This covers a number of historic matters, including CYBG Group's contribution to the banking industry response to the scheme of arrangement for Affinion International, a provider of card and identity protection products.

CYBG Group has invested in recent years in reviewing its back book to identify any potential conduct issues. In addition, significant cultural and process changes, including the Customer Fairness Model, the Conduct Framework and the Product Governance Framework, have been implemented across the enterprises which are intended to ensure that CYBG Group's business model and supporting practices ensure the fair treatment of customers.

3.10.3 Provisions

The table below sets out CYBG Group's total provisions raised, total provisions utilised and unutilised provisions remaining as at 30 September 2015.

As at 30 September 2015	Total Provisions Raised	Total Provisions Utilised	Unutilised Provisions Remaining
		£m	
PPI			
Redress:			
Walk-ins/Past Business Review	578	277	301
Remediation(1)	270	-	270
Costs to do(2)	348	145	203
Total PPI	**1,196**	**422**	**774**
IRHP/FRTBLs			
IRHP	268	213	55
FRTBLs	238	101	137
Total IRHP/ FRTBLs(3)	**506**	**314**	**192**
Other(4)	48	28	20
Total	**1,750**	**764**	**986**

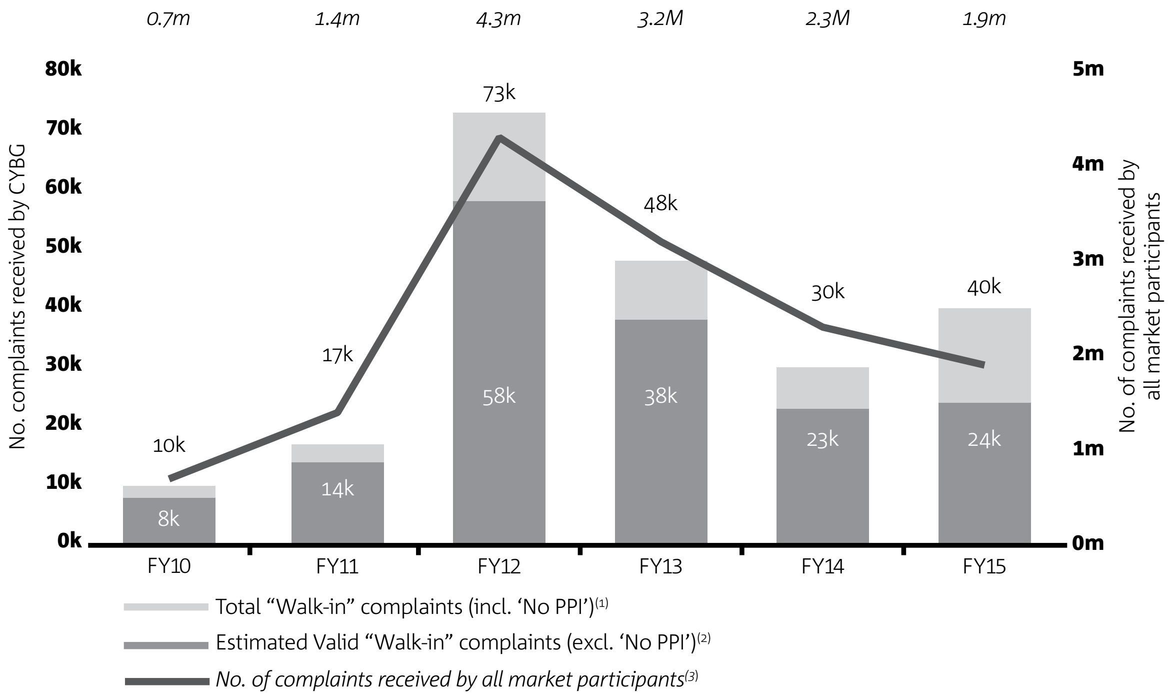
(1) Represents total provisions raised to cover previously closed complaints that are being reassessed.

(2) Represents total expected administrative costs for remediating PPI customer complaints.

(3) Includes costs to do.

(4) Excludes provisions previously raised and resolved. Includes industry wide scheme issues including Affinion and other specific conduct issues of CYBG Group.

The graph below sets out the number of CYBG Group's PPI walk-in complaints and the number of complaints received by all market participants between 2010 and 2015.



(1) Chart excludes pre-2010 complaints.

(2) The status of a valid walk-in complaint is based on the initial assessment that takes place at the time the complaint is received, which is subject to change until the complaint is closed.

(3) Data for CYBG Group is provided for the years ended 30 September. Industry data is provided for the years ended 31 December. For the year ended 31 December 2015, industry data is a pro rata figure based on the six months ended 31 December 2014.

CYBG Group has undertaken substantial investment to reduce conduct risk in the front book, comprising products sold in the last twelve months, and has adopted robust governance policies and procedures to address legacy conduct issues and to mitigate future conduct risks.

CYBG Group has raised substantial provisions to cover PPI matters, including the Past Business Review and the remediation programme. CYBG Group has also raised provisions to cover IRHP and FRTBL related matters. In addition to total unutilised provisions of £986 million, CYBG Group expects the £1.115 billion available under the Capped Indemnity to cover a severe stress test of CYBG Group's existing provisioning models and a range of stresses (beyond those considered necessary to be applied by CYBG Group for provisioning purposes) to the key assumptions used in establishing provision levels, including the number of complaints, uphold rates and average redress payable for PPI claims, as well as response rates to proactive engagement pursuant to the Past Business Review.

3.10.3.1 Walk-ins/Past Business Review

The provision for walk-ins and the Past Business Review covers the estimated cost of the Past Business Review and additional walk-in complaints for PPI related matters assuming there is a decline in the number of walk-in complaints over time. The provision covers an estimate of 175,000 further PPI complaints, this estimate includes the redress costs for the proactive engagement exercise under the Past Business Review and includes both valid and 'no PPI' walk-in complaints (but it does not cover cost to do for those complaints as they are provisioned separately).

CYBG Group reports walk-in data for PPI based on the number of complaints received, as opposed to the number of policies associated with a single complaint. Each walk-in complaint typically involves more than one policy and therefore, its reported average redress amounts are higher than many other market participants that report on a redress per policy basis. The average redress payment per PPI walk-in complaint varies by product and by the number of policies requiring redress per walk-in.

Annexure G: Part Five
CYBG Group operating and financial review

Since 2012, the number of CYBG Group's PPI walk-in complaints has declined, although increased activity by claims management companies has driven an increase in total PPI complaints for the year ended 30 September 2015. In the year ended 30 September 2015, the number of CYBG Group's PPI walk-in complaints averages approximately 3,300 per month. The average redress per upheld complaint (excluding costs to do) since August 2014, the date of implementing a revised PPI complaint handling policy, has been approximately £4,000.

The table below sets out the key assumptions and the effect on the provision at 30 September 2015 of future, potential, changes in key assumptions:

Assumptions	**Change in assumption**	**Sensitivity(1)**
Number of expected future customer initiated complaints	+/-10%	£9m
Uphold rates:		
Future complaints	+/-1%	£4m
Pre August 2014 complaints review	+/-1%	£8m
Customer contact response rate:		
Pre-August 2014 complaints review	-1%	£(3)m
Past Business Review response rate	+/-1%	£5m
Average redress costs(2)	+/-1%	£8m

(1) There are inter-dependencies between several of the key assumptions which add to the complexity of the judgements CYBG Group has to make. This means that no single factor is likely to move independently of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged.

(2) Sensitivity to a change in average customer redress across customer initiated complaints, pre-August 2014 complaints review and Past Business Review customer populations.

In order to provision for the number of additional walk-ins, CYBG Group uses model scenarios to account for its recent experience and comparisons to projections provided by other UK banks by looking at the proportion of future expected complaints to total life cycle expectations. For provisioning purposes, CYBG Group has positioned its future volume/total life cycle assumption higher than other UK banks, recognising that these banks have largely completed their past business review programmes whereas CYBG Group will not begin its Past Business Review until early 2016. The provision model assumes complaints will gradually decline in the future through to June 2017.

The number of walk-in complaints processed under the revised PPI complaint handling policy and the review of historical complaints has provided empirical information over time to help make assessments of PPI redress provisions. Whilst the FCA consultation on time barring PPI claims raises the possibility of a limit being imposed on the bringing of future claims, any such time barring could lead to an increase in the level of potential claims ahead of any such cut-off date. The FCA's response to the *Plevin* case on the handling of PPI complaints and remediation is also unknown and the impact of the *Plevin* case may have a material impact on CYBG Group's estimates and assumptions relating to future conduct risk. Accordingly, the position remains uncertain and CYBG Group's provision levels remain under review in response to changing circumstances. Due to the level of uncertainty in relation to the FCA consultation on time barring and the *Plevin* case, these items are contingent liabilities in the CYBG HFI. For further information, see "*Risk Factors—CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*".

Provisions for the Past Business Review are based on a number of assumptions and information including that drawn from other UK banks' actual experience as reported in their accounts and the FCA. A key assumption in calculating provisions is the response rate to mailing. Other key assumptions include the number of complaints, the uphold rate and the average redress for walk-ins which is used to estimate the average redress for customers that would be remediated through the Past Business Review.

CYBG Group conducted the Past Business Review with an approach that was similar to that of the five large UK banks. CYBG Group expects to contact approximately 114,000 customers, the total number of customers in scope for the Past Business Review. The 114,000 customers expected to be contacted excludes approximately 61,000 customers that are excluded on the basis of having already made walk-in complaints and also accounts for some overlap with future walk-in levels (an overlap that will continue to increase as customers within the scope of proactive engagement pursuant to the Past Business Review make walk-in complaints before they are contacted by CYBG Group). CYBG Group has assumed an estimated response rate of 40 per cent. compared to the industry wide response rate of 35 per cent., as set out in the FCA's Thematic Review 14/14 "Redress for payment protection insurance (PPI) mis-sales" ("**TR 14/14**"). For each 1 per cent. change in the estimated Past Business Review response rate, CYBG Group estimates that provisions would change by approximately £5 million.

CYBG Group has conducted sampling exercises of limited sets of historical data, which indicated that customers purchased between two and three PPI policies on average. In many cases, CYBG Group sold multiple PPI policies to the same customer over time.

Based on historical data, CYBG Group estimates that it earned approximately £1 billion in gross written premiums (net of refunds) between the mid-1970s and 2011 (approximately 80 per cent. of which was single premium personal loan PPI with the remainder comprising regular premium personal loan PPI, credit card PPI, mortgage PPI and a small amount of asset finance PPI), as compared to total gross written premiums generated in the UK retail banking sector from PPI sales of approximately £44 billion between 1990 and 2010 based on the TR 14/14. Historical datasets for PPI, in a number of cases, contain elements of missing data and are generally more difficult or impossible to analyse with the accuracy which can be applied to more recently stored data and records. Consequently, estimates of gross written premium and average number of policies per customer are subject to more uncertainty and subject to more assumptions than more recent financial and operational data.

3.10.3.2 Remediation for PPI

Prior to the introduction of the revised PPI complaints handling policy, CYBG Group had processed and closed approximately 180,000 PPI walk-in complaints as at the end of July 2014 out of 226,000 total walk-in complaints received to 30 September 2015. CYBG Group is reassessing approximately 180,000 previously closed walk-in complaints for potential remediation. In 2015, CYBG Group raised a provision of £270 million, which was unutilised as at 30 September 2015, to remediate these prior walk-in complaints.

CYBG estimates that in approximately 60 per cent of cases reviewed, it will either provide redress in cases where redress was previously not offered or provide additional redress to that provided when the relevant complaint was previously closed. For each 1 per cent. change in the estimated remediation rate of 60 per cent., CYBG Group estimates that provisions would change by approximately £8 million. This sensitivity assumes that the cases to be remediated are cases where redress was previously not offered and customers are therefore redressed in full.

3.10.3.3 Costs to do for PPI

Costs to do for PPI related matters reflect total costs of dealing with customer complaints including the necessary work to review CYBG Group's extensive records and files dating back over more than 30 years and across a number of different products in order to establish whether a complainant had or held a policy and/or multiple policies. These costs also include costs related to investigating complaints raised by or on behalf of complainants who turn out not to have been sold a PPI policy.

The provision for costs to do is based on CYBG Group's past experience and future expectations and is reviewed regularly and revised as necessary. These costs cover PPI related matters and vary across each of the Past Business Review, remediation and walk-in redress exercises.

The costs for remediation have been calculated in conjunction with a third-party outsourcing provider experienced in this area. The unutilised provisions remaining of £203 million, as at 30 September 2015, for costs to do represent CYBG Group's best estimate for future cost of handling and processing complaints in respect of walk-ins, remediation and the Past Business Review.

As at 30 September 2015, CYBG Group had two sites, one in Glasgow and one in Reading, with approximately 1,450 FTEs, including outsourced providers, dealing with PPI complaint handling (of these 312 FTEs are CYBG Group employees, the cost of which are also included in the provision). CYBG Group is establishing a third site near London to further support remediation and the Past Business Review, the site management and staff training costs for which are already included within the cost to do provision. CYBG Group provides weekly operational updates to the Board and regulators on its PPI operations.

3.10.4 Capital Support

On 2 December 2015, NAB and the Company entered into the Conduct Indemnity Deed under which NAB agreed, subject to certain limitations, to provide the Company with the Capped Indemnity in respect of certain historic liabilities relating to Relevant Conduct Matters. Claims may be made by the Company under the Capped Indemnity at such time as any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter.

At the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion. This figure is determined as follows:

- To achieve the Demerger, the PRA required there to be a capital support package amounting to £1.7 billion for potential losses of CYBG Group related to legacy conduct costs not covered by existing provisions raised by CYBG Group as at 31 March 2015.
- Of this £1.7 billion, the Company will take responsibility £120 million of the aggregate liability for Relevant Conduct Matters under the Loss Sharing Arrangement, with NAB being responsible for the remainder (being £1.58 billion). Of this £1.58 billion for which NAB is responsible, £465 million was provided to CYBG Group by NAB on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters in its accounts for the year ended 30 September 2015.

Annexure G: Part Five
CYBG Group operating and financial review

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is expected to be £1.115 billion, assuming that no further provisions in respect of Relevant Conduct Matters are raised or increased by CYBG Group and funded by way of capital support from NAB prior to the Demerger Date.

Based on current IFRS and CYBG Group's current accounting policies, CYBG Group expects that at such time after Demerger and prior to the termination of the Capped Indemnity as Clydesdale Bank (or another subsidiary within CYBG Group) establishes a new provision or increases an existing provision (a "**New Provision**") for a Relevant Conduct Matter in an amount that is covered in full by the Capped Indemnity, subject to the Loss Share Arrangement, (i) Clydesdale Bank (or a subsidiary company within the CYBG Group) would record a charge to its income statement and a reduction to its capital resources in an amount equal to the New Provision in the Company's financial statements, (ii) CYBG Group would submit a claim to NAB under the Capped Indemnity to recover an amount (the "**NAB Share**") equal to the New Provision, less the amount of the New Provision required to be borne by CYBG Group under the Loss Share Arrangement, and at such time the Company would record in its balance sheet a reimbursement asset of an amount equal to the NAB Share of the New Provision payable to CYBG Group under the Capped Indemnity, and a reduction in the investment in subsidiary undertakings in the Company's balance sheet. At the consolidated CYBG Group level, (i) with respect to the NAB Share of the New Provision, there would be no net impact on the income statement and no impact on retained earnings in the CYBG Group consolidated financial statements and (ii) with respect to the portion of the New Provision required to be borne by CYBG Group under the Loss Share Arrangement (the "**CYBG Share**"), there would be a charge to the income statement and a reduction in capital resources in an amount equal to the CYBG Share in the CYBG Group consolidated financial statements.

The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities, being as at 30 September 2015, £986 million in aggregate, comprising: (i) a provision of £774 million for PPI; (ii) provisions of £192 million for Standalone IRHP, Voluntary Scope TBLs and FRTBLs; and (iii) provisions of £20 million for other conduct related matters. The support provided by the Capped Indemnity, in addition to the £986 million in unutilised provisions remaining as at 30 September 2015, provides total cover for conduct costs of £2.1 billion (without taking account of the Loss Share Arrangement).

In order to align the interests of NAB and the Company with respect to any such claim, the Company will be responsible under the Loss Sharing Arrangement for a fixed percentage, expected to be 9.7 per cent., of the relevant conduct liabilities forming part of the relevant provision or increase, with NAB being responsible for the remainder. The Company's Loss Share reflects the proportion of any liability in respect of a Relevant Conduct Matter that £120 million bears to the Capped Indemnity Amount plus £120 million as at the Demerger Date.

For a summary of the Conduct Indemnity Deed see: Part 2 of this Annexure G: "*Information on CYBG Group – Conduct*".

4. Insurance Intermediary Business

On 30 September 2015, CYBG Group acquired the Insurance Intermediary business from NAB. The Insurance Intermediary business, operated through CYBIL, acts as an intermediary for a number of third party providers of insurance and investment products, specialising in home insurance, motor insurance and personal lines. CYBG Group distributes these products through its retail mortgage and retail banking advisors to customers in the United Kingdom. The Insurance Intermediary business includes the right to collect trail commission from various investment products written before 2009 and earns commission on the sale of certain other insurance products.

The acquisition of the Insurance Intermediary business was made pursuant to a sale and purchase agreement entered into by NAB and Clydesdale Bank on 30 September 2015. Pursuant to the sale and purchase agreement, NAB agreed to sell its entire shareholding in CYBIHL, which holds the Insurance Intermediary business, for a consideration of £4.1 million to Clydesdale Bank.

As at 30 September 2015, the Insurance Intermediary business had total tangible assets of £8 million and total liabilities of £4 million.

The following table sets out selected income statement data for the Insurance Intermediary business for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Total income	**22**	**23**	**31**	**41**
Operating and administrative expenses	(6)	(8)	(9)	(11)
Underlying profit before tax	**16**	**15**	**22**	**30**
Tax	(3)	(3)	(5)	(8)
Profit after tax	**13**	**12**	**17**	**22**

The results for the Insurance Intermediary business set out above comprise the gross income and expenses of the business, which includes an expense for existing income share arrangements with CYBG Group of £5 million in the financial year ending 30 September 2015 (2014: £6 million, 2013: £7 million, 2012: £10 million). Accordingly, the impact to CYBG Group's results arising from the consolidation of the

Insurance Intermediary business would have been additional income of £17 million in the year ending 30 September 2015 (2014: £17 million, 2013: £24 million, 2012: £31 million), additional operating expenses of £1 million (2014: £2 million, 2013: £2 million, 2012: £1 million), and a tax charge of £3 million (2014: £3 million, 2013: £5 million, £2012: £8 million). For additional information, see Part 14: *"Additional Information—Material Contracts—Insurance Intermediary Business Sale and Purchase Agreement"*.

5. Basis of Preparation

The financial information contained in this CYBG Group Operating and Financial Review is based on the CYBG HFI, which comprises the financial information of CYBG Group prepared in accordance with IFRS as adopted by the EU.

The CYBG HFI has been prepared on a historical cost basis, as modified by the revaluation of land and buildings, investment properties, derivative financial instruments, available-for-sale financial assets and certain other financial assets and liabilities held at fair value through profit or loss. Refer to the audited financial report of CYBG Group for the year ended 30 September 2015 for the full details of the accounting policies applied.

The balance sheet data in paragraph 6 sets out the CYBG HFI consolidated balance sheet data for CYBG Group. The legacy CRE portfolio was reported in assets held for sale as at 30 September 2012. As a result, there is no Management Basis of presentation applicable to the balance sheet data in paragraph 6 below.

The consolidated income statement data in paragraph 7.1 below sets out the CYBG HFI consolidated income statement data for CYBG Group. The consolidated income statement data in paragraph 7.2 below sets out the CYBG HFI income statement data for CYBG Group on the Management Basis. The CYBG Directors believe that the Management Basis provides useful supplemental information to assist in evaluating the operating performance of CYBG Group's business during the period under review. The Management Basis information includes adjustments to present items that the CYBG Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the CYBG HFI to the Management Basis information presented in paragraph 5 of Part 4 of this Annexure G: "*Selected Financial Information on CYBG Group*". These adjustments are discussed in paragraph 7.9 of this Part 5 of Annexure G and CYBG Group's underlying results of operations on the Management Basis are discussed in paragraphs 7.2 to 7.8 and paragraph 7.10 of this Part 5 of Annexure G.

6. Financial Position

6.1 Selected Assets

The following table sets out selected assets of CYBG Group as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Assets				
Customer loans(1)	28,783	27,696	26,424	27,575
Cash and balances with central banks	6,431	5,986	6,720	7,927
Investments – available for sale(2)	1,462	1,168	975	1,041
Due from related entities	786	1,487	1,390	1,256
Defined benefit pension assets	52	49	-	-
Accrued interest receivable on customer loans	80	92	81	101
Assets held for sale(3)	-	-	-	5,225
Other assets	1,111	914	1,158	1,257
Total assets	**38,705**	**37,392**	**36,748**	**44,382**

(1) Customer loans comprise gross loans and advances to customers, loans and advances included in other financial assets at fair value and due from customers on acceptances (excluding accrued interest receivable).

(2) Investments classified as available for sale principally consist of UK government gilts that are held for liquidity management purposes.

(3) Assets held for sale were £5,225 million as at 30 September 2012 and comprised predominantly legacy CRE assets and associated loans net of provisions, which CYBG Group transferred to NAB in October 2012.

Annexure G: Part Five
CYBG Group operating and financial review

6.1.1 Customer loans

The following tables set out a breakdown of CYBG Group's customer loans as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Mortgages	20,504	18,444	16,148	15,369
Business lending	7,061	7,970	9,002	10,896
Unsecured personal lending	1,218	1,282	1,274	1,310
Customer loans	**28,783**	**27,696**	**26,424**	**27,575**
Loans and advances to customers	27,687	26,121	24,265	24,777
Other financial assets at fair value	1,092	1,570	2,155	2,791
Due from customers on acceptances	4	5	4	7
Customer loans	**28,783**	**27,696**	**26,424**	**27,575**

(a) Mortgages

The mortgage book comprises CYBG Group's largest asset portfolio and has had a significant impact on its overall financial performance. Since the strategic review undertaken in 2012, CYBG Group has focussed on growing the retail mortgage portfolio through all distribution channels, although the intermediary channel has contributed the most significant growth in the portfolio during the period under review. The table below sets out the composition of mortgages by interest rate type.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Mortgages:				
Fixed rate	12,710	9,454	5,712	3,851
Variable rate	5,169	6,124	7,299	8,152
Tracker	2,625	2,866	3,137	3,366
Total mortgages	**20,504**	**18,444**	**16,148**	**15,369**

The mortgage portfolio increased by 11.2 per cent. from £18,444 million as at 30 September 2014 to £20,504 million as at 30 September 2015, reflecting CYBG Group's strategy to grow the mortgage book as set out in Section 3.4 of this Part 5 of Annexure G. The increase in the proportion of fixed rate mortgages has been driven by customer preference to secure low rates in a macro-economic environment where base rates are expected to increase. The increase in fixed rate mortgages was offset in part by a decrease in the tracker book, which was withdrawn from sale to the general public in 2008, except on a limited basis to CYBG Group's employees under a staff scheme, and a decrease in the variable rate mortgage portfolio. The decrease in the variable rate mortgage portfolio is mainly driven by customers switching to fixed rate mortgages and refinancing elsewhere.

The mortgage portfolio increased by 14.2 per cent. from £16,148 million as at 30 September 2013 to £18,444 million as at 30 September 2014, reflecting an increase in customer preference for fixed rate mortgages and reductions in the variable and tracker portfolios for the reasons discussed above.

The mortgage portfolio increased by 5.1 per cent. from £15,369 million as at 30 September 2012 to £16,148 million as at 30 September 2013. The increase was primarily due to an increase in the fixed rate mortgage portfolio driven by customer preference. The increase was offset in part by the factors discussed above.

CYBG Group's mortgage book is originated through three key channels: the branch and private bank proprietary channels and the intermediary broker channel. The following table sets out the composition of CYBG Group's gross new mortgage lending by distribution channel as at the dates and for the years indicated.

	As at and for the years ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Intermediary	8,768	6,457	5,361	3,798
Branch	6,387	6,320	6,442	6,421
Private bank	3,289	3,371	3,566	3,762
Opening balance	**18,444**	**16,148**	**15,369**	**13,981**
Intermediary	3,658	3,632	2,169	2,061
Branch	879	944	713	775
Private bank	398	349	220	295
Gross new mortgage lending	**4,935**	**4,925**	**3,102**	**3,131**
Intermediary	1,516	1,321	1,073	498
Branch	972	877	835	754
Private bank	387	431	415	491
Repayments(1)	**2,875**	**2,629**	**2,323**	**1,743**
Intermediary	10,910	8,768	6,457	5,361
Branch	6,294	6,387	6,320	6,442
Private bank	3,300	3,289	3,371	3,566
Closing balance	**20,504**	**18,444**	**16,148**	**15,369**

(1) Repayments predominantly include capital repayments and remortgaging.

The following table sets out the composition of CYBG Group's gross new mortgage lending by distribution channel for the year ended 30 September 2015.

	Year ended 30 September
	2015
	£m
Intermediary	3,658
Proprietary channels (Branch and private bank)	1,277
Branch originated(1)	669
Telephony	472
Digital (includes aggregators)	136
Gross new mortgage lending	**4,935**

(1) Represents gross new mortgage lending originated through the physical branch network for the branch and private bank proprietary channels.

Net new mortgage lending was £2,060 million for the year ended 30 September 2015 and £2,296 million for the year ended 30 September 2014. During both periods, net new mortgage lending was driven by an increase in new mortgage lending through intermediaries. The closing balance of mortgage lending through the intermediary channel increased by £2,142 million, or 24.4 per cent., to £10,910 million as at 30 September 2015 from £8,768 million as at 30 September 2014, mainly due to the ability of intermediaries to access a large base of customers across the UK including regions where CYBG Group does not have a large branch network. Growth and diversification of the mortgage book is consistent with the strategy outlined in paragraph 3.4 above. The total balance of mortgage loans extended through the branch and private bank channels decreased marginally to £9,594 million as at 30 September 2015 from £9,676 million as at 30 September 2014, with new lending offset by repayments during the period.

Net new mortgage lending was £2,296 million for the year ended 30 September 2014 compared to £779 million for the year ended 30 September 2013. This increase was primarily driven by an increase in new mortgage lending through intermediaries as discussed above. The closing balance of mortgage lending through the intermediary channel increased by £2,311 million, or 35.8 per cent., to £8,768 million as at 30 September 2014 from £6,457 million as at 30 September 2013. The total balance of mortgage loans extended through branch originated sales increased to £6,387 million as at 30 September 2014 from £6,320 million as at 30 September 2013, which reflected increased marketing activity and an increase in customer demand in line with broader market trends.

Annexure G: Part Five
CYBG Group operating and financial review

Net new mortgage lending was £779 million for the year ended 30 September 2013, compared to £1,388 million for the year ended 30 September 2012, primarily driven by a decrease in lending through the proprietary channels, mainly due to higher fixed rate maturities in the year ended 30 September 2013. For additional information on the composition of the mortgage portfolio, see "*Mortgage Portfolio Composition*" below.

(b) Business lending

Business lending comprises term business loans, overdrafts and other lending, which predominantly comprises asset and invoice finance. Although business lending activity has decreased over the period under review due to strategic rationalisation, risk appetite changes and subdued market demand for credit, CYBG Group continues to provide a full range of SME banking services. The following table sets out the composition of CYBG Group's business lending portfolio by product type as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Term lending[(1)]	5,118	5,842	6,582	7,942
Overdrafts	1,165	1,322	1,485	1,743
Other[(2)]	778	806	935	1,211
Total business lending[(3)]	**7,061**	**7,970**	**9,002**	**10,896**

(1) Term lending includes a portfolio of individually hedged fair value term loans classified as other financial assets at fair value for reporting purposes. Other financial assets at fair value principally comprise a portfolio of fixed rate business loans and advances, in addition to products with other forms of interest rate protection such as caps and collars.

(2) Other represents working capital solutions, which comprises asset finance, invoice finance and trade finance. As at 30 September 2015, the outstanding balance of asset finance lending was £425 million, invoice finance lending was £319 million, trade finance lending was £30 million and acceptances was £4 million.

(3) Business lending does not include lending through the private bank.

Business lending decreased by 11.4 per cent. from £7,970 million as at 30 September 2014 to £7,061 million as at 30 September 2015. This decrease was primarily due to the managed reduction of the low yielding non-core business lending portfolio. The decline in the core book is showing signs of stabilising.

Business lending decreased by 11.5 per cent. from £9,002 million as at 30 September 2013 to £7,970 million as at 30 September 2014. This decrease was primarily due to net repayments across the business lending portfolio, competitive pressures, lower levels of facility utilisation and customers building higher cash balances against the backdrop of subdued demand for business credit.

Business lending decreased by 17.4 per cent. from £10,896 million as at 30 September 2012 to £9,002 million as at 30 September 2013. This decrease was primarily due to the closure of the business and private banking centres and the strategic decision to reduce business lending in 2012, CYBG Group's tightened risk appetite and the subdued demand for business credit due to conditions in the economy. For additional information on CYBG Group's business lending portfolio, see "*Business lending portfolio composition*" below.

For the year ended 30 September 2015, total facilities accepted and available to customers for term lending was £923 million. The run-off of the low yielding term lending portfolio amounted to £682 million for the year ended 30 September 2015, with an average net interest margin of approximately 1.30 per cent. for the year ended 30 September 2015. The overall yield on business lending continued to reduce in 2015, primarily due to tightened business lending risk appetite, strong competition in the market keeping new business lending interest rates low and existing business rolling over onto lower rates. During the period under review, the business lending book had a higher yield in selected working capital solutions products than it did for term lending.

For the year ended 30 September 2015, total facilities accepted and available to customers for overdraft lending was £430 million, asset finance lending was £404 million, invoice finance lending was £169 million and treasury and trade finance lending was £10 million.

(c) Unsecured personal lending

CYBG Group's unsecured personal lending book comprises personal loans, credit cards and overdrafts originated by CYBG Group through branches or by way of digital or other direct channels. In 2012, CYBG Group introduced a web-based direct loan product on proprietary websites and online aggregator sites to increase unsecured personal lending. The following table sets out a breakdown of CYBG Group's unsecured personal lending balances as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Unsecured personal lending:				
Personal Loans	763	824	756	730
Credit cards	376	364	396	436
Overdrafts	79	94	122	144
Total unsecured personal lending	**1,218**	**1,282**	**1,274**	**1,310**

The following table sets out the composition of CYBG Group's gross new personal loans as at the dates indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Digital	131	293	245	89
Branch	124	74	86	135
Direct	60	34	64	51
Gross new personal loans	**315**	**401**	**395**	**275**

Unsecured personal lending decreased by 5.0 per cent. from £1,282 million as at 30 September 2014 to £1,218 million as at 30 September 2015. This decrease was primarily due to a net reduction of £61 million in the personal loan book from £824 million as at 30 September 2014 to £763 million as at 30 September 2015. The reduction in personal loans was driven by a significant reduction in gross new lending through digital from £293 million for the year ended 30 September 2014 to £131 million for the year ended 30 September 2015.

During the year, competitive pressures periodically drove "Best Buy" pricing through competitive aggregators to levels where risk adjusted margins were unattractive and CYBG Group choose not to compete. However, CYBG Group implemented a pricing policy to align prices across channels, which has led to increases in new business through the proprietary channels. The reduction in personal loans was partly offset by growth in credit card lending following the launch of CYBG Group's new "Gold" proposition.

Unsecured personal lending increased by 0.6 per cent. from £1,274 million as at 30 September 2013 to £1,282 million as at 30 September 2014. The increase in volumes was primarily due to the success of the direct web-based personal loan platform, which was launched in February 2012 and which enabled CYBG Group to access a national client base, with different demographics and different customer needs, outside of its core regions, while demonstrating CYBG Group's ability to successfully launch a new product.

Unsecured personal lending decreased by 2.7 per cent. from £1,310 million as at 30 September 2012 to £1,274 million as at 30 September 2013. This decrease was primarily due to reductions in overdraft and credit card balances reflecting changes in customer behaviour in response to general economic uncertainty, offset in part by growth in personal loan balances following the 2012 launch of the web-based direct loan product.

6.2 Selected Liabilities

The following table sets out selected liabilities of CYBG Group as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Liabilities				
Customer deposits(1)	26,349	23,989	24,266	26,528
Bonds and notes	3,766	3,453	3,085	3,187
Notes in circulation	1,791	1,831	1,709	1,567
Due to related entities	998	2,677	3,036	7,716
Provisions	1,006	952	315	292
Accrued interest payable on customer deposits	125	175	212	236
Retirement benefit obligations	4	4	202	306
Other liabilities	1,223	1,773	1,474	1,931
Total liabilities	**35,262**	**34,854**	**34,299**	**41,763**

(1) Customer deposits comprise amounts due to customers and other financial liabilities at fair value (excluding accrued interest payable).

6.2.1. Customer deposits

During the period under review, CYBG Group has actively managed its deposit liabilities by successfully increasing the balance of its lower-cost current accounts and savings accounts, while reducing the balances of more expensive fixed rate term deposits and other wholesale deposits. The following tables set out a breakdown of total customer deposits as at each of the dates indicated.

Annexure G: Part Five
CYBG Group operating and financial review

	As at 30 September			
	2015	2014	2013	2012
	£m			
Personal deposits[1]				
Current accounts				
Interest-bearing demand deposits	6,865	6,426	5,840	5,420
Non-interest-bearing demand deposits	79	88	98	82
Total current accounts	6,944	6,514	5,938	5,502
Variable rate savings accounts	6,013	4,434	3,891	3,381
Fixed rate term deposits	4,519	4,412	5,231	6,603
	17,476	15,360	15,060	15,486
Business deposits:				
Current accounts				
Interest-bearing demand deposits	4,131	3,756	3,677	3,691
Non-interest-bearing demand deposits	1,907	1,761	1,589	1,555
Total current accounts	6,038	5,517	5,266	5,246
Variable rate savings accounts	1,777	1,731	1,870	1,853
Fixed rate term deposits[2]	964	1,262	1,690	3,319
	8,779	8,510	8,826	10,418
Other wholesale deposits	94	119	380	624
Total customer deposits	**26,349**	**23,989**	**24,266**	**26,528**

(1) Personal deposits include deposits through private banking.

(2) Business fixed rate term deposits include other financial liabilities at fair value.

	As at 30 September			
	2015	2014	2013	2012
	£m			
Due to customers	26,282	23,901	24,146	26,381
Other financial liabilities at fair value	67	88	120	147
Total customer deposits	**26,349**	**23,989**	**24,266**	**26,528**

Customer deposits increased by £2,360 million, or 9.8 per cent., to £26,349 million as at 30 September 2015 from £23,989 million as at 30 September 2014, primarily as a result of an increase in personal deposit balances of £2,116 million, or 13.8 per cent., to £17,476 million as at 30 September 2015, from £15,360 million as at 30 September 2014. CYBG Group made the decision to grow customer funding during the first half of the year ending 30 September 2015, in order to provide funds for the continuing mortgage growth, to fund the redemption of secured funding and to reduce the level of NAB funding in advance of the Demerger. The majority of the growth was in variable rate cash ISAs, due to their relatively attractive pricing compared to other instant access savings accounts. The growth in variable rate cash ISAs was in part due to the timing of RMBS issuances. CYBG Group issued two tranches of RMBS in August 2015. Personal current accounts also increased by £430 million, or 6.6 per cent., to £6,944 million as at 30 September 2015 from £6,514 million as at 30 September 2014, in part due to customers holding higher balances in current accounts in a low interest rate environment, in addition to CYBG Group's £150 current account switching bonus offered to new customers. Deposit balances from business customers have increased, from £8,510 million at 30 September 2014 to £8,779 million at 30 September 2015, reflecting continued growth in business current accounts. The back book of fixed rate term deposits, including CYBG Group's offshore business in Guernsey, which formally closed on 30 September 2015, has continued to run-off.

Customer deposits decreased by £277 million, or 1.1 per cent., to £23,989 million as at 30 September 2014 from £24,266 million as at 30 September 2013, primarily due to a decrease in term deposits and other wholesale deposits, largely offset by increases in interest-bearing and non-interest-bearing current accounts. Funding provided by personal current accounts increased by £576 million, or 9.7 per cent. to £6,514 million as at 30 September 2014 from £5,938 million as at 30 September 2013, primarily driven by changes in customer behaviour with customers holding higher current account balances in response to falling market rates of interest on savings products. Personal variable rate savings account balances increased by £543 million, or 14.0 per cent. over the same period, which included a substantial increase in ISA balances due to attractive pricing.

Customer deposits decreased by £2,262 million, or 8.5 per cent., to £24,266 million as at 30 September 2013 from £26,528 million as at 30 September 2012, primarily due to reductions in both business and personal term deposits, partially offset by an increase in personal current accounts as discussed above. Term deposits decreased during the period in line with the decision to run-off this book of higher-rate deposits in order to achieve a lower cost customer funding position. Personal current accounts increased by £436 million, or 7.9 per cent., to £5,938 million as at September 2013 from £5,502 million as at 30 September 2012 and personal variable rate savings accounts increased by £510 million, or 15.1 per cent, over the same period.

6.2.2 Bonds and notes

Bonds and notes comprise secured debt securities issued to third parties (other than NAB and NAB-related entities) in the form of RMBS and covered bonds. See Part 8 of this Annexure G: "*Additional Information on CYBG Group – Funding Programmes*" for additional information. CYBG Group securitises a proportion of its retail mortgage loan portfolio under CYBG Group's master trust securitisation programmes. The securitised mortgage loans form part of CYBG Group's medium term funding and have been assigned at principal value to bankruptcy remote structured entities. Total bonds and notes as presented in this paragraph do not include bonds and notes issued to NAB and NAB-related entities. For a discussion of bonds and notes issued to NAB and NAB-related entities, see paragraph 6.2.3 of this Part 5 of Annexure G. The following table sets out CYBG Group's bonds and notes as at each of the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
RMBS	3,017	2,421	2,039	2,094
Covered bonds	697	1,097	1,096	1,096
	3,714	3,518	3,135	3,190
Fair value hedge adjustments	38	(85)	(64)	(27)
Total securitised notes and covered bonds	3,752	3,433	3,071	3,163
Accrued interest payable	14	20	14	24
Total bonds and notes	**3,766**	**3,453**	**3,085**	**3,187**

Bonds and notes increased by £313 million, or 9.1 per cent., to £3,766 million as at 30 September 2015 from £3,453 million as at 30 September 2014. This was primarily due to new issuances of €550 million and £275 million of Lanark 2014-2 RMBS in December 2014 and £300 million and €280 million of Lanark 2015-1 RMBS in August 2015. This was partially offset by the maturity of Lanark 2012-1 RMBS in May 2015 for the principal amount of £327 million, the redemption of the £400 million floating rate covered bond (2012-1) in June 2015, and the amortisation of bonds and notes already in issue.

Bonds and notes increased by £368 million, or 11.9 per cent., to £3,453 million as at 30 September 2014 from £3,085 million as at 30 September 2013, primarily due to the issuance of Lanark 2014-1 RMBS of €300 million and £350 million in March 2014 offset by the impact of amortisation and hedge adjustments of earlier Lanark RMBS issuances.

Bonds and notes decreased by £102 million, or 3.3 per cent., to £3,085 million as at 30 September 2013 from £3,187 million as at 30 September 2012, primarily due to the maturity of £650 million in aggregate principal amount of notes issued in 2007 and amortisation of other outstanding notes. The decrease was partially offset by the issuance of £350 million and $300 million of Lanark RMBS issuances in July 2013.

(a) Residential mortgage backed securities

CYBG Group receives funding through the issue of RMBS to third-party institutional debt investors. CYBG Group is entitled to any residual income from the securitised vehicles after the debt obligations and senior expenses of the programmes have been met. The securitised debt holders have no recourse to CYBG Group other than to principal and interest (including fees) generated from the securitised mortgage portfolio. CYBG Group continues servicing these mortgage loans in return for an administration fee.

On 19 March 2014, €300 million and £350 million of owner-occupied RMBS were issued through the Lanark RMBS programme. On 11 December 2014, CYBG Group issued an additional €550 million and £275 million of RMBS. On 6 August 2015, CYBG Group issued £300 million and €280 million 2015-1 Lanark RMBS due to contractually mature in December 2026. As at 30 September 2015, CYBG Group had transferred £5,923 million of mortgages through securitisation arrangements that do not qualify for derecognition from the balance sheet because CYBG Group remains exposed to the risks and rewards of ownership on an ongoing basis. As at 30 September 2015, the Lanark RMBS programme amounted to £3.0 billion across 10 outstanding tranches. For additional information, see "*Bonds and notes*" below and the Audited Annual Reports.

(b) Covered bonds

A subset of CYBG Group's retail mortgage portfolio has been ring fenced and assigned to a bankruptcy remote limited liability partnership, associated with the covered bond programme, to provide a guarantee for the obligations payable on the covered bonds issued by CYBG Group. Similar to the securitisation programmes, CYBG Group is entitled to any residual income after all payment obligations due under the terms of the covered bonds and senior programme expenses have been met. On 8 June 2014, £400 million of covered bonds were repaid at their maturity.

Included within CYBG Group's loans and advances to customers was £1,475 million as at 30 September 2015 of mortgages assigned to the bankruptcy remote structured entity, Clydesdale Covered Bonds No. 2 LLP. These loans provide security for issues of covered bonds made by CYBG Group. For additional information, see "*Funding, Liquidity and Capital Resources—Funding and Funding Strategy—Bonds and notes*" and the Audited Annual Reports.

Annexure G: Part Five
CYBG Group operating and financial review

6.2.3 Due to related entities

Amounts due to related entities include related party transactions such as deposits, bonds and notes (comprising buy-to-let mortgage backed securities issued under the Lannraig RMBS programme), subordinated liabilities and other payables due to entities in the NAB Group from entities in CYBG Group. During the period under review, CYBG Group substantially reduced amounts due to NAB and NAB-related entities, principally through repayment of funding provided by NAB following the transfer of the legacy CRE portfolio to NAB in October 2012. The following table sets out a breakdown of amounts due to related entities as at each of the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Subordinated liabilities	478	1,131	1,125	1,125
Deposits and funding arrangements	125	1,097	1,434	6,077
Bonds and notes	382	410	442	475
Other payables	13	39	35	39
Total amounts due to related entities	**998**	**2,677**	**3,036**	**7,716**

Amounts due to related entities decreased by £1,679 million, or 62.7 per cent., to £998 million as at 30 September 2015 from £2,677 million as at 30 September 2014, primarily driven by the repayment of subordinated liabilities, following the capital restructuring in December 2014 and a reduction in deposits and funding arrangements. Subordinated liabilities reduced to £478 million as at 30 September 2015 from £1,131 million as at 30 September 2014, primarily due to repayment of £650 million as part of the capital restructuring. The balance also reduced due to the maturity of a historical structured funding deal of £312 million on 1 July 2015 and reductions in the amount of funding and liquid assets that NAB placed with CYBG Group overnight as part of NAB's overall balance sheet management.

Amounts due to related entities decreased by £359 million, or 11.8 per cent., to £2,677 million as at 30 September 2014 from £3,036 million as at 30 September 2013, primarily due to a reduction in excess liquidity of approximately £287 million placed with Clydesdale Bank by NAB, the maturity of an intercompany repurchase transaction of £51 million in 2013 and a reduction of £31 million relating to the amortisation of the buy-to-let Lannraig mortgage securitisation programme as per the agreed pay down schedule. The buy-to-let Lannraig RMBS notes are all held by NAB.

Amounts due to related entities decreased by £4,680 million, or 60.7 per cent., to £3,036 million as at 30 September 2013 from £7,716 million as at 30 September 2012, driven by a decrease of £4,643 million in deposits, primarily as a result of CYBG Group repaying £5,084 million in deposits after the transfer of the legacy CRE portfolio from CYBG Group to NAB in October 2012.

See "*Funding, Liquidity and Capital Resources*" below for further information.

6.2.4 Provisions

The following table sets out total provisions as at each of the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
PPI redress provision	774	515	152	108
Customer redress and other provisions[(1)]	214	413	118	58
Restructuring provision [(2)]	18	24	45	126
Total provisions	**1,006**	**952**	**315**	**292**

(1) Customer redress and other provisions comprise provisions for IRHP/FRTBL-related matters and other industry and bank specific issues. Provisions raised for IRHP/FRTBL-related matters were £75 million, £364 million, £36 million and £31 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively, and nil pre-2012. Other provisions include provisions in respect of legal proceedings, a number of individually less significant conduct related matters and claims arising in the ordinary course of CYBG Group's business. The charges in respect of these other provisions were £1 million, £12 million, £72 million and £26 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively. In the year ended 30 September 2013, £18 million of provisions raised in respect of other industry and bank specific issues had no income statement impact for CYBG Group due to the offset of an equivalent receivable from NAB. The provision for IRHP/FRTBL-related matters also had no income statement impact for CYBG Group due to the effect of an equivalent receivable from NAB for the years ended 30 September 2014, 2013 and 2012.

(2) Restructuring provision includes surplus lease space provision

The table below shows movements in CYBG Group's PPI provisions raised and utilised as at and for the periods indicated.

	Cumulative to 30 Sep 2011	As at or for the year ended 30 September 2012	2013	2014	2015	Cumulative to 30 Sep 2015
			£m			
Raised						
Total raised	136	120	130	420	390	1196
Utilised						
Total utilised	34	114	86	57	131	422

The table below shows movements in CYBG Group's IRHP/ FRTBL provisions raised and utilised as at and for the periods indicated.

	Cumulative to 30 Sep 2011	As at or for the year ended 30 September 2012	2013	2014	2015	Cumulative to 30 Sep 2015
			£m			
Raised						
Total raised	-	31	36	364	75	506
Utilised						
Total utilised	-	-	18	51	245	314

6.2.4.1 PPI redress provision

Total PPI redress provisions amounted to £774 million as at 30 September 2015, compared to £515 million as at 30 September 2014, £152 million as at 30 September 2013 and £108 million as at 30 September 2012. The increase in PPI provisions during the period under review includes amounts required for PPI redress in relation to the Past Business Review as well as the implementation of a revised PPI complaints handling process, which has resulted in increased operational and administrative costs; higher than expected levels of new complaints; increased redress payments in respect of new complaints; administrative costs associated with the FCA enforcement process; and any additional amounts that may need to be paid in respect of previously closed complaints. The number of PPI complaints received is monitored against past experience and future expectations. During the year ended 30 September 2015, £131 million of the PPI provision was utilised.

The PPI redress provision is based on a number of assumptions derived from a combination of past experiences, estimates, assumptions regarding future experiences, industry comparisons and the exercise of judgement. The provision estimate is also likely to be affected by the recent FCA announcement in relation to a formal consultation on *Plevin* and a potential time barring of PPI complaints. Accordingly, there is a risk that existing provisions for PPI customer redress may not cover all potential losses due to these factors and further provisions will need to be raised which, notwithstanding the terms of the Capped Indemnity (described above), could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

6.2.4.2 Customer redress and other provisions

Customer redress and other provisions account for legal and regulatory action and incorporate the costs of skilled persons, and where appropriate, other elements of administration. The most significant item covered by this provision is the provision for IRHP/FRTBL related matters of £192 million as at 30 September 2015. Prior to 30 September 2014, all provisions raised for IRHP/FRTBL-related matters were matched by an equivalent receivable from NAB. In August 2015, CYBG Group recognised an income statement charge of £75 million for IRHP/FRTBL redress expense. Other provisions include amounts provided for in respect of legal proceedings, a number of individually less significant conduct related matters, and claims arising in the ordinary course of CYBG Group's business. Total customer redress and other provisions amounted to £214 million as at 30 September 2015 compared to £413 million as at 30 September 2014.

The reduction in 2015 was mainly due to the utilisation of £245 million during the year ended 30 September 2015 to cover programme costs and customer acceptance of redress offered for the complaint led review of FRTBLs and the move towards completion of the Standalone IRHP and Voluntary Scope TBL reviews. Total customer redress and other provisions amounted to £58 million as at 30 September 2012, £118 million as at 30 September 2013 and £413 million as at 30 September 2014. The increase between 2012 and 2014 was driven by a number of factors relating to offers of redress, compensation, offers of alternative products and other costs.

6.2.4.3 Restructuring provision

Following the announcement of the results of the strategic review on 30 April 2012, a restructuring provision of £139 million was recorded, which covers redundancy payments, further property vacancy costs and associated costs. For the year ended 30 September 2012, the total restructuring charge was £149 million, with £10 million having been provided prior to the strategic review. The provision has been utilised over time as staff have left the group, properties have been exited and costs have been incurred. Of this amount, £23 million was utilised in 2012, £83 million was utilised in 2013 and £8 million was utilised in 2014. In the year ended 30 September 2015, a further £26 million was raised to further ongoing restructuring initiatives announced during the period. These additional costs were offset by the release of £9 million from the remaining balance of the provision raised in 2012. As a result, a net charge of £17 million was recorded in the income statement. In the year ended 30 September 2015, £23 million of the provision was utilised.

CYBG Group provides for committed rental expense on surplus lease space in line with the expected years' exposure on individual leases where the property is unoccupied. The level of surplus lease space increased as a result of the strategic review in 2012. The provision will be utilised over the remaining life of the leases or until the leases are assigned.

For additional information on the movement of provisions, see the Audited Annual Reports.

7. Results of Operations

7.1 Consolidated Income Statement

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Interest income and similar income	1,110	1,135	1,209	1,461
Interest expense and similar charges	(323)	(350)	(441)	(584)
Net interest income	**787**	**785**	**768**	**877**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	238	205	225	399
Non-interest income	**240**	**197**	**190**	**255**
Total operating income	**1,027**	**982**	**958**	**1,132**
Personnel expenses	(266)	(287)	(302)	(329)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(868)	(777)	(485)	(645)
Restructuring expenses	(17)	-	-	(149)
Total operating and administrative expenses before impairment losses	**(1,234)**	**(1,142)**	**(863)**	**(1,198)**
Operating profit/(loss) before impairment losses	**(207)**	**(160)**	**95**	**(66)**
Impairment losses on credit exposures	(78)	(74)	(144)	(737)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Analysed as: Profit/(loss) before tax, Net gain on capital restructuring and debt buy back, Pension benefits, PPI redress expense, PPI complaint handling fine, Restructuring expenses, IRHP/FRTBL redress expense, Other conduct expenses, Separation costs and Impairment of intangible assets and goodwill	159	222	131	(464)
Net gain on capital restructuring and debt buy back	61	-	-	-
Pension scheme reforms benefit	-	-	-	130
Pension increase exchange gain	18	-	-	-
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	-	-	-
IRHP/FRTBL redress expense	(75)	-	-	-
Other conduct expenses	-	(13)	(50)	(23)
Restructuring expenses	(17)	-	-	(149)
Separation costs	(10)	-	-	-
Impairment of intangible assets and goodwill	(10)	(23)	-	(177)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**

Continued	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	-	8	-	9
	(225)	**(190)**	**(44)**	**(647)**

Losses on ordinary activities before tax increased to £285 million in the year ended 30 September 2015 from £234 million in the year ended 30 September 2014, mainly due to increased conduct related expenses, restructuring expenses, an increase in other operating and administrative expenses reflecting increased levels of marketing and investment, and lower fees and commission. These increased costs were offset, in part, by the net gain on capital restructuring and debt buy back and a pension increase exchange gain.

Losses on ordinary activities before tax decreased from £803 million for the year ended 30 September 2012 to £234 million for the year ended 30 September 2014, primarily due to several non-recurring items in 2012, namely impairment of intangible assets and goodwill, the impact of the CRE portfolio on the results of operations prior to its disposal on 5 October 2012 and restructuring expenses. The loss on ordinary activities before tax in 2012 was in part offset by a pension scheme reforms benefit as NAB exited the scheme as sponsoring employer. Excluding these items, underlying profit on ordinary activities before tax increased from the year ended 30 September 2012 to the year ended 30 September 2014.

Net interest income increased by £2 million in the year ended 30 September 2015 to £787 million in the year ended 30 September 2014, primarily for the reasons discussed in paragraph 7.5 below.

Net interest income decreased from £877 million in the year ended 30 September 2012 to £785 million in the year ended 30 September 2014, mainly due to the disposal of the legacy CRE portfolio to NAB in October 2012. Excluding the disposed CRE portfolio, net interest income decreased in 2013 to £768 million from £806 million in 2012, mainly due to lower income from hedging derivatives and lower deferred fee and lending income as a result of a reduction in business lending balances.

Non-interest income in the year ended 30 September 2015 increased to £240 million, mainly due to a gross gain on capital restructuring and debt buy-back of £63 million. Excluding this gain, non-interest income decreased to £177 million from £197 million in the year ended 30 September 2014, mainly due to lower fee and commission income primarily as a result of a revised charging structure for current account fees designed to improve the customer proposition.

Non-interest income decreased from £255 million in the year ended 30 September 2012 to £197 million in the year ended 30 September 2014, mainly due to a non-recurring pension scheme reforms benefit of £130 million in the year ended 30 September 2012, in addition to a loss of fee income from the disposed CRE portfolio. Excluding all of these items, non-interest income increased during this period due to favourable movements in fair value and hedge ineffectiveness which incorporated lower credit risk losses on the fair valued business loan portfolio, partially offset by a reduction in account fees and commissions driven by pro-active response to the regulatory backdrop and the reshaping of the book.

Total operating and administrative expenses before impairment losses increased to £1,234 million in the year ended 30 September 2015, mainly due to higher conduct charges with a further £465 million of provisions for PPI and IRHP/FRTBL-related matters raised during the year (2014: £433 million), the PPI complaint handling fine of £21 million, restructuring costs of £17 million and costs incurred for separation activities of £10 million. There was also an increase in marketing and investment costs to support growth of the franchise. These impacts were partially offset by lower personnel expenses due to a one-off pension scheme gain of £18 million, a reduction in performance related remuneration and a lower charge for impairment of intangible assets.

Total operating and administrative expenses before impairment losses decreased in the year ended 30 September 2014 compared to the year ended 30 September 2012. This was mainly due to the following non-recurring items: restructuring expenses, impairment of intangible assets and goodwill and the transfer of the CRE portfolio. Excluding these items and other conduct expenses including PPI redress, total operating and administrative expenses decreased in the year ended 30 September 2014 compared to the year ended 30 September 2012, primarily due to a decrease in personnel expenses as the business sustained the benefits from its strategic restructuring activity.

Impairment losses on credit exposures in the year ended 30 September 2015 marginally increased to £78 million compared to £74 million for the year ended 30 September 2014. The impairment losses on mortgage lending in the year ending 30 September 2015 comprised an additional collective provision overlay of £8 million for losses incurred but not recognised following the conclusion of the Asset Quality Review in 2015.

Impairment losses on credit exposures decreased from £737 million for the year ended 30 September 2012 to £74 million for the year ended 30 September 2014, primarily due to the transfer of the CRE portfolio to NAB in October 2012. Excluding impairment losses on the CRE portfolio of £564 million, impairment losses decreased by £99 million from the year ended 30 September 2012 to the year ended 30 September 2014, mainly due to an increase in lower risk mortgage lending, a decrease in higher risk business lending and improving economic conditions.

The results of operations during the period under review were impacted by several significant items that the Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business. These items comprise losses associated with the disposed CRE portfolio in 2012, conduct-related expenses, restructuring provisions and pension scheme-related benefits. In order to better understand the underlying performance of CYBG Group, these items have been reported separately. The CYBG Directors believe that the results of operations on the Management Basis provides useful supplemental information to better assess the underlying trends and business performance of CYBG Group and to facilitate more meaningful period-to-period comparisons. Accordingly, set out below is an analysis of CYBG Group's underlying results of operations on the Management Basis and an analysis of the excluded items. The CYBG Directors believe that this two part analysis provides a more complete picture of, and enables prospective investors to more fully understand, the CYBG HFI. For additional information on the underlying results of operations on the Management Basis, see paragraphs 7.2 to 7.8 below. For further detail on the excluded items, see paragraph 7.9 below.

Annexure G: Part Five
CYBG Group operating and financial review

7.2 Consolidated Income Statement – Management Basis

The consolidated income statement data in this paragraph 7.2 is presented on the Management Basis. For a description of adjustments made to the results of operations on the Management Basis and a reconciliation of the Management Basis information to the CYBG HFI, see Part 4 of this Annexure G: "*Selected Financial Information on CYBG Group—Consolidated Income Statement Data–Reconciliation of the CYBG HFI to the Management Basis*".

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
				(unaudited)
		£m		
Interest income and similar income	1,110	1,135	1,209	1,300
Interest expense and similar charges	(323)	(350)	(441)	(494)
Net interest income	**787**	**785**	**768**	**806**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	175	205	225	264
Non-interest income	**177**	**197**	**190**	**120**
Total operating income	**964**	**982**	**958**	**926**
Personnel expenses	(282)	(287)	(302)	(315)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(362)	(321)	(305)	(325)
Total operating and administrative expenses before impairment losses	**(727)**	**(686)**	**(683)**	**(715)**
Operating profit before impairment losses	**237**	**296**	**275**	**211**
Impairment losses on credit exposures	(78)	(74)	(144)	(173)
Underlying profit on ordinary activities before tax	**159**	**222**	**131**	**38**
Pension scheme reforms benefit	-	-	-	130
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	-	-	-
IRHP/FRTBL redress expense	(75)	-	-	-
Other conduct	-	(13)	(50)	(23)
Impairment of intangible assets	(10)	(23)	-	(36)
Impairment losses on goodwill	-	-	-	(141)
Disposed legacy CRE portfolio impact	-	-	-	(502)
Restructuring expenses	(17)	-	-	(149)
Separation costs	(10)	-	-	-
Net gain on capital restructuring and debt buy back	61	-	-	-
Pension increase exchange gain	18	-	-	-
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	-	8	-	9
	(225)	**(190)**	**(44)**	**(647)**

In the year ended 30 September 2015, underlying profit on ordinary activities before tax decreased to £159 million from £222 million in the year ended 30 September 2014. This was primarily due to a decrease in non-interest income, reflecting CYBG Group's strategy to change the current account charging structure, and an increase in marketing to support balance sheet growth and increased levels of investment. Net interest income remained relatively flat in 2015 compared to 2014, primarily due to the reductions in hedging derivative interest income largely being offset by reductions in customer funding costs.

Underlying profit on ordinary activities before tax increased from a profit of £38 million in the year ended 30 September 2012 to a profit of £222 million in the year ended 30 September 2014. The main reason for this increase was a reduction in the impairment losses on credit exposures due to an increase in lower risk mortgage lending, a decrease in higher risk business lending and improved economic conditions. CYBG Group recorded an increase in non-interest income from 2012 to 2014 as a result of the positive impact of hedge ineffectiveness and fair value movements, in part offset by a decrease in account fees and commissions which reflects a trend in the industry. CYBG Group's expense base contracted between 2012 and 2014 following the strategic review, which resulted in a reduction of CYBG Group's business banking network and CYBG Group's headcount. In the year ended 30 September 2015, CYBG Group's expense base increased, reflecting marketing activities to support balance sheet growth and franchise investment.

7.3 Interest income – Management Basis

Interest income and similar income comprises income on loans and advances to customers as well as loans and advances to other banks, available for sale investments, due from related entities, and other interest income. The following table sets out the components of CYBG Group's interest income on the Management Basis for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Mortgages	647	584	545	493
Business lending	278	324	385	479
Unsecured personal lending	138	155	164	174
Total interest income on loans and advances to customers(1)	1,063	1,063	1,094	1,146
Other interest income(2)	47	72	115	154
Total interest income	**1,110**	**1,135**	**1,209**	**1,300**

(1) Represents total interest income on loans and advances to customers on the Management Basis.

(2) Other interest income comprises interest from interest rate swaps and derivative financial instruments, liquid assets and amounts due from related entities, plus income arising from the effective interest treatment of loan arrangement and commitment fees on mortgages and business loans.

CYBG Group's interest income decreased from £1,300 million for the year ended 30 September 2012 to £1,209 million for the year ended 30 September 2013, £1,135 million for the year ended 30 September 2014 and £1,110 million for the year ended 30 September 2015.

Interest income from mortgages increased from £493 million for the year ended 30 September 2012 to £647 million for the year ended 30 September 2015, as a result of an increase in average mortgage balances during the same period. The growth in the mortgage book is mainly due to an increase in mortgage lending through the intermediary channel. During the period under review, the average balances of mortgages increased from £14,617 million for the year ended 30 September 2012 to £15,698 million for the year ended 30 September 2013, £17,155 million for the year ended 30 September 2014 and £19,576 million for the year ended 30 September 2015. The average yield on mortgages declined marginally during this period as fixed rate mortgages at lower rates increased and mortgage rates in the UK market declined. Average yields on mortgage lending contracted in line with the market in 2015. During the year ended 30 September 2015, swap rates adversely affected interest income on mortgage lending. CYBG Group expects back book margin compression for mortgage lending to continue as a result of continued product switching by customers. The decline in unsecured personal lending during this period was driven by competitive pressures that were periodically driven by "Best Buy" pricing through aggregator websites to levels where the risk adjusted margins were unattractive and CYBG Group chose not to complete. The front book pricing for unsecured personal loans (defined as the weighted average of gross interest rates on loans originated for the period) was 8.67 per cent. for the year ended 30 September 2015.

CYBG Group's average balances of business lending decreased from £11,775 million for the year ended 30 September 2012 to £9,979 million for the year ended 30 September 2013, £8,337 million for the year ended 30 September 2014 and £7,339 million for the year ended 30 September 2015. Average business lending assets for the year ended 30 September 2012 have been adjusted to remove an average balance of £5,652 million of predominantly CRE assets and associated loans excluding provisions, which were transferred to NAB on 5 October 2012. There was a reduction in the average yield on business lending from 4.06 per cent. in the year ended 30 September 2012 to 3.78 per cent. in the year ended 30 September 2015, driven by competition in the market and subsequent reduction in front book margins. The average yield on the run-off of the non-core SME book was 2.39 per cent. for the year ended 30 September 2015, compared to an average yield of 3.57 per cent. on the SME front book and an average yield of 3.21 per cent. on the mortgage lending front book in the year ended 30 September 2015. As a result of the reduction in CYBG Group's capital requirements due to the run-off of SME lending, CYBG Group redeployed capital into mortgage lending and higher yielding SME lending. Interest income decreased on the average balances of business lending from £479 million for the year ended 30 September 2012 to £385 million for the year ended 30 September 2013, £324 million for the year ended 30 September 2014 and £278 million for the year ended 30 September 2015.

Other interest income reduced from £154 million in the year ended 30 September 2012 to £115 million in the year ended 30 September 2013, £72 million in the year ended 30 September 2014 and £47 million in the year ended 30 September 2015. Other interest income included Swap Income of £7 million in the year ended 30 September 2015, £35 million in the year ended 30 September 2014, £70 million in the year ended 30 September 2013 and £100 million in the year ended 30 September 2012. The decline in Swap Income in the year ended 30 September 2015 reflects an increase in the proportion of natural hedging and the reduction in swap nominal values due to a decision in December 2014 to terminate offsetting positions. The termination of legacy swaps in the year ended 30 September 2013 also resulted in higher Swap Income in comparison to the years ended 30 September 2014 and 2015 due to the accounting treatment of this item. There was also a rise in the Swap Income yield curve in the years ended 30 September 2013 and 2014 coinciding with the swap portfolio switching from predominantly receive-fixed to pay-fixed rates reflecting the run off of fixed rate term deposits and the growth in fixed rate mortgages. The reduction in Swap Income in the years ended 30 September 2013 and 2014 was also driven by market rate movements increasing the cost of hedging CYBG Group's basis risk during each of these periods compared to the year ended 30 September 2012. In addition, other income fell due to a reduction in income from repo transactions of £9 million in the year ended 30 September 2013.

7.4 Interest expense – Management Basis

Interest expense and similar charges comprise interest payable on customer deposits, due to other banks, bonds and notes and amounts due to related entities. The following table sets out the components of CYBG Group's interest expense on the Management Basis for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Liquid liabilities	5	6	2	6
Customer deposits	196	213	307	350
Bonds and notes	82	81	75	52
Due to related entities	40	50	57	86
Total interest expense	**323**	**350**	**441**	**494**

CYBG Group's interest expense decreased from £494 million for the year ended 30 September 2012 to £441 million for the year ended 30 September 2013, £350 million for the year ended 30 September 2014 and £323 million for the year ended 30 September 2015.

During the period under review, CYBG Group has actively managed its liabilities and funding profile in order to reduce its average cost of funding, reduce the volume of funding provided by the NAB Group and diversify its sources of funding.

CYBG Group achieved a reduction in its overall average cost of funding principally by effectively managing the mix of customer deposits, in particular by significantly increasing its volumes of lower-cost current account deposits and lower-cost variable rate savings account deposits, while reducing the volume of higher-cost fixed rate term deposits. The average balance of term deposits decreased from £9,497 million in the year ended 30 September 2012 to £8,284 million in the year ended 30 September 2013, £5,975 million in the year ended 30 September 2014 and £5,500 million in the year ended 30 September 2015. The average interest rate on fixed-rate term deposits has also reduced over the period under review from 3.17 per cent. in the year ended 30 September 2012 to 2.35 per cent. in the year ended 30 September 2015, mainly due to the run-off of fixed rate term deposits raised or acquired following the 2011 credit rating downgrade. The combination of these factors has led to a decrease in interest expense paid on the average balance of term deposits from £301 million for the year ended 30 September 2012 to £261 million for the year ended 30 September 2013, £166 million for the year ended 30 September 2014 and £129 million for the year ended 30 September 2015.

The average balance of amounts due to related entities reduced from £3,777 million in the year ended 30 September 2012 to £2,919 million in the year ended 30 September 2013 reflecting CYBG Group's decision to build an independent source of operational funding. The average balance of amounts due to related entities in the year ended 30 September 2014 remained stable at £2,961 million and reduced to an average of £1,956 million for the year ended

30 September 2015. Interest expense on amounts due to related entities on the Management Basis decreased from £86 million for the year ended 30 September 2012 to £57 million for the year ended 30 September 2013, £50 million for the year ended 30 September 2014 and £40 million for the year ended 30 September 2015.

Funding from related entities has been replaced, in part by external funding through CYBG Group's RMBS programme, resulting in an increase in interest expense on bonds and notes from £52 million for the year ended 30 September 2012 to £75 million for the year ended 30 September 2013 and £81 million for the year ended 30 September 2014. Interest expense remained stable at £82 million for the year ended 30 September 2015. Although the average amount of funding through bonds and notes has increased to £3,868 million for the year ended 30 September 2015, this has been offset by a reduction in the average interest rate on bonds and notes from 2.47 per cent. in the year ended 30 September 2014 to 2.11 per cent. in the year ended 30 September 2015, as new notes have been issued at lower rates than those they replaced.

7.5 Net interest income and net interest margin – Management Basis

The following table sets out CYBG Group's net average interest-earning assets, net average interest-bearing liabilities, net interest income and net interest margin for the years indicated. The information is presented on the Management Basis. For further information, see "*Important Information—Presentation of certain financial and other information—Average balance sheet and interest rate data*" of this Annexure G.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	(£m, except %)			
Average interest-earning assets	35,780	34,069	35,255	36,711
Average interest-bearing liabilities	29,985	28,847	30,053	32,038
Net interest income	787	785	768	806
Average yield on average interest-earning assets	3.10%	3.33%	3.43%	3.54%
Average rate on average interest-bearing liabilities	1.08%	1.21%	1.47%	1.54%
Net interest margin (%)(1)	2.20%	2.30%	2.18%	2.20%
Net interest spread (%)(2)	2.02%	2.12%	1.96%	2.00%

(1) Net interest margin is defined as net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(2) Net interest spread is calculated as the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-bearing liabilities were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

7.5.1 Net interest income

For the year ended 30 September 2015, net interest income increased by £2 million, or 0.3 per cent., to £787 million from £785 million for the year ended 30 September 2014, primarily due to reductions in interest expense, which offset the decrease in the average yield on interest-earning assets and the lower income from hedging derivatives. Average interest-bearing liabilities increased by 3.9 per cent. to £29,985 million in the year ended 30 September 2015 compared to the year ended 30 September 2014. During this period, interest expense decreased 7.7 per cent., mainly due to CYBG Group's active management of the funding mix to replace relatively expensive term deposits with current accounts and variable savings accounts. Interest income on hedging derivatives for the year ended 30 September 2015 was £8 million compared to £35 million in the year ended 30 September 2014. The reduced income reflects the reduction in volume of derivatives following a decision in December 2014 to cancel a number of offsetting hedges, resulting in a higher proportion of natural hedges. There has also been a shift in the balance in the portfolio towards pay-fixed interest rate swaps, due to the growth of fixed rate mortgages and reduction in fixed term deposits. In the year ended 30 September 2015, gross new mortgage lending of fixed rate mortgages was 91 per cent of total gross new mortgage lending and CYBG Group expects an increase in gross new mortgage lending to drive an increased proportion of fixed rate mortgage balances over time.

For the year ended 30 September 2014, net interest income increased by £17 million, or 2.2 per cent., to £785 million from £768 million for the year ended 30 September 2013. Interest expense on total average interest-bearing liabilities decreased by 20.6 per cent. in 2014, primarily due to a 36.8 per cent. decline in interest expense on term deposit liabilities as a result of CYBG Group's active deposit liability management, which led to a reduction in higher-cost term deposits while increasing current and savings accounts deposits, as well as a reduction in the average interest rate paid on new term deposits. The decrease in interest expense paid on total average interest-bearing liabilities was partially offset by a 6.1 per cent. decrease in interest income from total average interest-earning assets, primarily as a result of the decrease in interest earned on the business lending portfolio, from £385 million in 2013 to £324 million in 2014, as CYBG Group focused on growing its mortgage book and running down the lower-yielding portion of its business lending portfolio.

For the year ended 30 September 2013, net interest income decreased by £38 million, or 4.7 per cent., to £768 million from £806 million for the year ended 30 September 2012, primarily due to lower income from hedging derivatives and lower deferred fee and lending income as a result of a reduction in business lending balances. This was partially offset by a reduction in term deposit interest expense.

7.5.2 Net interest margin

Net interest margin on the Management Basis has remained relatively stable during the period under review. Net interest margin on the Management Basis fell to 2.20 per cent. for the year ended 30 September 2015 from 2.30 per cent in the year ended 30 September 2014, driven by the reduction in interest income on hedging derivatives. For the year ended 30 September 2015, the reduction in Swap Income contributed a 7 basis point reduction in net interest margin, compared to the year ended 30 September 2014. In addition, the mix of the balance sheet shifted towards mortgages with interest rates which were lower than higher risk business and unsecured personal lending. For the year ended 30 September 2015, movements in the asset mix (comprising total customer loans, liquid assets and amounts due from related entities) contributed a 13 basis point reduction in net interest margin, and movements in the liability mix (comprising total customer deposits, wholesale funding, bonds and notes and amounts due to related entities) contributed a 9 basis point increase in net interest margin, compared to the year ended 30 September 2014.

Net interest margin on the Management Basis increased from 2.18 per cent. for the year ended 30 September 2013 to 2.30 per cent. for the year ended 30 September 2014. The increase in net interest margin was attributable to CYBG Group's active management of the funding mix, particularly deposit liabilities which led to reduced interest expense on total average interest-bearing liabilities from £441 million for the year ended 30 September 2013 to £350 million for the year ended 30 September 2014.

Net interest margin on the Management Basis decreased from 2.20 per cent. for the year ended 30 September 2012 to 2.18 per cent. for the year ended 30 September 2013, primarily due to lower income from hedging derivatives.

Based on expectations as to interest rates and the broader macro-economic (as described in paragraph 4 of Part 2: "*Information on CYBG Group*"), and competitive environment (as described in the Industry Overview, the CYBG Directors expect, through the delivery of CYBG Group's strategy (as described in paragraph 4 of Part 2 of this Annexure G: "*Information on CYBG Group*"), net interest margin to be broadly stable in the near term with the potential for some modest widening, commensurate with current market expectations for movements in interest rates, over the five year period following UK Admission.

7.6 Non-interest income – Management Basis

Non-interest income is primarily comprised of fair value loan movements and hedge ineffectiveness, various fee and commission income streams and other gains and losses.

Fair value loan movements and hedge ineffectiveness include the following three components:

- Ongoing hedge ineffectiveness and fair value gains and losses on derivatives held for trading represents the income statement impact of CYBG Group's interest rate and foreign exchange risk management activities (see paragraph 9 of this Part 5). It includes ineffectiveness within ongoing hedges and the gains and losses on derivatives which are not in designated hedging relationships. This figure excludes the impact of basis risk swaps, which were historically held outside designated hedging relationships and are discussed separately below.
- Fair value gains and losses on individually hedged loans represents the net fair value gains and losses associated with customer loans which are held at fair value plus the fair value gains and losses on any related derivative financial instruments. Loans at fair value are primarily business loans which were set up with individual hedging instruments to match the interest rate features of the loans. The fair value movement also includes credit risk on those loans. CYBG Group no longer sells the individually hedged loan portfolio and thus, no longer classifies any business loans as fair value assets through profit and loss. The individually hedged loan portfolio is therefore in run-off.
- Impact of basis risk instruments not in hedging relationships relates to a specific book of basis risk swaps that were used as hedges for economic risk but not accounted for as designated hedging relationships until 2013. During the year ended 30 September 2013, and subsequent to this period, basis risk hedging has been included within designated cashflow hedging relationships.

Account fees and commissions, lending fees and card income represent fee income from customers and commissions for particular transactions and services.

The following table sets out non-interest income on the Management Basis for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	(unaudited) £m			
Ongoing hedging ineffectiveness and fair value gains and losses on derivatives held for trading	3	6	(9)	(18)
Fair value gains and losses on individually hedged loans and related derivatives	(1)	(21)	(44)	(87)
Impact of basis risk instruments not in hedging relationships	-	7	18	(39)
Total fair value loan movements and hedge ineffectiveness	**2**	**(8)**	**(35)**	**(144)**
Account fees and commissions	120	141	162	185
Lending fees	9	8	9	13
Card income	23	23	22	23
Total fee and commission income	**152**	**172**	**193**	**221**
Margin on foreign exchange derivative brokerage	19	19	21	21
Gain on disposal of fixed assets	-	7	1	10
Other	4	7	10	12
Total non-interest income	**177**	**197**	**190**	**120**

Non-interest income reduced by £20 million, or 10.2 per cent., to £177 million for the year ended 30 September 2015 compared to £197 million for the year ended 30 September 2014. During this period, fair value loan movements and hedge ineffectiveness moved from an expense of £8 million in the year ended 30 September 2014 to income of £2 million in the year ended 30 September 2015, primarily due to a reduction in losses on loans held at fair value. All basis risk hedging instruments are recorded in cashflow hedge arrangements and, consequently, there was no separate income statement impact in the year ended 30 September 2015. In addition, fee and commission income decreased from £172 million in the year ended 30 September 2014 to £152 million in the year ended 30 September 2015, as a result of CYBG Group's strategy to reduce current account fees to improve the customer proposition. The reduction in the year ended 30 September 2015 was also due in part to the non-recurrence of a prior period sale and leaseback gain.

Non-interest income increased by £7 million, or 3.7 per cent., to £197 million for the year ended 30 September 2014 from £190 million for the year ended 30 September 2013, primarily due to a favourable variance of £27 million in fair value movements and hedge ineffectiveness in 2014. This improvement was mainly driven by reduced fair value losses associated with the portfolio of individually hedged loans which is now in run-off. The improvement in fair value loan movements and hedge ineffectiveness was in part offset by a reduction of £21 million in fees and commissions, mainly due to a reduction in business banking customers, a reduction in IFA income following the decision to close this business in 2013 and the impact of CYBG Group's strategy to reduce current account fees to improve the customer proposition.

Non-interest income increased by £70 million, or 58.3 per cent., to £190 million for the year ended 30 September 2013 from £120 million for the year ended 30 September 2012. The primary driver was a reduction in the charge associated with fair value loans and hedging ineffectiveness from £144 million in the year ended 30 September 2012 to £35 million in the year ended 30 September 2013. This improvement was offset in part by a reduction in total fee and commission income of £28 million and lower income from gains on the sale of property of £9 million. The reduction in account fees and commissions is attributed to a decrease in income from treasury solutions as a result of the IRHP review and a reduction in lending restructuring fees as a result of economic improvements.

Fair value loan movements and hedge ineffectiveness for the year ended 30 September 2012 included a charge for credit risk on customer loans held at fair value of £32 million compared to £14 million in 2013, a related £35 million one off reduction in the fair value measurement of customer loans and a £39 million adverse movement in the value of basis risk swaps. Since 2013, CYBG Group has been able to designate new basis risk swaps as effective cashflow hedging relationships. All basis risk swaps outside of effective cashflow hedging relationships had matured by 31 March 2014. As a result, the level of volatility is less likely to recur in subsequent periods.

The table below sets out a breakdown of CYBG Group's total other operating income (non-interest income less fair value loan movements and hedge ineffectiveness) on the Management Basis by product type for the years indicated, reflecting a reduction in fee income for current account fees and business lending in line with CYBG Group's strategy as discussed above.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Current account fees	108	122	135	138
Business lending(1)	23	27	31	49
Foreign exchange brokerage	20	19	21	21
Credit cards	12	14	15	16
Insurance income(2)	5	7	12	23
Mortgages(1)	3	4	3	2
Total product income	**171**	**193**	**217**	**249**
Other(3)	4	12	8	15
Total other operating income(4)	**175**	**205**	**225**	**264**

(1) Business lending and mortgage product fee income is shown net of deferred fees under the effective interest rate accounting methodology.

(2) Insurance income decline between 2012 and 2014 was primarily driven by a reduction in income from Clydesdale Bank's IFA business which closed in 2013. Income generated from the Insurance Intermediary business that CYBG Group acquired on 30 September 2015 will be included in other operating income commencing in the year ended 30 September 2016.

(3) Other comprises gain on disposal of fixed assets, CYBG Group's profit on the sale of equity investments and securities, rental income and other fees.

(4) In the year ended 30 September 2012, CYBG Group received a one-off pension contribution of £130 million from NAB in respect of the defined benefit pension scheme. This amount was recognised as a one-off gain in other operating income, but has been removed from the results on the Management Basis. There are no equivalent amounts for the years ended 30 September 2015, 2014 and 2013.

CYBG Group believes that 2015 represents a normalised level of other operating income following its revision in current account terms and conditions and decline in fee income from a reduction in business lending.

7.7 Operating and administrative expenses before impairment losses – Management Basis

Operating and administrative expenses before impairment losses comprise personnel expenses, depreciation and amortisation expenses, other operating and administrative expenses and restructuring expenses. The following table sets out operating and administrative expenses on the Management Basis for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Personnel expenses:				
Salaries, wages and non-cash benefits	175	173	185	189
Other personnel expenses	33	42	39	41
Defined benefit pension expense	29	29	40	36
Related personnel expenses	22	22	21	23
Defined contribution pension expense	16	14	13	15
Equity based compensation	7	7	4	11
	282	**287**	**302**	**315**
Depreciation and amortisation expense:				
Amortisation of intangible assets	57	54	52	52
Depreciation of property, plant and equipment	26	24	24	23
	83	**78**	**76**	**75**
Other operating and administrative expenses:				
Other operating expenses	272	243	230	228
Other occupancy charges	38	39	42	42
Operating lease rental	32	31	32	38
Related entity recharges	20	8	1	17
	362	**321**	**305**	**325**
Total operating and administrative expenses before impairment losses	**727**	**686**	**683**	**715**

Operating and administrative expenses before impairment losses ("**operating costs**") increased by £41 million, or 6.0 per cent on the Management Basis to £727 million for the year ended 30 September 2015 from £686 million for the year ended 30 September 2014. This increase was principally due to the increased levels of marketing and investment to support balance sheet growth and franchise investment which has been partly offset by the restructuring benefits which are evident in the reduction of personnel related costs. Other operating and administrative expenses increased to £362 million in the year ended 30 September 2015, reflecting an increase in spend to support CYBG Group's growth agenda and its brand, marketing and refreshed proposition, in addition to higher intercompany charges with NAB. The amount of the bank levy for the year ended 30 September 2015 was £0.8 million. The Directors expect the run rate of total operating costs in the year ended 30 September 2016 on the Management Basis to remain broadly in line with the amount of £381 million incurred in the second half of 2015 on an annualised basis (including FSCS levy) (i.e., £762 million on an annualised basis), principally as CYBG Group incurs additional costs as it establishes itself as a standalone entity and maintains a higher level of investment, partially offset by the benefits from planned restructurings.

Following the Demerger, the Company will be a standalone entity, proposed to be listed on the London Stock Exchange and ASX, and will incur additional corporate operating costs, which CYBG Group did not incur as part of the NAB Group. These costs principally include share registry costs, company secretariat costs, and other costs. The Company will also incur additional costs associated with certain corporate functions, services and internal management systems that have previously been provided by or in conjunction with NAB, such as information technology, insurance, accounting, treasury, investor relations, legal, human resources and marketing. Overall, it is estimated that these additional costs will have an incremental net impact on CYBG Group's total operating costs of between approximately £15 million and £25 million per year. These additional costs include estimated costs to be incurred under the transitional services arrangement between the Company and NAB, less the net corporate costs currently being recharged from NAB to the Company. The effect of these additional costs, which are included in the run rate of total operating costs set forth in the preceding paragraph, should be taken into account when assessing the Company's future earnings.

CYBG Group's operating and administrative expenses increased to £686 million for the year ended 30 September 2014 from £683 million for the year ended 30 September 2013. This reflected an increase in other operating and administrative expenses due to an increase in software and systems expenditure and higher marketing costs, offset by a reduction in personnel expenses reflecting a lower average headcount of 7,150 staff in 2014 compared to 7,201 staff in 2013.

CYBG Group's operating and administrative expenses decreased to £683 million for the year ended 30 September 2013 from £715 million for the year ended 30 September 2012, primarily due to a reduction in personnel expenses as well as the favourable impact of income paid to CYBG Group for systems and services performed in relation to the legacy CRE portfolio transferred to NAB following the strategic review in 2012. The income on systems and services performed substantially offset the ongoing related entity recharge from NAB.

Following the demerger, CYBG Group's amount of chargeable equity and liabilities is not expected to exceed £20 billion, therefore, no bank levy is expected to be charged.

7.7.1 Personnel expenses

Personnel expenses decreased by £5 million, or 1.7 per cent., to £282 million for the year ended 30 September 2015 from £287 million for the year ended 30 September 2014, primarily due to ongoing restructuring and optimisation to enable rightsizing and separation.

Personnel expenses decreased by £15 million, or 5.0 per cent., to £287 million for the year ended 30 September 2014 from £302 million for the year ended 30 September 2013, primarily due to net reductions in salaries, wages and non-cash benefits as a result of benefits from the restructuring initiatives announced in April 2012 and completed in 2013 and a corresponding decline in pension expenses due to a reduction in average headcount. These reductions were partially offset by additional costs that were not directly related to provisions in connection with new roles required to address conduct matters and conduct-related complaints together with growth in the Customer Experience and Marketing team.

Personnel expenses decreased by £13 million, or 4.1 per cent., to £302 million for the year ended 30 September 2013 from £315 million for the year ended 30 September 2012, primarily due to a reduction in average headcount of 947 during this period and a reduction in related costs during the year from the outcomes of the strategic review. This was partially offset by the accrual of a cash bonus provision in the year ended 30 September 2013 whereas no cash bonus was paid in 2012.

The table below sets out a breakdown of CYBG Group's personnel expenses by segment for the years indicated and demonstrates the reduction in the business and private banking headcount following the strategic restructuring of CYBG Group's business in 2012.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Business and private banking	67	65	75	96
Retail	76	80	73	74
Central and other functions	139	142	154	145
Total	**282**	**287**	**302**	**315**

7.7.2 Depreciation and amortisation expense

Depreciation and amortisation expense increased by £8 million during the period under review from £75 million in the year ended 30 September 2012 to £83 million in the year ended 30 September 2015, reflecting increased investment in hardware and software. For the year ended 30 September 2015, depreciation and amortisation increased to £83 million compared to £78 million for the year ended 30 September 2014, mainly as a result of additional investment to support CYBG Group's growth strategy and digitisation agenda.

7.8 Impairment losses on credit exposures – Management Basis

During the period under review, CYBG Group experienced substantial reductions in impairment losses on credit exposures, mainly due to the alignment of the assets with CYBG Group's risk appetite, which has driven a decrease in impairment losses on business lending and unsecured personal lending.

Impairment losses on credit exposures increased marginally to £78 million for the year ended 30 September 2015, primarily due to an additional collective provision overlay on retail mortgages of £8 million for losses incurred but not recognised following the conclusion of the Asset Quality Review in 2015.

Impairment losses decreased by £70 million, or 48.6 per cent., to £74 million for the year ended 30 September 2014 from £144 million for the year ended 30 September 2013, primarily due to lower losses on loans and advances to business customers. Business lending impairment losses decreased by £56 million, or 54.9 per cent., to £46 million for the year ended 30 September 2014 from £102 million for the year ended 30 September 2013, mainly due to improved asset quality, changes in CYBG Group's balance sheet composition and the improved economic environment.

Impairment losses on credit exposures amounted to £173 million for the year ended 30 September 2012, and decreased to £144 million for the year ended 30 September 2013, primarily due to a decrease in losses on business lending exposures during the period.

During the period under review, improvement in the portfolio risk profile, the reduction in business lending, positive delinquency trends, and mortgage growth, has resulted in a reduction in the level of collective provisions.

For further information, see "*Impairment Losses on Credit Exposures*" below.

7.9 Profit/(loss) on ordinary activities before tax – Management Basis

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Adjustments: Pension scheme reforms benefit	-	-	-	(130)
PPI redress expense	390	420	130	120
PPI complaint handling fine	21	-	-	-
IRHP/FRTBL redress expense	75	-	-	-
Other conduct	-	13	50	23
Impairment of intangible assets	10	23	-	36
Impairment losses on goodwill	-	-	-	141
Disposed legacy CRE portfolio impact	-	-	-	502
Restructuring expenses	17	-	-	149
Separation costs	10	-	-	-
Net gain on capital restructuring and debt buy back	(61)	-	-	-
Pension increase exchange gain	(18)	-	-	-
Underlying profit on ordinary activities before tax	**159**	**222**	**131**	**38**

Underlying profit on ordinary activities before tax increased from a profit before tax of £38 million for the year ended 30 September 2012 to £131 million for the year ended 30 September 2013 and £222 million for the year ended 30 September 2014, and subsequently decreased to £159 million for the year ended 30 September 2015 for the reasons set out below.

7.9.1 Pension scheme reforms benefit

In the year ended 30 September 2012, CYBG Group received a one-off pension contribution from NAB in respect of the defined benefit pension scheme upon the exit by NAB as a participating employer. This resulted in a £130 million gain recognised in other operating income, which was recorded in the income statement of CYBG Group as it had already recognised the IAS19 liability of the scheme in full. There are no equivalent amounts for the years ended 30 September 2015, 2014 or 2013.

7.9.2 PPI redress expense

CYBG Group recorded PPI redress expenses of £390 million, £420 million, £130 million and £120 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively within other operating and administrative expenses, as discussed in paragraph 3.10 "*Significant Factors Affecting Results of Operations and Financial Condition – Legacy conduct-related redress*" above.

7.9.3 PPI complaint handling fine

On 14 April 2015, the FCA issued a fine of £21 million against CYBG Group for failings in CYBG Group's PPI complaint handling processes between May 2011 and July 2013. As a result, CYBG Group recorded other operating expenses of £21 million relating to the PPI complaint handling fine in the year ended 30 September 2015. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012.

7.9.4. Other conduct charges

CYBG Group recorded other conduct charges of £13 million, £50 million and £23 million for the years ended 30 September 2014, 2013 and 2012, respectively, within other operating and administrative expenses, as discussed in paragraph 3.10 "*Significant Factors Affecting Results of Operations and Financial Condition – Legacy conduct-related redress*" above. There is no equivalent amount for the year ended 30 September 2015.

7.9.5 Impairment of intangible assets

Impairment charges on intangible assets comprise impairment charges on software recorded within other operating and administrative expenses. In connection with the strategic review undertaken in 2012, CYBG Group recognised software impairment, predominantly with respect to business banking systems, of £36 million for the year ended 30 September 2012. CYBG Group recognised impairment of intangible assets of £23 million and £10 million for the years ended 30 September 2014 and 30 September 2015, respectively, following a review of the recoverable amount of capitalised software assets. There is no equivalent amount for the year ended 30 September 2013.

7.9.6 Impairment losses on goodwill

CYBG Group recorded an impairment loss on goodwill of £141 million within other operating and administrative expenses for the year ended 30 September 2012 in respect of CYBG Group's investment in Clydesdale Bank. This represents a reduction in the value of CYBG Group's investment in Clydesdale Bank, reflecting the results, including impairment losses, on the legacy CRE book and other restructuring costs that the business incurred in that period. CYBG Group no longer carries any goodwill in respect of Clydesdale Bank or any other subsidiary, and accordingly there have been no impairment losses on goodwill for the years ended 30 September 2015, 2014 or 2013.

7.9.7 Disposed legacy CRE portfolio impact

The legacy CRE portfolio was reclassified as held for sale at 30 September 2012 and was transferred to NAB at book value on 5 October 2012. The portfolio consisted of approximately £5,225 million of CRE assets and associated loans net of provisions. The presentation of results on the Management Basis excludes the results, including impairment losses, of the disposed legacy CRE portfolio for the year ended 30 September 2012. Accordingly, interest income of £161 million, interest expense of £90 million, other operating income of £5 million, personnel expenses of £14 million and an impairment loss on credit exposures of £564 million have all been removed from the results on the Management Basis and are instead shown as a single loss on the disposed legacy CRE portfolio of £502 million. The interest expense of £90 million has been calculated by applying the contractual rates that were in place for the majority of the funding to all of the funding arrangements supporting the CRE portfolio prior to the disposal. There are no equivalent amounts for the years ended 30 September 2015, 2014 or 2013.

7.9.8 Restructuring expenses

CYBG Group recorded a charge of £149 million for restructuring for the year ended 30 September 2012. The provision covers redundancy payments, property vacation costs and associated enablement costs. The amounts raised were principally for the reduction of roles, the closure of 29 business and private banking centres, the relocation of nine business and private banking centres with retail branches, the closure of six back office locations, and the associated provisionable costs of delivery of these activities. CYBG Group recorded a further expense of £17 million in restructuring costs, principally for headcount reductions, in the year ended 30 September 2015. There are no equivalent amounts for the years ended 30 September 2014 or 2013.

7.9.9 Net gain on capital restructuring and debt buy-back

In the year ended 30 September 2015, CYBG Group had a net gain on capital restructuring and debt buy-back of £61 million, primarily relating to the December 2014 capital restructure, which was undertaken to replace instruments that were non-compliant for CRD IV purposes with CRD IV compliant instruments. The gain was a result of the repurchase of £650 million of Tier 2 subordinated liabilities at fair value. The subordinated debt was replaced with £450 million of Additional Tier 1 capital instruments. Other operating and administrative expenses included costs incurred in connection with the capital restructuring of £2 million. On 30 September 2015, CYBG Group repurchased medium-term funding of £650 million from NAB resulting in a gain of £2 million. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012.

7.9.10 Pension increase exchange gain

During the year ended 30 September 2015, CYBG Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After taking independent financial advice, the member may be entitled to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. This policy change resulted in a credit to the income statement of £18 million within personnel expenses. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012.

7.9.11 IRHP/FRTBL redress expense

In the year ended 30 September 2015, CYBG Group recorded a charge in the income statement of £75 million for IRHP/FRTBL redress. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012, as the provisions raised were offset by receivables from NAB.

7.9.12 Separation costs

During the year ended 30 September 2015, CYBG Group recorded a charge of £10 million for costs relating to the separation of the Company from NAB. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012.

7.10 Tax (credit)/charge

On 8 July 2015, the UK Government announced its intention to charge an 8 per cent. surcharge on profits of banks to the extent that they exceed £25 million per annum. The measure, enacted on 18 November 2015, will apply to accounting periods beginning on or after 1 January 2016 with transitional provisions for accounting periods that straddle that date. A decrease of 2 per cent. by 2020 in the mainstream rate of corporation tax was also announced on 8 July 2015. As the legislative changes were not substantively enacted as at 30 September 2015, there will be a deferred tax rate change adjustment in the 2016 financial statements. The estimated impact from this adjustment of £20 million is disclosed in the CYBG HFI.

The tax credit to the income statement, as set out in the CYBG HFI, increased by £16 million to £60 million for the year ended 30 September 2015 from £44 million for the year ended 30 September 2014. This was primarily due to an increased loss before tax in the year ended 30 September 2015 of £285 million, from a loss before tax of £234 million in the year ended 30 September 2014. The gross gain on capital restructuring of £61 million for the year ended 30 September 2015 was not taxable and the deduction of the AT1 perpetual capital note distribution was treated as an interest deduction in CYBI. Both deductions were partly offset by items not deductible for tax and drove the difference in the effective tax rate from the standard rate of corporation tax.

The tax credit to the income statement, as set out in the CYBG HFI, increased by £39 million to £44 million, which comprised a current tax charge of £20 million and a deferred tax credit of £64 million, for the year ended 30 September

2014 from £5 million for the year ended 30 September 2013, mainly due to deferred tax credits on trading losses incurred in the period carried forward and capital allowances available to reduce taxable profits in a future period.

The tax credit to the income statement, as set out in the CYBG HFI, decreased by £151 million to £5 million for the year ended 30 September 2013, primarily due to the reduction in loss on ordinary activities before tax by £754 million to £49 million for the year ended 30 September 2013 and the £141 million goodwill impairment which was non-deductible.

8. Credit Risk

Credit risk is the risk that losses may arise as a result of CYBG Group's borrowers or market counterparties failing to meet their obligations.

8.1 Impairment Losses on Credit Exposures

The table below sets out CYBG Group's impairment losses on credit exposures for the years indicated, and ratios of impairment charges to assets.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	(£m, except %)			
Impairment losses on credit exposures:				
Mortgages	18	6	14	10
Business lending[1]	45	46	102	134
Unsecured personal lending	15	22	28	29
Total impairment losses on credit exposures	**78**	**74**	**144**	**173**
Fair value loans	(18)	6	14	32
Total impairment losses on credit exposures including fair value loan credit risk	**60**	**80**	**158**	**205**
Impairment charge to customer loans ratio:				
Impairment charge to mortgages ratio[2]	0.09%	0.03%	0.09%	0.07%
Impairment charge to business lending ratio[3]	0.37%	0.62%	1.16%	1.41%
Impairment charge to unsecured personal lending ratio[4]	1.18%	1.70%	2.18%	2.14%
Total impairment charge to average customer loans[5]	0.21%	0.30%	0.60%	0.74%

(1) Impairment losses on credit exposures of £564 million in respect of the CRE portfolio that was disposed of on 5 October 2012 have been excluded from business lending for the year ended 30 September 2012.

(2) Impairment charge to mortgages ratio is defined as impairment charges on mortgages for a given period as a percentage of average mortgages for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average mortgages were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(3) Impairment charge to business lending ratio is defined as impairment charges on business loans plus impairment charges on other financial assets at fair value for a given period as a percentage of average business loans plus other financial assets at fair value for a given period. This ratio excludes £564 million of impairment charges and £5,652 million of total business lending in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average business loans plus other financial assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(4) Impairment charge to unsecured personal lending ratio is defined as impairment charges on unsecured personal lending for a given period as a percentage of average unsecured personal lending for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average unsecured personal lending was calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(5) Impairment charge to average customer loans ratio is defined as impairment charges on total customer loans as a percentage of average customer loans for a given period. This ratio excludes £564 million of impairment charges and £5,652 million of loans from the average loan balance in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average customer loans were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

Total impairment losses on credit exposures, including fair value loans, fell during the period under review to £60 million for the year ended 30 September 2015, from £80 million for the year ended 30 September 2014, £158 million for the year ended 30 September 2013 and £205 million for the year ended 30 September 2012. The primary driver of the improvement in the year ended 30 September 2015 was the write back on fair value loans as a result of the continued reduction of the fair value loan portfolio. The key drivers in the fair value credit risk adjustment include losses or recoveries on individual loans and changes in the provisions for fair value loans held for future losses to reflect movements in credit quality and the run-off of this portfolio. The amount of £(18) million (representing a credit) for fair value loan credit risk adjustment in the year ended 30 September 2015 was primarily driven by a collective provision release resulting from the run-off of the fair value loan portfolio rather than underlying credit quality. During the period under review, the sustained low interest rates, improving macro-economic conditions, management actions to reduce exposure to higher risk sectors and customers deleveraging have contributed to the reduction in impairments. The impairment charge on mortgage lending in the year ended 30 September 2015 included an additional collective provision overlay for losses incurred but not recognised of £8 million following the conclusion of the Asset Quality Review in 2015.

The impairment charge to customer loans ratio has improved during the period under review, driven by CYBG Group's tightened risk appetite, the improving macro-economic environment for CYBG Group's customers and the repayments and attrition on the business portfolio which, in addition to mortgage growth, has changed the shape of CYBG Group's balance sheet. The tightening of risk appetite initially occurred following the global financial crisis in 2008 and has been sustained through the period under review with a lack of appetite for CRE lending following the CRE portfolio disposal in October 2012. The risk appetite remains under regular review as the environment improves and targeted portfolio growth is supported. The asset quality of unsecured personal lending, in particular, improved partly due to improvement in the client risk profile from the launch of the direct personal lending proposition.

CYBG Group has, using a financial model whose key inputs are cycle neutral probability of default ("**PD**"), loss given default ("**LGD**") and exposure at default ("**EAD**"), estimated the through the cycle ("**TTC**") expected loss on its non defaulted customer loan portfolio as at 30 September 2015 over a one year time horizon at approximately 30 basis points. The PD/LGD/EAD model inputs are based on internal models that have not been subject to any external validation process. No assurance can be given that future losses on, or future impairment charges with respect to, CYBG Group's total customer loan portfolio, which changes over time and which includes non-defaulted and defaulted customers loans, will not exceed the TTC expected loss set forth herein.

The following tables set out CYBG Group's impairment provisioning on customer loans as at each of the dates indicated.

CYBG Group impairment provisioning on customer loans as at 30 September 2015:

	Customer loans	Impaired loans	Impaired loans as a % of closing advances	Total impairment provisions(1)	Specific impairment provisions as a % of impaired loans(2)
		(£m)	(%)	(£m)	(%)
At 30 September 2015					
Mortgages	20,504	66	0.32%	39	33.3%
Business lending(3)	7,061	197	2.79%	206	41.1%
Unsecured personal lending	1,218	-	-	23	-
Total gross lending	**28,783**	**263**	**0.91%**	**268**	**39.2%**
Impairment provisions	268				
Total	**28,515**				

(1) Impairment provisions include the specific and collective provision balance held for customer loans.

(2) Specific impairment provisions as a percentage of impaired loans is defined as specific impairment provisions held on credit exposures divided by impaired loans at a given date.

(3) Business lending comprises business loans and advances to customers and other financial assets at fair value.

	Customer loans	Impaired loans	Impaired loans as a % of closing advances	Total impairment provisions[1]	Specific impairment provisions as a % of impaired loans[2]
	(£m)		(%)	(£m)	(%)
At 30 September 2014					
Mortgages	18,444	64	0.35%	27	25.0%
Business lending[3]	7,970	311	3.90%	261	39.9%
Unsecured personal lending	1,282	-	-	31	
Total gross lending	**27,696**	**375**	**1.35%**	**319**	**37.3%**
Impairment provisions	319				
Total	**27,377**				

(1) Impairment provisions include the specific and collective provision balance held for customer loans.

(2) Specific impairment provisions as a percentage of impaired loans is defined as specific impairment provisions held on credit exposures divided by impaired loans at a given date.

(3) Business lending comprises business loans and advances to customers and other financial assets at fair value.

	Customer loans	Impaired loans	Impaired loans as a % of closing advances	Total impairment provisions[1]	Specific impairment provisions as a % of impaired loans[2]
	(£m)		(%)	(£m)	(%)
At 30 September 2013					
Mortgages	16,148	76	0.47%	31	23.7%
Business lending[3]	9,002	350	3.89%	298	39.9%
Unsecured personal lending	1,274	-	-	37	-
Total gross lending	**26,424**	**426**	**1.61%**	**366**	**36.9%**
Impairment provisions	366				
Total	**26,058**				

(1) Impairment provisions include the specific and collective provision balance held for customer loans.

(2) Specific impairment provisions as a percentage of impaired loans is defined as specific impairment provisions held on credit exposures divided by impaired loans at a given date.

(3) Business lending comprises business loans and advances to customers and other financial assets at fair value.

	Customer loans	Impaired loans	Impaired loans as a % of closing advances	Total impairment provisions[2]	Specific impairment provisions as a % of impaired loans[3]
	(£m)		(%)	(£m)	(%)
At 30 September 2012					
Mortgages	15,369	71	0.46%	27	19.7%
Business lending[1][4]	10,896	381	3.50%	310	32.3%
Unsecured personal lending	1,310	-	-	40	-
Total gross lending[1]	**27,575**	**452**	**1.64%**	**377**	**30.3%**
Impairment provisions[1]	377				
Total[1]	**27,198**				

(1) Business lending excludes £5,652 million of total customer loans, £564 million of impairment provisions on customer loans and £842 million of impaired loans in respect of the disposed CRE portfolio at 30 September 2012.

(2) Impairment provisions include the specific and collective provision balance held for customer loans.

(3) Specific impairment provisions as a percentage of impaired loans is defined as specific impairment provisions held on credit exposures divided by impaired loans at a given date.

(4) Business lending comprises business loans and advances to customers and other financial assets at fair value.

During the period under review, the level of impaired loans and impaired loans as a percentage of closing balances reduced. The reduction in the level of impaired loans is due to the reasons discussed above. Specific impairment provisions as a percentage of impaired loans increased by 6.6 percentage points in the year ended 30 September 2013 and thereafter have been broadly stable.

8.1.1 Non-accrual loans

Loans accrue interest as long as customers continue to meet the original repayment profile or an acceptable alternative repayment profile. Once an issue with repayment has been identified, the loan will be impaired, interest will stop being taken to the income statement and the level of provision required will be determined based upon the present value of expected future cash flows, including the sale proceeds from any security held. Impaired assets consist of business lending and secured personal lending where current circumstances indicate that losses of loan principal and/or interest may be incurred. Unsecured personal lending is written-off once it becomes 180 days past due and is never designated as impaired. During the period under review, the sustained low interest rates, improving macro-economic conditions, management actions to reduce exposure to higher risk sectors and customers deleveraging have contributed to the reduction in the level of non-accrual loans. The following table sets out CYBG Group's non-accrual loans to customers as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Non-accrual loans				
Amortising loans:				
Loans and advances to customers	238	319	363	343
Specific provisions	(92)	(110)	(134)	(126)
	146	209	229	217
Loans held at fair value:				
Loans and advances to customers	25	56	63	109
Specific provisions	(11)	(30)	(23)	(11)
	14	26	40	98
Total	**160**	**235**	**269**	**315**

8.2 Forbearance

Exposures classified as forborne and which are non-performing when, or after, customers were granted forbearance cannot exit non-performing status for a minimum of twelve months from the date forbearance was granted, and cannot exit forbearance status for a further two years from the date of returning to performing status (three years in total). For additional information, see the Audited Annual Reports.

8.2.1 Retail Forbearance

Forbearance may be extended to retail customers (primarily on mortgages) when they have been identified as experiencing, or are about to experience, difficulties in meeting their financial commitments to CYBG Group. CYBG Group classifies the forbearance measures offered to retail customers into the following categories: formal arrangements, temporary arrangements, interest-only conversion, term extension, other and legal. Where a customer is subject to more than one forbearance measure, the customer is categorised into the primary method of forbearance. For a description of these forbearance categories, see the Audited Annual Reports.

The following tables set out CYBG Group's forborne mortgages as at each of the dates indicated.

As at 30 September 2015 – Retail Portfolio – Mortgage Lending

	Total loans and advances subject to forbearance measures			**Impairment allowance on loans and advances subject to forbearance measures**	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		(£m)	*(%)*	*(£m)*	*(%)*
Formal arrangements	2,115	179	0.87	4.0	2.22
Temporary arrangements	985	99	0.48	1.5	1.57
Interest-only conversion	88	12	0.06	-	0.15
Term extension	131	11	0.06	0.1	0.84
Other	11	1	0.01	-	0.39
Legal	216	23	0.11	1.5	6.56
	3,546	325	1.59	7.1	2.19

As at 30 September 2014 – Retail Portfolio – Mortgage Lending

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		(£m)	*(%)*	*(£m)*	*(%)*
Formal arrangements	2,282	189	1.03	3.7	1.97
Temporary arrangements	581	49	0.27	1.1	2.24
Interest-only conversion	40	7	0.04	-	0.02
Term extension	72	6	0.03	-	0.03
Other	6	1	-	-	0.61
Legal	221	25	0.14	2.0	7.90
	3,202	**277**	**1.51**	**6.8**	**2.46**

CYBG Group currently exercises limited forbearance strategies in relation to other types of consumer credit, including current accounts, unsecured loans and credit cards. Forbearance strategies implemented on consumer credit are of low financial significance in the context of CYBG Group's overall lending operations. CYBG Group reports consumer credit forbearance at the exposure level.

8.2.2 Non-retail Forbearance

SBS is a division of risk management, with the responsibility for managing loans identified as being at risk of default with the aim of assisting the customer with payment options, which may include forbearance if this is in the customer's best interests. SBS is the only division that can explicitly grant non-retail forbearance. See Part 2 of this Annexure G: "*Information on CYBG Group—SME Banking—Strategic Business Services*" for further information.

The following tables set out the total number of CYBG Group's non-retail forbearance arrangements in place and the loan balances and impairment provisions associated with those arrangements as at each of the dates indicated.

As at 30 September 2015 – Non-retail Portfolio

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		(£m)	*(%)*	*(£m)*	*(%)*
Term extension	491	429	6.00	42.9	10.02
Deferral of contracted capital repayments	166	152	2.12	18.6	12.23
Reduction in contracted interest rate	17	29	0.40	6.8	23.64
Alternative forms of payment	3	16	0.22	4.5	28.76
Debt forgiveness	24	55	0.78	14.2	25.61
Refinancing	33	61	0.86	4.7	7.56
Covenant breach/waiver	62	166	2.32	6.0	3.64
	796	**908**	**12.70**	**97.7**	**10.77**

As at 30 September 2014 – Non-retail Portfolio

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		(£m)	*(%)*	*(£m)*	*(%)*
Term extension	573	466	5.76	51.5	11.03
Deferral of contracted capital repayments	192	264	3.26	39.1	14.83
Reduction in contracted interest rate	23	17	0.20	3.4	20.34
Alternative forms of payment	11	27	0.33	12.7	47.07
Debt forgiveness	43	82	1.02	19.5	23.64
Refinancing	49	48	0.60	2.3	4.81
Covenant breach/waiver	75	297	3.67	7.6	2.55
	966	**1,201**	**14.84**	**136.1**	**11.32**

8.3 Mortgage Portfolio Composition

8.3.1 Mortgages – composition by product type

The table below sets out the composition of CYBG Group's mortgages by product type as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Owner-occupied:				
Capital repayment	9,919	9,330	8,069	7,264
Interest-only	4,167	4,201	4,575	5,001
	14,086	13,531	12,644	12,265
Buy-to-let:				
Capital repayment	755	706	572	506
Interest-only	5,663	4,207	2,932	2,598
	6,418	4,913	3,504	3,104
Total	**20,504**	**18,444**	**16,148**	**15,369**

Owner-occupied mortgages increased by 3.1 per cent. as at 30 September 2013 compared to 30 September 2012, by 7.0 per cent. as at 30 September 2014 compared to 30 September 2013 and by 4.1 per cent. as at 30 September 2015 compared to 30 September 2014. Buy-to-let mortgages increased from a lower level of exposure at a faster rate, by 12.9 per cent. as at 30 September 2013 compared to 30 September 2012, by 40.2 per cent. as at 30 September 2014 compared to 30 September 2013 and by 30.6 per cent. as at 30 September 2015 compared to 30 September 2014. The increase in buy-to-let mortgages was mainly driven by increased sales through the intermediary channel.

For the year ended 30 September 2015, the average yield for the buy-to-let mortgage portfolio was 3.60 per cent. and the average yield for the owner-occupied mortgage portfolio was 3.21 per cent.

Gross new mortgage lending in CYBG Group's owner-occupied mortgage portfolio was £2,498 million, £2,242 million, £3,092 million and £2,828 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. Of total gross new mortgage lending in the owner-occupied mortgage book, £626 million was interest-only and £2,202 million was capital repayment for the year ended 30 September 2015. Of total gross new mortgage lending in the buy-to-let portfolio, £1,924 million was interest-only and £165 million was capital repayment for the year ended 30 September 2015.

8.3.2 Mortgages – composition by repayment type

The table below sets out the composition of CYBG Group's mortgages by repayment type as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Capital repayment	10,674	10,036	8,641	7,770
Interest-only	9,830	8,408	7,507	7,599
Total	**20,504**	**18,444**	**16,148**	**15,369**

CYBG Group's portfolio of capital repayment mortgages increased by 11.2 per cent. as at 30 September 2013 compared to 30 September 2012, by 16.1 per cent. as at 30 September 2014 compared to 30 September 2013 and by 6.4 per cent. as at 30 September 2015 compared to 30 September 2014, reflecting CYBG Group's strategy to grow the retail mortgage book. Interest-only mortgage lending slightly decreased in the year ended 30 September 2013, by 1.2 per cent., mainly due to the run-off of interest-only mortgages for retail customers, and increased by 12.0 per cent. at 30 September 2014 compared to 30 September 2013 and by 16.9 per cent. at 30 September 2015 compared to 30 September 2014, mainly due to growth in buy to let mortgages where interest-only represents the predominant method of borrowing. Owner-occupied interest-only mortgages have reduced during the period under review.

8.3.3 Mortgages – composition by region

The table below sets out the composition of CYBG Group's mortgages by region as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
South of England[(1)]	9,842	7,849	6,367	5,662
North of England	4,921	4,878	4,723	4,664
Scotland	3,486	3,257	3,135	3,122
Midlands (England)	1,435	1,291	1,185	1,290
Other UK[(2)]	820	1,169	738	631
Total	**20,504**	**18,444**	**16,148**	**15,369**

(1) Includes mortgage lending in Greater London. As at 30 September 2015, mortgage lending in Greater London was 28 per cent. of total mortgage lending.

(2) Other UK represents Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred.

CYBG Group has a diversified portfolio of secured exposures across the UK with mortgage lending predominantly in the South of England, the North of England and Scotland. Since 2012, CYBG Group has focussed on mortgage growth, particularly in London and the South of England. This has resulted in an increase in the proportion of CYBG Group's mortgage lending in London and the rest of the South of England, while mortgage lending in the North of England and Scotland has also continued to increase in absolute terms.

As at 30 September 2015, 46 per cent. of CYBG Group's intermediary mortgage lending was in London and a further 30 per cent. in the rest of the South of England, reflecting CYBG Group's growth strategy for mortgages. The remainder of the intermediary portfolio by region was 8 per cent., 6 per cent., 5 per cent. and 5 per cent. in the North of England, Scotland, the Midlands (England) and elsewhere in the UK, respectively.

8.3.4 Loan to value ratios across the mortgage portfolios

The average loan-to-value ratio of retail mortgage lending, coupled with the relationship of the debt to customers' income, is key to the credit quality of these loans. The tables below set out the indexed loan-to-value analysis of CYBG Group's retail mortgages as at the dates indicated.

At 30 September 2015	Owner-occupied	Buy-to-let	Total
Less than 50%	39	24	34
50% to 75%	43	69	51
76% to 80%	7	2	5
81% to 85%	5	1	4
86% to 90%	2	1	2
91% to 95%	1	0	1
96% to 100%	0	0	0
Greater than 100%	0	0	0
Unknown(1)	3	3	3
Total	**100**	**100**	**100**
Average loan-to-value: Stock of mortgages (Indexed)(2)	54.5%	57.2%	55.3%
Stock of mortgages (At origination)(3)	64.7%	68.4%	65.5%
New lending(4)	70.4%	67.7%	69.7%

(1) Represents portion of portfolio where data is currently unavailable.

(2) Average indexed loan to value is weighted by balance.

(3) Average loan to value at origination is based on LTV calculation without any weighting.

(4) Average new lending loan to value is based on LTV calculation without any weighting and is based on one month's approvals (September) only.

At 30 September 2014	Owner-occupied	Buy-to-let	Total
Less than 50%	32	15	27
50% to 75%	42	69	49
76% to 80%	6	4	6
81% to 85%	6	2	5
86% to 90%	4	2	4
91% to 95%	2	1	1
96% to 100%	1	0	1
Greater than 100%	1	0	1
Unknown(1)	6	7	6
Total	**100**	**100**	**100**
Average loan-to-value: Stock of mortgages (Indexed)(2)	57.8%	61.5%	58.8%
Stock of mortgages (At origination)(3)	63.5%	68.2%	64.4%
New lending(4)	70.1%	69.8%	70.0%

(1) Represents portion of portfolio where data is currently unavailable.

(2) Average indexed loan to value is weighted by balance.

(3) Average loan to value at origination is based on LTV calculation without any weighting.

(4) Average new lending loan to value is based on LTV calculation without any weighting and is based on one month's approvals (September) only.

Annexure G: Part Five
CYBG Group operating and financial review

At 30 September 2013	Owner-occupied	Buy-to-let	Total
Less than 50%	27	12	24
50% to 75%	41	59	45
76% to 80%	7	8	8
81% to 85%	6	6	6
86% to 90%	6	5	5
91% to 95%	4	3	4
96% to 100%	2	2	2
Greater than 100%	3	1	2
Unknown(1)	4	4	4
Total	**100**	**100**	**100**
Average loan-to-value: Stock of mortgages (Indexed)(2)	62.6%	67.0%	63.5%
Stock of mortgages (At origination)(3)	62.3%	67.7%	63.2%
New lending(4)	63.3%	69.9%	65.2%

(1) Represents portion of portfolio where data is currently unavailable.

(2) Average indexed loan to value is weighted by balance.

(3) Average loan to value at origination is based on LTV calculation without any weighting.

(4) Average new lending loan to value is based on LTV calculation without any weighting and is based on one month's approvals (September) only.

At 30 September 2012	Owner-occupied	Buy-to-let	Total
Less than 50%	24	11	21
50% to 75%	37	49	40
76% to 80%	8	12	9
81% to 85%	6	9	7
86% to 90%	6	7	6
91% to 95%	5	5	5
96% to 100%	4	3	4
Greater than 100%	5	2	4
Unknown(1)	5	2	4
Total	**100**	**100**	**100**
Average loan-to-value: Stock of mortgages (Indexed)(2)	65.5%	70.5%	66.6%
Stock of mortgages (At origination)(3)	62.0%	67.5%	62.8%
New lending(4)	65.3%	66.1%	65.4%

(1) Represents portion of portfolio where data is currently unavailable.

(2) Average indexed loan to value is weighted by balance.

(3) Average loan to value at origination is based on LTV calculation without any weighting.

(4) Average new lending loan to value is based on LTV calculation without any weighting and is based on one month's approvals (September) only.

During the period under review, the average indexed loan to value of CYBG Group's mortgage portfolio has reduced to 55.3 per cent. as at 30 September 2015, compared to 58.8 per cent. as at 30 September 2014, 63.5 per cent. as at September 2013 and 66.6 per cent. as at September 2012. 4 per cent., 2 per cent, 1 per cent. and nil per cent. of CYBG Group's retail mortgage portfolio had an LTV over 100 per cent. as at 30 September 2012, 2013, 2014 and 2015, respectively, and 13 per cent., 8 per cent., 3 per cent. and 1 per cent. had an LTV over 90 per cent. as at 30 September 2012, 2013, 2014 and 2015, respectively.

The percentage of the front book mortgage portfolio with a loan-to-value ratio below 80 per cent. was 76 per cent. and 77 per cent. for the years ended 30 September 2015 and 2014, respectively.

The intermediary and proprietary channels display similar LTV profiles, with the majority of balances having an LTV ratio under 80 per cent. The table below sets out the indexed loan-to-value analysis of CYBG Group's retail mortgages originated through the intermediary and proprietary channels as at 30 September 2015. Average indexed loan-to-value is weighted by balance.

At 30 September 2015	Intermediary	Proprietary	Total
Less than 50%	31	38	34
50% to 75%	59	42	51
76% to 80%	3	7	5
81% to 85%	3	6	4
86% to 90%	1	2	2
91% to 95%	0	1	1
96% to 100%	0	0	0
Greater than 100%	0	0	0
Unknown[1]	3	4	3
Total	**100**	**100**	**100**

(1) Represents portion of portfolio where data is currently unavailable.

As at 30 September 2015, approximately 95 per cent. of CYBG Group's intermediary mortgages and approximately 97 per cent. of CYBG Group's buy-to-let mortgages had a loan-to-value ratio of less than 80 per cent (percentages are calculated on the balance excluding the unknown amounts).

8.3.5 Mortgages – loan to value ratios of gross new mortgage lending

For the year ended 30 September 2015, 10 per cent. of CYBG Group's gross new mortgage lending had an LTV ratio of less than or equal to 50 per cent., 68 per cent. had an LTV ratio of 50 to 80 per cent., 18 per cent. had an LTV ratio of 80 to 90 per cent. and 4 per cent. had an LTV ratio of greater than 90 per cent. (percentages are calculated on the balance excluding the unknown amounts).

8.3.6 Mortgages – greater than three months in arrears (excluding gross impaired assets)

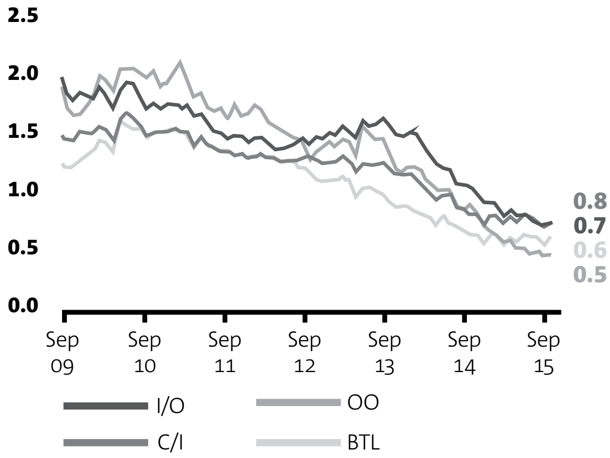
The tables below set out a breakdown of CYBG Group's mortgages greater than three months in arrears by type and by number of cases, total mortgage accounts, value of debt and total mortgage balances as at the dates indicated. This data shows a relative improvement in the key arrears metrics during the period under review, reflecting the improved economic environment, continued low interest rates, portfolio growth which may not yet be fully seasoned and prudent underwriting standards.

	Number of Cases				Total mortgage accounts			
	As at 30 September				As at 30 September			
	2015	2014	2013	2012	2015	2014	2013	2012
		(#)				*(%)*		
Owner-occupied	1,038	1,074	1,213	1,393	0.80%	0.83%	0.96%	1.10%
Buy-to-let	163	212	210	189	0.43%	0.63%	0.74%	0.70%
Total	**1,201**	**1,286**	**1,423**	**1,582**	**0.72%**	**0.79%**	**0.92%**	**1.03%**

	Value of debt				Total mortgage balances			
	As at 30 September				As at 30 September			
	2015	2014	2013	2012	2015	2014	2013	2012
		(£m)				*(%)*		
Owner-occupied	81	84	107	112	0.57%	0.62%	0.85%	0.91%
Buy-to-let	17	25	24	21	0.27%	0.50%	0.69%	0.67%
Total	**98**	**109**	**131**	**133**	**0.48%**	**0.59%**	**0.81%**	**0.87%**

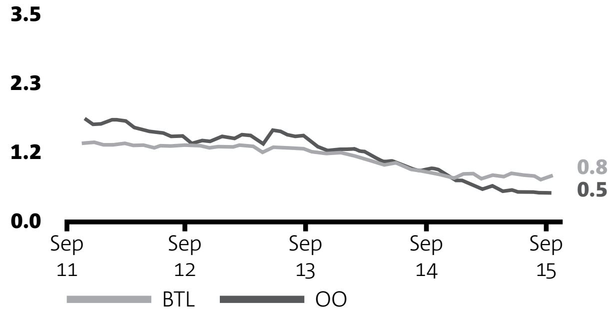
8.3.7 Mortgages – composition by credit quality

The graph below sets out CYBG Group's total mortgage loans more than 90 days past due plus impaired loans as a percentage of the total mortgage book for the period from September 2009 to September 2015 for the following categories: buy-to-let (BTL); owner-occupied (OO); interest-only (I/O); and capital-interest (C/I).

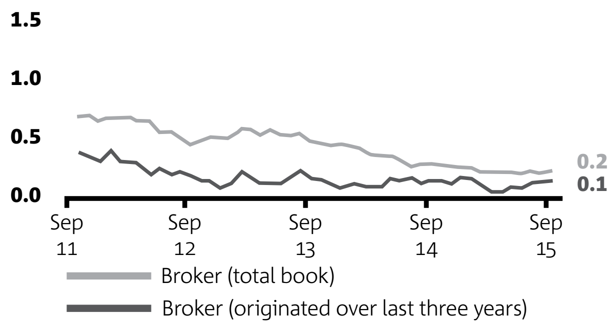


Between 2013 and 2015, the percentage of mortgage loans in default declined, reflecting improved asset quality in the mortgage portfolio across product and interest rate types. The improvement in asset quality was mainly driven by the macro-economic environment and CYBG Group's active risk management, including its manual underwriting processes, specifically in the buy-to-let mortgage book and through the intermediary channel. CYBG Group's internal risk limit for new, owner-occupied interest-only mortgage lending is set at a maximum of 25 per cent. of total gross new owner-occupied mortgage lending and is subject to change. CYBG Group's exposure to buy-to-let mortgage lending is governed by the Board approved risk appetite statement. Although buy-to-let lending is currently limited to 35 per cent. of total mortgage stock, there is no internal risk limit for buy-to-let interest-only mortgage lending, which is primarily an interest-only product offering.

The following graph sets out buy-to-let and owner-occupied mortgage loans more than 90 days past due plus impaired loans as a percentage of the total intermediary mortgage book for the period from September 2011 to September 2015 on a monthly basis. The credit quality of the buy-to-let and owner-occupied loan portfolios has improved since September 2011. The quality of CYBG Group's buy-to-let mortgage portfolio improved at a faster rate than the owner-occupied mortgage portfolio during this period. The buy-to-let portfolio experienced a 10 basis point reduction in impairments compared to the first half of the 2015 financial year.



The following graph sets out the percentage of mortgages originated through the intermediary channel that were more than 90 days past due plus impaired loans from September 2011 to September 2015 for the total book and for mortgages originated over the last three years on a rolling basis. This data is presented on a monthly basis.



8.3.8 Gross new intermediary mortgage lending – composition by product type

The following table sets out the composition of gross new mortgage lending through the intermediary channel by product type for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Buy-to-let				
Capital repayment	123	193	109	64
Interest-only	1,829	1,602	585	335
	1,952	1,795	694	399
Owner-occupied				
Capital repayment	1,092	1,346	1,018	843
Interest-only	545	465	355	699
	1,637	1,811	1,373	1,542
Unknown[1]	69	27	102	120
Total	**3,658**	**3,632**	**2,169**	**2,061**

(1) Represents portion of portfolio where data is currently unavailable.

CYBG Group's growth strategy for mortgages includes increasing buy-to-let mortgages where the target segment comprises higher net worth customers. With respect to buy-to-let mortgages, CYBG Group conducts a full credit assessment based on the customer's net income and expenditure, rather than focusing solely on rental yield. Competition in the market has shown signs of margin compression on lower LTV mortgages, which has in turn led to a reduced volume of owner-occupied written loans in the year ended 30 September 2015.

8.3.9 Intermediary mortgage lending – loan to value ratios of gross new mortgage lending

The following table sets out the indexed loan-to-value breakdown of CYBG Group's gross new mortgage lending through the intermediary channel for the years indicated. CYBG Group's LTV profile is primarily in the conservative 50 per cent. to 80 per cent. range.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Less than 50%	452	452	323	311
50% to 80%	2,522	2,272	1,245	1,219
80% to 90%	310	279	133	135
90% to 100%	15	25	8	18
Unknown[1]	359	604	460	378
Total	**3,658**	**3,632**	**2,169**	**2,061**

(1) Represents portion of portfolio where data is currently unavailable.

CYBG Group has taken a controlled approach with higher LTV lending. Given wider movements in the market, appetite for higher LTV lending has expanded slightly. The proprietary channel supports CYBG Group's "we care about here" campaign. Within the proprietary channel, a primary objective has always been to help first time buyers, who tend to have higher LTV mortgages, enter the property market. This has resulted in CYBG Group's continued support for customers with higher LTV mortgages through proprietary channels.

8.3.10 Mortgages – Loan-to-income ratios

The following table sets out the loan-to-income ratios at origination and weighted by balance for customers of CYBG Group's intermediary mortgage lending and buy-to-let mortgage lending for the year ended 30 September 2015.

Year ended 30 September 2015	**Intermediary**	**Buy-to-let**
	%	
<=2	17	26
2-3	25	24
3-4	27	19
4-4.5	11	6
>4.5	11	12
Unknown[1]	9	13
Total	**100**	**100**

(1) Represents portion of portfolio where data is currently unavailable.

The loan to income ratio for any particular period represents the distribution of the loan to income ratios for all mortgages disbursed in such period, where the loan to income ratio for any particular mortgage represents the ratio of the amount of credit requested under the relevant mortgage contract to the gross annual income, before tax or other deductions, of the customer(s) of such mortgage. Gross annual income can include allowable incomes as per the Responsible Lending Practice framework.

As at 30 September 2015, approximately 87 per cent. of CYBG Group's intermediary mortgages and approximately 86 per cent. of CYBG Group's buy-to-let mortgages had a loan-to-income ratio of less than 4.5 times income (percentages are calculated on the balance excluding the unknown amounts).

The following table sets out the loan-to-income ratios at origination and weighted by balance for customers of CYBG Group's total gross new mortgage lending for the year ended 30 September 2015.

Year ended 30 September 2015	Total gross new mortgage lending
	%
<=2	20
2-3	29
3-4	29
4-4.5	11
>4.5	8
Unknown[1]	3
Total	**100**

(1) Represents portion of portfolio where data is currently unavailable.

For the year ended 30 September 2015, 8 per cent. of CYBG Group's gross new mortgage lending had a loan-to-income ratio greater than 4.5 times income. At this level, the loan-to-value ratio of gross new mortgage lending is capped to ensure there is no over-exposure to high loan-to-income and loan-to-value lending.

The average mortgage loan-to-income ratio at origination without any weighting for gross new mortgage lending was 2.65 times income and 2.66 times income for the years ended 30 September 2014 and 2015, respectively. The average loan-to-income ratio is based on residential approvals that have a valid loan-to-income ratio between 13 September 2013 and 14 August 2014 inclusive and 13 September 2014 and 14 August 2015 inclusive.

8.3.11 Buy-to-let mortgage lending – Rent cover

The following table sets out the rent cover at origination for CYBG Group's buy-to-let mortgage portfolio for the year ended 30 September 2015.

Year ended 30 September 2015	Rent cover[1]
	%
<=75%	2
75-100%	4
100-125%	8
125-150%	19
150-164%	67
Total	**100**

(1) Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements. Rent cover is based on initial payment and any repayment.

The rental cover requirement for buy-to-let mortgages was 125 per cent. as at 30 September 2015, based on a stressed interest rate of 7.45 per cent.

8.4 Business lending portfolio composition

8.4.1 Business lending – composition by industry sector

The following table sets out the composition of CYBG Group's business lending portfolio by industry sector as at the dates indicated. The business lending portfolio excludes the legacy CRE portfolio, which was transferred to NAB on 5 October 2012 and included in assets held for sale as at 30 September 2012.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Agriculture (soft commodities)[1]	1,694	1,766	1,807	1,816
Retail & wholesale trade	810	981	1,039	1,211
Business services	735	831	960	1,241
Government, health & education	772	848	908	1,077
Manufacturing	679	788	887	1,146
Hospitality	601	745	941	1,218
Commercial real estate	504	562	661	597
Entertainment & personal services	317	400	476	449
Transport & storage	279	320	356	425
Construction	194	193	210	398
Other[2]	476	536	757	1,318
Total	**7,061**	**7,970**	**9,002**	**10,896**

For relevant footnotes please see following page.

Continued

(1) Agriculture (soft commodities) comprises arable, beef or sheep, dairy, agricultural services and other.

(2) Other includes utilities, post and telecommunications, resources and finance. As at 30 September 2015, the outstanding balances of utilities, post and telecommunications was £200 million, resources was £101 million and finance was £75 million.

As at 30 September 2015, the business lending portfolio comprised 24.5 per cent. of CYBG Group's total customer loans. The portfolio is comprised of lending to businesses and has broad representation across industry sectors. Agriculture (soft commodities) represents the largest exposure by industry sector reflecting the historical expertise of CYBG Group in agricultural lending and represented 24 per cent. of CYBG Group's business lending as at 30 September 2015. Specific impairment charges for the agriculture sector were £2 million, £1 million, £1 million and £4 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. The composition of the book has changed during the period under review due to reduced business lending activity. There has been selective growth within the portfolio, which is subject to a value cap, with concentration expected to reduce as other SME lending grows.

CYBG Group's primary repayment source for business lending has always been from cash flow generation through the trading business. Secondary repayment vehicles include tangible assets such as property and land. Moving forward, CYBG Group intends to focus on growing SME lending, including lending into growth sectors such as renewables and near shore marine. CYBG Group also expects to continue running off lower margin business loans.

For the year ended 30 September 2015, total business facilities accepted and available to CYBG Group's customers by sector comprised the following: £304 million (Agriculture), £296 million (Retail & wholesale trade), £310 million (Business services), £232 million (Government, health & education), £248 million (Manufacturing), £83 million (Finance), £72 million (CRE including housing associations), £59 million (Hospitality) and £331 million (other comprising transport & storage, utilities, post & telecommunications, construction and resources and entertainment and personal services).

8.4.2 Business lending – eCRS profile

The following table sets out CYBG Group's business lending portfolio split by eCRS rating as a percentage of the total as at the dates indicated. These ratings are based on CYBG Group's internal ratings. This table shows an improvement in the lending quality at the dates indicated. As at 30 September 2015, 38 per cent. of the portfolio was categorised as investment grade and 59 per cent. of the portfolio categorised as sub-investment grade.

	As at 30 September			
	2015	**2014**	**2013**	**2012(1)**
		%		
Investment Grade				
1 to 5	8	8	8	8
6 to 11	30	30	25	26
	38	38	33	34
Sub-Investment Grade				
12 to 16	33	32	35	37
17 to 20	20	22	23	21
21 to 23	6	3	4	4
	59	57	62	62
Default	3	5	5	4
98 and 99	3	5	5	4
Total	**100**	**100**	**100**	**100**

(1) As at 30 September 2012, the eCRS profile of the business lending portfolio including the legacy CRE portfolio was 28 per cent (investment grade), 63 per cent (sub-investment grade) and 9 per cent (default).

8.4.3 Business lending – security status

The following table sets out the composition of the business lending portfolio by collateral cover as at the dates indicated excluding default (eCRS 98 and 99). This table also excludes the legacy CRE portfolio, which was transferred to NAB on 5 October 2012 and included in assets held for sale as at 30 September 2012.

	As at 30 September			
	2015	**2014**	**2013**	**2012(2)**
		%		
A-D (fully secured)(1)	47	45	45	43
E-G (partially secured)	22	21	23	24
H-J (largely/fully unsecured)	31	34	32	33
Total	**100**	**100**	**100**	**100**

(1) Fully secured refers to the value of security (the "**bank value**") held as a percentage of facilities that are secured that is equal or greater than 100 per cent. Bank value is the value extended after deduction of a margin as contingency against realisation under adverse conditions.

(2) As at 30 September 2012, collateral cover for the business lending portfolio including the legacy CRE portfolio was 47 per cent. (fully secured), 28 per cent. (partially secured) and 25 per cent. (largely/fully unsecured).

The proportion of secured and unsecured business lending as a percentage of the overall business lending portfolio have remained relatively stable during the period under review. In line with CYBG Group's strategy, the size of the business lending portfolio has reduced evenly across all types of lending.

8.4.4 Business lending – credit risk

The following table sets out information on the business lending portfolio by sector as at 30 September 2015.

Sector of Portfolio	% Total Business Portfolio	Average eCRS	% of Impaired: % of Industry Sector	% of Impaired: % Total Impaired Portfolio	% of Watch: % of Industry Sector	% of Watch: % Total Watch Portfolio	Business Impairment Charge (£m)[2]
Agriculture (soft commodities)	24	11.66	1	7	13	29	4
Retail & wholesale trade	12	14.33	2	8	9	10	4
Government, health & education	11	14.16	3	10	14	14	1
Business services	11	13.48	2	8	6	6	5
Manufacturing	10	14.29	1	2	13	12	0
Hospitality	9	16.40	12	38	21	17	16
Commercial real estate	7	12.52	5	13	9	6	3[3]
Transport and storage	4	14.64	2	3	6	2	0
Resources	1	14.71	1	1	1	0	(1)
Other[1]	11	12.72	2	10	4	4	5
Total	**100**	**13.45**	**3**	**100**	**11**	**100**	**37**

(1) Other includes entertainment and personal services, utilities, post and telecommunications, construction and finance sectors.
(2) Business impairment charge is defined as impairment charge on business loans plus other financial assets at fair value.
(3) Impairment charge on CRE relates to a trading business which retained a property element within a broader exposure.

During the period under review, CYBG Group has managed its business portfolio to be well diversified in terms of sector exposure. The Agriculture sector, in particular, has historically comprised a significant proportion of the portfolio given CYBG Group's extensive experience in this industry and the low risk nature of these loans. CYBG Group's long established expertise in the Agriculture sector in combination with strong property values has resulted in a low level of impaired loans within the Agricultural sector during the period under review. The following table sets out the composition of performing, watch and default agricultural loans as a percentage of total agriculture loans as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		%		
Performing	85	88	89	94
Watch	13	10	9	5
Default	2	2	1	1
Total	**100**	**100**	**100**	**100**

Whilst decreasing during the period under review, the hospitality sector remains the largest component of the impaired portfolio. The impairment charge for hospitality as at 30 September 2015 reflects difficulties experienced by a number of customers following the global financial crisis.

9. Interest Rate Risk

CYBG Group is exposed to interest rate risk on assets including cash and balances with central banks, available for sale investments, customer loans and derivative financial instruments and interest rate risk on liabilities including customer deposits, due to other banks, derivative financial instruments and bonds and notes. CYBG Group manages interest rate risk from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with the interest rate risk in the banking book policy. Risk measurement techniques include: Value at Risk ("**VaR**"), Earnings at Risk ("**EaR**"), interest rate risk stress testing, repricing analysis, cash flow analysis, and scenario analysis. The table below sets out the value at risk and earnings at risk measurements. For information on the methodology of CYBG Group's risk measurement techniques, including VaR and EaR, see the Audited Annual Reports.

Variable rate assets and liabilities can be linked to either LIBOR or the Bank of England base rate. At 30 September 2015, CYBG Group had more base rate assets than base rate liabilities and this surplus is typically funded at LIBOR. As a result, CYBG Group has exposure to a movement in the spread between base rate and LIBOR ("**basis risk**"). This exposure is managed through the execution of two swaps, being pay fixed rate versus the sterling overnight index average and receive fixed rate versus LIBOR.

CYBG Group's strategy to manage fixed interest rate risk and basis risk results in a net variable rate interest earning position for CYBG Group, which is funded by CYBG Group's equity and low-interest-bearing and non-interest-bearing liabilities. In order to restrict the volatility that arises from this position, CYBG Group enters into a Structural Hedge to fix the rate of return. This Structural Hedge takes the form of a rolling series of monthly hedges (being either on-balance sheet hedges or external interest rate swaps) to fix the interest rate return for assets funded by equity for two years and for assets funded by low-interest-bearing and non-interest-bearing liabilities for five years. As at 30 September 2015, approximately £7.2 billion of non- or low-interest bearing liabilities and £3.4 billion of equity was covered by the Structural Hedge. As at 30 September 2015, assuming there was an increase of 100 basis points to the relevant rate (rolling 60 month average of the 5 year swap rate for low-interest-bearing and non-interest-bearing liabilities and the rolling 24 month average of the 2 year swap rate for capital), then CYBG Group estimates that there would be £106 million of net interest benefit realised as a saving in funding costs- all other things being equal, after taking the full impact through the duration of the hedge. The rates on receiving fixed hedges have become significantly lower during the period under review compared with the rates prior to 2012 as a result of the prolonged low interest rate environment.

	Value at risk				**Earnings at risk**			
	As at 30 September				**As at 30 September**			
	2015	**2014**	**2013**	**2012**	**2015**	**2014**	**2013**	**2012**
	£m				*£m*			
As at 30 September	27	36	30	31	9	2	7	4
Average value during the period	25	37	32	37	5	3	9	6
Minimum value during the period	19	32	29	31	2	2	3	12
Maximum value during the period	29	48	35	45	9	8	20	13

9.1 Management of Interest Rate Risk in the Banking Book

The primary objective of CYBG Group's interest rate risk management strategy is to eliminate a substantial proportion of the volatility in the banking book that arises from changes in market interest rates, such as LIBOR and the Bank of England base rate. CYBG Group does not carry out trading in this respect.

CYBG Group monitors the overall fixed rate asset and liability position, to determine the natural offsets that exist within the book and calculate the "repricing gap" which represents the overall exposure to fixed interest rate assets and liabilities. Fixed interest rate exposures are swapped back to variable rates (principally three month LIBOR) using simple fixed rate to variable interest rate swap instruments.

9.2 Accounting for Derivatives

CYBG Group uses derivatives to manage risk exposure from potential movements in interest rates, foreign exchange rates and equity exposures inherent in CYBG Group's assets, liabilities and positions. CYBG Group designates derivatives either as hedging instruments, where they are part of an effective hedging relationship as defined by accounting standards, or as held for trading.

Derivatives designated as hedging instruments include interest rate and cross currency instruments held in cash flow and fair value hedges. CYBG Group uses cashflow hedging to hedge fixed rate interest exposures arising from fixed rate mortgages, savings and other treasury assets and liabilities. Fair value hedging is used to hedge certain elements of treasury assets such as gilts, treasury funding and, prior to 2014, foreign currency debt issuances.

Derivative instruments which are not in a designated hedging arrangement are described below as held for trading. This includes instruments which are used to economically hedge a variety of risks embedded in tailored business loans, such as fixed interest, interest rate caps and collars and repayment options. Tailored business loans and related derivative instruments are held at fair value through profit and loss and movements in both balances are recorded in non-interest income.

CYBG Group only uses derivatives for risk mitigation purposes. All on balance sheet derivative instruments are held at fair value. The impact on the income statement of movements in fair value and hedging ineffectiveness is described in paragraph 7.6 of this Part 5. The table below sets out the fair value of derivative financial assets, which are designated as hedging instruments and as held for trading.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Fair value of derivative financial assets				
Designated as hedging instruments	103	13	7	197
Designated as held for trading	182	207	237	440
	285	**220**	**244**	**637**
Not included in the above:				
Assets classified as held for sale	-	-	-	(4)
Fair value of derivative financial liabilities				
Designated as hedging instruments	244	245	204	188
Designated as held for trading	290	303	447	765
	534	**548**	**651**	**953**
Not included in the above:				
Liabilities associated with assets held for sale	-	-	-	142

The gross fair value of derivative financial assets decreased by £393 million and the gross fair value of derivative financial liabilities decreased by £302 million for the year ended 30 September 2013, mainly due to the cancellation of certain fixed interest to overnight index swaps, which were classified as held for trading and which were replaced with fixed interest to LIBOR swaps in designated hedging relationships.

The derivative financial instruments held by CYBG Group are further analysed below with the notional contract amount being the amount from which the cash flows from the derivative contracts are derived. Notional contact amounts are not an indication of the amounts at risk relating to the contracts.

Total derivative contracts as at 30 September 2015	**Notional contract amount**	**Fair value of assets**	**Fair value of liabilities**
		£m	
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	16,655	46	75
Cross currency swaps	843	8	54
	17,498	54	129
Fair value hedges			
Interest rate swaps	1,452	35	115
Cross currency swaps	499	14	-
	1,951	49	115
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot, forward and futures contracts	1,990	47	38
Cross currency swaps	150	5	5
Options	273	2	2
	2,413	54	45
Interest rate related contracts			
Swaps	2,084	105	217
Swaptions	67	-	1
Options	706	1	5
	2,857	106	223
Commodity related contracts	160	22	22
Total derivative contracts	**24,879**	**285**	**534**

For additional information on CYBG Group's derivatives, see the Audited Annual Reports.

10. Funding, Liquidity and Capital Resources

10.1 Funding and Funding Strategy

The table below sets out CYBG Group's main sources of funding, comprising total customer deposits, total amounts due to related entities and total bonds and notes, as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
Customer deposits:				
Personal deposits	17,476	15,360	15,060	15,486
Business deposits	8,779	8,510	8,826	10,418
Other wholesale deposits	94	119	380	624
Customer deposits	**26,349**	**23,989**	**24,266**	**26,528**
Bonds and notes:				
RMBS	3,017	2,421	2,039	2,094
Covered bonds	697	1,097	1,096	1,096
	3,714	3,518	3,135	3,190
Fair value hedge adjustments	38	(85)	(64)	(27)
Total securitised notes and covered bonds	3,752	3,433	3,071	3,163
Accrued interest payable	14	20	14	24
Total bonds and notes	**3,766**	**3,453**	**3,085**	**3,187**
Due to related entities:				
Deposits	125	1,097	1,434	6,077
Bonds and notes	382	410	442	475
Subordinated liabilities	478	1,131	1,125	1,125
Other payables	13	39	35	39
Total due to related entities	**998**	**2,677**	**3,036**	**7,716**

10.1.1 Customer deposits

CYBG Group has a diversified funding base, with the majority of CYBG Group's funding for its loan portfolio generated through customer deposits in the form of current accounts and savings accounts. In recent years, CYBG Group has experienced strong growth in current account balances, while more expensive term deposits have significantly decreased.

CYBG Group aims to manage its balance sheet so that customer asset growth is matched with sustainable retail deposit growth, which CYBG Group monitors through the loan-to-deposit ratio. CYBG Group's loan-to-deposit ratio was 104 per cent. as at 30 September 2012, 109 per cent. as at 30 September 2013, 115 per cent. as at 30 September 2014 and 109 per cent. as at 30 September 2015 as customer deposit growth outstripped net lending growth. The modest increase in the loan-to-deposit ratio between 2012 and 2014 reflects active management to support retail growth and reduce surplus term deposits raised in 2011 and 2012 in response to the change in CYBG Group's credit rating.

10.1.2 Bonds and notes

CYBG Group actively seeks to diversify its funding mix through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding in terms of the type of instrument and product, maturity, currency, counterparty, term structure and markets through such programmes. CYBG Group issued £1.1 billion of external covered bonds in June 2012. In terms of external RMBS, CYBG Group issued €615 million in February 2012, \$800 million and £525 million in July 2012, £350 million and \$300 million in July 2013, £350 million and €300 million in March 2014, €550 million and £275 million in December 2014 and £300 million and €280 million in August 2015 through the Lanark securitisation programme. The tenor of the bonds from original issue date to their call date ranges from 3 to 14 years, which helps to provide a stable funding base for CYBG Group. As at 30 September 2015, CYBG Group had £4.6 billion of mortgage collateral available to support future RMBS and covered bond issuances.

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace the existing Additional Tier 1 capital instruments and Tier 2 notes with the New AT1 Notes and the New Tier 2 Notes. See paragraph 10.3.1 below for further information.

10.1.3 Due to related entities

CYBG Group's funding from amounts due to related entities primarily consists of Additional Tier 1 capital instruments, secured RMBS and subordinated liabilities. Since 2012, CYBG Group has significantly reduced the extent of senior funding from the NAB Group and obtained an increasing proportion of its funding from retail deposits and secured wholesale term funding (in the form of RMBS and covered bonds).

In 2012, CYBG Group repaid intragroup funding to NAB in the amount of £5,084 million with proceeds from the disposal of the legacy CRE portfolio. In December 2013, CYBG Group redeemed £300 million of Additional Tier 1 capital. In December 2014, £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties was also redeemed. These instruments would have become progressively ineligible for Tier 2 treatment under CRD IV's transitional rules from 1 January 2015 as well as the introduction of a 25 per cent. capital limit under Pillar 2A. These instruments were replaced by an issue of £350 million of ordinary shares to NAB related parties and issues of Additional Tier 1 capital instruments of £450 million to NAB. Additional Tier 1 capital instruments issued to NAB amounted to £450 million as at 30 September 2015.

Amounts due to related entities include buy-to-let RMBS issued by CYBG Group to NAB through the Lannraig securitisation programme. Amounts of such securities held by NAB were £382 million as at 30 September 2015, £410 million as at 30 September 2014, £442 million as at 30 September 2013 and £475 million as at 30 September 2012.

On 24 September 2015, £465 million forming part of the £670 million total share premium was provided to CYBG Group by NAB by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters under the Capped Indemnity in its accounts for the year ended 30 September 2015.

As at 30 September 2015, subordinated liabilities due to NAB and NAB related entities totalled £478 million, compared to £1,131 million as at 30 September 2014, £1,125 million as at 30 September 2013 and £1,125 million as at 30 September 2012.

Total amounts due to related entities decreased to £998 million as at 30 September 2015 from £2,677 million as at 30 September 2014 and included the early repayment of senior debt of £429 million in September 2015, one year prior to contractual maturity. Total amounts due to related entities was £3,036 million as at 30 September 2013 and £7,716 million as at 30 September 2012.

As at 30 September 2015, deposit amounts due to related parties amounted to £125 million. This includes a £100 million loan that was repaid in October 2015, three months earlier than the maturity date. In July 2015, CYBG Group repaid £312 million of senior funding from NAB at contractual maturity. Following the demerger of CYBG Group from NAB and the Institutional Offer, CYBG Group expects amounts due to NAB to further decrease as NAB funding is replaced at maturity through like for like issuance.

As at 30 September 2015, £450 million of Additional Tier 1 capital, £478 million of subordinated liabilities and £382 million of buy to let RMBS issued through the Lannraig securitisation was outstanding in addition to £125 million of deposits with a residual maturity of less than one year.

At the Demerger, the existing capital instruments will be repurchased and replaced with new Additional Tier 1 and Tier 2 capital issued by the Company to NAB. The tenor of the new instruments will be lengthened compared to those being repurchased. See paragraph 10.3.1 below for further information.

10.2 Liquidity

Liquidity risk is the risk that CYBG Group will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. CYBG Group undertakes a conservative approach to liquidity management by imposing internal limits, including limits based on stress and scenario testing, in addition to regulatory requirements. CYBG Group manages liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of CYBG Group and to enable CYBG Group to meet its financial obligations.

As at 30 September 2015, CYBG Group's LCR was 136 per cent. and CYBG Group's NSFR was 120 per cent.

10.2.1 Contractual maturities

The following table sets out CYBG Group's balance sheet according to the liabilities contractual maturity. Many of the longer-term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Accordingly, this information is not relied upon by CYBG Group in its management of interest rate risk.

As at 30 September 2015	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
				£m			
Liabilities:							
Due to other banks	-	390	3	-	-	-	393
Other financial liabilities at fair value	-	1	1	65	-	-	67
Derivative financial liabilities	3	28	41	248	214	-	534
Due to customers	20,370	1,505	2,045	2,487	-	-	26,407
Liabilities on acceptances	-	4	-	-	-	-	4
Due to related entities	135	8	-	380	475	-	998
Bonds and notes	-	14	852	1,973	927	-	3,766
All other liabilities	1,825	114	114	-	-	1,040	3,093
Total liabilities	**22,333**	**2,064**	**3,056**	**5,153**	**1,616**	**1,040**	**35,262**
Off balance sheet items							
Contingent liabilities	-	25	13	11	52	8	109
Other credit commitments	7,801	-	-	-	-	-	7,801
Total off balance sheet items	**7,801**	**25**	**13**	**11**	**52**	**8**	**7,910**

10.2.2 Liquid assets

The following table sets out CYBG Group's total unencumbered and encumbered liquid assets as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Liquid Reserve				
Cash and balances with central banks	4,398	3,932	4,647	6,148
Note cover[1]	2,033	2,054	2,073	1,779
Total cash and balances with central banks	6,431	5,986	6,720	7,927
Encumbered cash balances	(2,301)	(2,133)	(2,161)	(1,854)
	4,130	3,853	4,559	6,073
Investments – available for sale	1,462	1,168	975	1,041
Encumbered available for sale investments	(50)	(878)	(268)	(160)
	1,412	290	707	881
Total unencumbered liquid assets	**5,542**	**4,143**	**5,266**	**6,954**
Total encumbered liquid assets	2,351	3,011	2,429	2,014
Total liquid assets	**7,893**	**7,154**	**7,695**	**8,968**

(1) 2012, 2013 and 2014 balances exclude the cover held with G4S and the Post Office, which forms part of cash balances. Balances for cover held with G4S and Post Office amounted to £34 million in the year ended 30 September 2014, £45 million in the year ended 30 September 2013 and £42 million in the year ended 30 September 2012.

The liquidity portfolio comprises highly liquid unencumbered assets available and immediately accessible to meet cash outflows. Core liquidity is held predominantly in deposits with central banks. During the period under review, total unencumbered liquid assets decreased from £6,954 million as at 30 September 2012 to £4,143 million as at 30 September 2014 and increased to £5,542 million as at 30 September 2015. This is primarily due to a higher balance with the Bank of England which is a result of the funding actions described above and a lower level of sale and repurchase agreements at 30 September 2015.

As at 30 September 2015, CYBG Group had a conservative asset encumbrance ratio, defined as the amount of mortgages encumbered to support third-party bond and note issuances as a percentage of total assets, of 20.4 per cent.

CYBG Group manages the liquid asset portfolio to meet PRA liquidity requirements while diversifying the mix to reduce basis risk and optimise the yield on liquid assets. During the period under review, CYBG Group reduced excess liquidity by withdrawing low yielding cash and balances with central banks while maintaining a prudent level of liquid assets in excess of PRA regulatory requirements. As at 30 September 2015, liquid assets increased to £7,893 million, reflecting the strong growth in retail funding in excess of lending in the year and the partial pre-funding of customer asset growth. The average yield on the liquid asset portfolio was 0.53 per cent. in the year ended 30 September 2015.

Annexure G: Part Five
CYBG Group operating and financial review

10.3 Capital Position

10.3.1 Capital and capital ratios

The table below sets out the capital position and capital ratios of CYBG Group. The information as at 30 September 2015 and 30 September 2014 is on CRD IV basis and includes grandfathered legacy Tier 2 instruments under the transitional rules implemented by the PRA.

	As at 30 September			
	CRD IV 2015	**CRD IV 2014**	**Basel II 2013**	**Basel II 2012**
	(£m, except %)			
Common Equity Tier 1 capital				
Capital instruments[1]	223	1,882	1,582	1,582
Retained earnings and other reserves[2]	2,097	346	535	(298)
Share premium account	670	-	-	893
Structured entities reserves[2]	-	(4)	-	-
Prudent valuation adjustment[3]	(5)	(2)	(3)	(2)
Intangible assets[4]	(265)	(213)	(215)	(198)
Deferred tax asset (“**DTA**”) relying on future profitability[5]	(273)	(223)	-	-
Defined benefit pension fund assets (net of deferred tax liabilities)[6]	(42)	(39)	-	-
Pension fund deficit adjustment[7]	-	-	2	73
	2,405	**1,747**	**1,901**	**2,050**
Tier 1 capital				
Additional Tier 1 capital instruments	450	300	-	-
Perpetual non-cumulative preference shares[8]	-	-	100	100
Hybrid Tier 1 capital[9]	-	-	200	200
	450	300	300	300
Total Tier 1 capital	**2,855**	**2,047**	**2,201**	**2,350**

Continued	As at 30 September			
	CRD IV 2015	**CRD IV 2014**	**Basel II 2013**	**Basel II 2012**
	(£m, except %)			
Tier 2 capital				
Subordinated loans(10)	460	1,125	1,125	1,125
Credit risk adjustments(11)	138	135	155	330
Revaluation reserve(12)	-	-	2	1
Excess Tier 2 capital(13)	-	-	(24)	-
Qualifying and material holding Tier 2 deductions(14)	-	-	(3)	(2)
	598	1,260	1,255	1,454
Total capital	**3,453**	**3,307**	**3,456**	**3,804**
Capital ratios:				
CET 1 ratio(15)	13.2%	9.4%	9.6%	7.7%
Tier 1 ratio(16)	15.7%	11.0%	11.1%	8.9%
Total capital ratio(17)	18.9%	17.7%	17.5%	14.4%

(1) Reflects the effect of the reduction of the nominal value of each ordinary share from GBP 1 to 0.10. The existing share capital was reduced from £2,232,012,500 divided into 2,232,012,500 ordinary shares of £1 each to £223,201,250 divided into 2,232,012,500 ordinary shares of £0.10. The nominal share value reduction has been transferred to retained earnings.

(2) Under capital requirements regulation, the cash flow hedge, available for sale and asset revaluation reserves now form part of regulatory capital resources. Structured entities reserves are also excluded for regulatory capital purposes.

(3) A prudent valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules.

(4) Intangible assets do not qualify as capital for regulatory purposes.

(5) Under CRD IV, deferred tax assets that rely on future profitability shall be deducted from CET 1 capital.

(6) Under CRD IV, defined benefit pension fund assets shall be deducted from CET 1 capital (net of deferred tax liability).

(7) For regulatory capital purposes under Basel II, the pension fund deficit is added back to regulatory capital and substituted with an estimate of additional pension fund contributions to be made over the next five years, adjusted for deferred tax. CRD IV does not allow the pension fund deficit to be added back to regulatory capital.

(8) On 19 December 2013, £100 million of perpetual non-cumulative preference shares were redeemed and replaced with CET 1 ordinary shares.

(9) £200 million of hybrid Tier 1 capital is included in the calculation of the CET 1 ratio as at 30 September 2013. On 20 December 2013, £200 million of hybrid Tier 1 capital instruments were redeemed and replaced with CET 1 ordinary shares.

(10) Subordinated loans reflect the principal outstanding and do not include accrued interest.

(11) The collective provision add back is limited for regulatory capital purposes.

(12) Under CRD IV, the revaluation reserve is classified as CET 1 capital.

(13) Under Basel II, lower Tier 2 capital instruments were restricted to 50 per cent. of total Tier 1.

(14) Material and qualifying holdings deducted under Basel II, are now risk-weighted under CRD IV rules.

(15) CET 1 ratio is defined as CET 1 capital divided by risk-weighted assets at a given date. The CET 1 ratios as at 30 September 2012 and 2013 were calculated under Basel II. The CET 1 ratio as at 30 September 2014 was calculated under CRD IV. As at 30 September 2015, this ratio was calculated in accordance with the revised CRD IV regulations applicable from 1 January 2015.

(16) Tier 1 ratio is defined as Tier 1 capital resources divided by risk-weighted assets at a given date.

(17) Total capital ratio is defined as total capital resources divided by risk-weighted assets at a given date. As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's interest in CYBG Group's existing AT1 Notes and Tier 2 Notes, with new AT1 Notes and Tier 2 Notes to be issued by CYBG PLC on the Demerger Date and initially held by NAB. For further information see Part 8 of this Annexure G: *"Additional Information on CYBG-Funding Programmes"*.

Annexure G: Part Five
CYBG Group operating and financial review

CYBG Group's CET 1 ratio was 9.6 per cent. as at 30 September 2013, 9.4 per cent. as at 30 September 2014 and 13.2 per cent. as at 30 September 2015.

CYBG Group's pillar 2A capital requirement includes buffers for general banking risks and other risks including pension scheme obligation risk. Pillar 1 capital is required to be held for credit, operational counterparty and market risks. CYBG Group's pillar 1 non-credit risk-weighted assets reduced during the period under review due to business simplification.

On 20 December 2013, CYBG Group replaced £100 million of perpetual non-cumulative preference shares and £200 million of hybrid Tier 1 capital instruments, which were not compliant with Basel III requirements for loss absorbency, with the issue to NAB of £300 million of perpetual capital notes. The perpetual capital notes are structured to qualify as Additional Tier 1 capital under CRD IV. Distributions on the £300 million of perpetual capital notes are payable on 20 December and 20 June of each year, commencing 20 June 2014, at a rate per annum equal to six month sterling LIBOR plus 7.63 per cent. CYBG Group is able to first call the £300 million of perpetual capital notes issued in December 2013 on 20 December 2018. CYBG Group also issued an additional £300 million of ordinary shares to NAB on 27 March 2014.

In December 2014, a capital restructure was completed to strengthen Clydesdale Bank's capital base and ensure that the PRA's prudential capital requirements continue to be met. As part of this restructure, CYBG Group redeemed £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties, which would have been ineligible under CRD IV as of 1 January 2015, and replaced it with an issue of £350 million of ordinary shares to NAB related parties and an issue to NAB of £150 million of perpetual capital notes. The perpetual capital notes are structured to qualify as Additional Tier 1 capital under CRD IV. Distributions on the £150 million of perpetual capital notes are payable on 29 December and 29 June of each year, commencing 29 June 2015, at a rate per annum equal to six month sterling LIBOR plus 6.9 per cent. Additional Tier 1 distributions are tax deductible. CYBG Group is able to first call the £150 million of perpetual capital notes issued in December 2014 on 29 December 2019.

The gains arising as a result of CYBG Group's regulatory capital actions in 2014 have been held to further enhance CYBG Group's CET 1 capital and CET 1 capital ratio. The capital benefits from balance sheet optimisation in 2014 resulted in a reduction in credit risk-weighted assets, however this was partially offset by the impact of conduct charges incurred in the year and the capital deductions arising from the introduction of CRD IV. CYBG Group continues to be fully compliant with the PRA's regulatory capital requirements.

Between June and September 2015, CYBG Group issued to NAB 2 ordinary shares at their nominal value of £0.10 per share with a total share premium of £670 million as part of the preparation for the Demerger and the Institutional Offer. These actions led to a significant strengthening of the CET1 ratio.

On 24 September 2015, £465 million forming part of the £670 million total share premium was provided to CYBG Group by NAB by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters under the Capped Indemnity in its accounts for the year ended 30 September 2015.

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's interest in CYBG Group's existing Additional Tier 1 capital instruments and Tier 2 notes, with the New AT1 Notes and the New Tier 2 Notes to be issued by CYBG PLC on the Demerger Date and initially held by NAB. The arrangements for the new instruments will be effected (at CYBG Group's option in respect of the AT1 Notes only) on market terms, with the pricing agreed and terms and conditions substantially agreed between NAB and CYBG Group on 4 November 2015. The effect of these arrangements is intended to allow CYBG Group to enhance its regulatory position in respect of its issuances of capital securities and to provide a single issuing entity for CYBG Group's capital securities following the Demerger.

The New AT1 Notes are to qualify as Additional Tier 1 capital of CYBG Group under CRD IV. Subject to certain conditions, including any mandatory or discretionary cancellation of interest, interest on the New AT1 Notes will be payable on 8 June and 8 December each year, commencing on 8 June 2016, at the rate of 8 per cent. per annum up to 8 December 2022 and thereafter at the rate equal to the sum of the applicable 5-year sterling mid-market swap rate and 6.250 per cent., reset every five years. Interest on the New AT1 Notes is tax deductible. The New AT1 Notes are perpetual securities and have no fixed redemption date. CYBG PLC will be able to first call the New Notes on 8 December 2022 (or earlier, for regulatory or tax reasons). The New AT1 Notes include a provision whereby if the Common Equity Tier 1 Ratio of the CYBG Group falls below 7 per cent. the New AT1 Notes automatically convert into ordinary shares of CYBG PLC at a conversion price equal to 66 per cent. of the Offer Price.

The New Tier 2 Notes are to qualify as Tier 2 capital of the CYBG Group under CRD IV. Interest on the New Tier 2 Notes will be payable on 8 February and 8 August each year, commencing on 8 August 2016, at the rate of 5 per cent. per annum up to 8 February 2021 and thereafter at the rate equal to the sum of the applicable 5-year sterling mid-market swap rate and 3.516 per cent. Interest on the New Tier 2 Notes is tax deductible. The Tier 2 Notes will mature on 9 February 2026, but CYBG PLC will be able to first call the New Tier 2 Notes on 8 February 2021 (or earlier, for regulatory or tax reasons).

CYBG Group has implemented the Basel II requirements for the measurement of credit risks using the standardised approach, as a result of which the CYBG Directors believe CYBG Group has higher RWAs than it would have if it were to calculate RWAs using the foundation IRB or advanced IRB approach. CYBG Group's capital position under CRD IV, as at 30 September 2015, was in excess of its minimum regulatory requirements, and the CYBG Directors believe the capital ratios of CYBG Group are conservative taking into account its use of the Basel II standardised approach to credit risk-weighted asset calculation. The CYBG Directors believe that there are significant potential advantages associated with migrating to the IRB model, which they are currently exploring. Any use of the IRB approach to calculating capital requirements would require extensive work to develop IRB models and would be subject to approval by the PRA.

10.3.2 Risk-weighted assets

The table below sets out CYBG Group's risk-weighted assets as at the dates indicated.

	As at 30 September			
	CRD IV 2015	**CRD IV 2014**	**Basel II 2013**	**Basel II 2012**
		£m		
Risk-weighted assets[1]				
Retail mortgages	7,526	6,917	6,319	6,139
Business lending	7,044	7,961	9,694	15,805
Other retail lending	951	1,030	1,071	1,104
Other lending[2]	773	855	878	1,137
Credit risk	16,294	16,763	17,962	24,185
Credit valuation adjustment[3]	206	137	-	-
Operational risk	1,589	1,564	1,684	1,905
Counterparty risk	138	181	170	370
Market risk	-	-	1	1
	18,227	**18,645**	**19,817**	**26,461**

(1) Risk-weighted assets are calculated under the standardised approach.

(2) Other lending comprises non-lending assets, specifically fixed assets, current account assets and fair value adjustments.

(3) Represents credit risk on derivatives from CRD IV implementation.

11. Contingent Liabilities and Commitments

Contingent liabilities and commitments are principally credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements. The following table sets out contingent liabilities and commitments of CYBG Group, which are not recorded on the balance sheet, as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Contingent liabilities	109	136	213	286
Other credit commitments	7,801	8,422	8,696	9,290
Other operating lease commitments	248	245	237	371
Capital commitments	2	4	5	6
Total	**8,160**	**8,807**	**9,151**	**9,953**
Not included in the above:				
Undrawn formal standby facilities, credit lines and other commitments to lend at call in respect of assets held for sale	-	-	-	140

Contingent liabilities principally comprise possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless they are remote. For additional information, including information on the UK FSCS and conduct risk related matters, see the Audited Annual Reports.

Other credit commitments decreased by £621 million in 2015, £274 million in 2014 and £594 million in 2013, primarily due to the active management of borrowing facilities.

Operating lease commitments decreased by £134 million in 2013 primarily due to CYBG Group's decision to close 29 business and private banking centres and six back office locations as part of its strategic review in 2012.

For information on the composition of CYBG Group's contingent liabilities and credit related commitments by industry sector, see the Audited Annual Reports.

12. Critical Accounting Policies

The preparation of CYBG Group's financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although CYBG Group has internal control systems in place intended to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. The most significant use of judgements and estimates are with respect to the following matters: (1) impairment losses on loans and advances; (2) PPI redress provision and other conduct-related matters; (3) retirement benefit obligations; (4) fair value of financial instruments; (5) effective interest rate and (6) deferred tax assets. For information on CYBG Group's critical accounting policies, see the Audited Annual Reports.

Annexure G: Part Six
Risk Management

1. The approach to risk of the Company and Clydesdale Bank

Effective management of risk is a key capability for a successful financial services provider and is fundamental to the Company's and Clydesdale Bank's strategy. CYBG Group identifies and manages risk as part of a risk management framework, which is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk (the "**Risk Management Framework**"). CYBG Group's Risk Management Framework is intended to help to:

- identify, analyse and understand each of the material risks at all levels of CYBG Group;
- ensure that appropriate strategies, policies, effective operating controls and other mitigants are in place and operate effectively;
- provide reliable and meaningful risk information (i.e. reporting) to decision-makers;
- ensure that there is adequate oversight of the risk profile and risk management framework; and
- facilitate a proactive risk culture.

CYBG Group has implemented significant changes to strengthen its Risk functions in recent years, in-line with industry developments and best practice, including introducing an enhanced risk accountability model, following an extensive Risk Management Framework review. The CYBG Group retains 431 full time employees across its risk management function (as at 30 September 2015).

2. Risk control and management

2.1 Risk culture

Establishing and maintaining an effective risk framework within CYBG Group is a key objective. Culture is shaped by many aspects including tangible components such as: CYBG Group's code of conduct; operating principles; policies; standards; the risk management operating model; and an approved articulation of risk appetite that aligns to, and supports, the strategic objectives of the Company and Clydesdale Bank. The Company and Clydesdale Bank strive to instil a culture that supports compliance with all relevant laws, codes and policies and builds constructive regulatory relationships, to which end they seek to establish effective risk governance, a sound risk appetite framework, clearly defined enterprise behaviour and compensation practices that promote appropriate risk taking behaviour.

Initiatives that support an effective risk culture include: the performance management framework, which incorporates an assessment of factors including risk management, behaviour and a transparent compliance gateway rating; training; escalation procedures (both through the management hierarchy and anonymously through CYBG Group's whistle-blower facility) allowing staff to raise concerns; and messaging from the CYBG chief executive officer ("**CYBG CEO**") and members of the leadership team of CYBG Group, which has been delegated authority by the CYBG CEO.

Underpinning the risk management framework, and at the heart of CYBG Group's risk culture, is the concept of personal accountability for risk management at source. This is enabled through a risk management accountability model (which articulates specific accountabilities for core elements of risk management) and a formal delegation framework through which staff are able to make risk-based decisions.

2.2 Strategic planning and risk appetite

At a joint meeting, CYBG Board and Clydesdale Bank Board have established a formal risk appetite statement, which places an overall limit on the total amounts and types of risk that CYBG Group is prepared to take within its capacity to achieve its strategic objectives and business plan. This is set with respect to the returns that CYBG Group is seeking to provide to its shareholders, the credit ratings that the Company and Clydesdale Bank are seeking to maintain and the capital position and desired capital ratios of CYBG Group. The risk appetite statement informs CYBG Group's risk, capital and business limits, and is regularly reviewed by the CYBG Board as a part of the strategic planning process, or otherwise as commercial circumstances change.

Independent measurement of risk is a key tool. Risk measurement and modelling provides quantitative information to help understand and manage risk positions and exposures (within the CYBG Board approved appetite), informing (but not replacing) qualitative judgments across alternatives. Given the large volume and value of transactions across CYBG Group on a daily basis, accurately measuring risk can be a complex process. Risk models are used for pricing certain credit decisions, risk and stress-testing risk positions and financial analysis. Therefore, the risk impact of models being incorrect may have significant financial, reputational and/or regulatory impacts. CYBG Group's Model Risk Standard formalises CYBG Group's approach to managing all models and is designed to minimise operational model risk by determining the materiality of the risk, defining a process for model management, and articulating requirements for regular review and governance.

All risk models must be compliant with CYBG Group's Model Risk Standard, including third party/vendor provided models. Each model must have a nominated owner who is responsible for undertaking a materiality assessment during the development of the model and at least annually thereafter. This assessment is intended to ensure the risk management processes are appropriate for the level of risk of the model. In addition to the annual review, the assessment is required to be reviewed and materiality reassessed in the event of any changes to the model, new or revised regulatory requirements that may have an impact on model use or any changes to the business units that may have an impact on the model or the underlying assumptions. A prescribed “Model Risk Materiality Rating” tool is required to be used to perform the assessment with the outcomes recorded on CYBG Group’s model register including the date of the next scheduled reassessment.

2.3 Risk Management Framework

CYBG Group’s approach to risk management is based on an overriding principle that risk management capability must be embedded within Clydesdale Bank’s first line teams to be effective. This overriding principle embodies the following concepts:

- commercial decisions should be made on the basis of proactive consideration of risk and the impact on customers;
- business managers should use the Risk Management Framework, which assists in the balancing of risks and rewards; and
- employees are responsible for risk management in their day-to-day activities.

Control is exercised through a clearly defined delegation of authority, with communication and escalation channels throughout the organisation. Within this context, CYBG Group manages risk with a “three lines of defence” framework. The three lines of defence are the business units themselves, the risk function, and the internal audit team.

The first line of defence comprises the business units managing the risks associated with their activities. Each business line is responsible for:

- establishing risk settings, including implementing the risk framework and determining the risk parameters, triggers and thresholds based on understanding of the business objectives and the risk profile, and establishing a risk appetite to direct the future environment;
- identifying, measuring, assessing and controlling risks through the day-to-day activities of the business;
- managing risks within the frameworks set by the second line of defence; and
- establishing and maintaining a suite of procedures that guide the operations of the business in accordance with the risk framework and CYBG Board-approved risk appetite.

The second line of defence encompasses dedicated risk functions that are responsible for ensuring that the risk and control environment is actively and appropriately managed through the provision of risk insight, appetite and oversight. The second line of defence:

- designs and oversees the risk management framework;
- challenges, validates and endorses the risk settings;
- develops and maintains policies, tools and processes for risk management;
- oversees, monitors and challenges the first line of defence on risk-related activities;
- defines minimum standards and oversees related consequence management undertaken by the first line of defence; and
- provides insight into the appropriateness of the portfolio of risks.

The third line of defence is the internal audit team, which provides independent assurance and reporting on the effectiveness of the risk management and internal control environment. The third line of defence:

- carries out internal attestations of compliance with regulatory requirements;
- determines the nature, frequency and scope of work necessary to fulfil its responsibilities; and
- reports to the CYBG’s Audit Committee on the adequacy and effectiveness of the Risk Management Framework.

3. Principal risks

CYBG Group identifies the following material risk categories as those to which it has the most significant actual or potential exposure: credit risk, operational risk, regulatory risk, compliance risk, balance sheet and liquidity risk, market risk, defined benefit pension risk and strategic risk.

3.1 Credit risk

3.1.1 Definition

Credit risk is the potential that a customer or counterparty will fail to meet its obligations to CYBG Group in accordance with agreed terms and arises from both CYBG Group’s lending activities and markets and trading activities.

3.1.2 Principal risks

Credit risk manifests itself in the financial instruments/products that CYBG Group offers, and those in which CYBG Group invests (including, among others, loans, guarantees, letters of credit, acceptances, inter-bank transactions, foreign exchange transactions, swaps and bonds). Credit risk can be found both on and off-balance sheet, with the majority being on-balance sheet exposure.

Credit risk arises in relation to the processes by which CYBG Group assesses the credit quality of customers, which requires subjective judgments, including forecasts of how changing macro-economic factors may affect customers’ ability to repay loans. The overall credit profile of CYBG Group’s borrowers may be adversely affected by a range of factors, including increased unemployment, lowered asset values (particularly in the property market), lowered consumer spending, increased customer indebtedness, increased insolvency levels, reduced business profits, increased interest rates and/or higher default rates.

3.1.3 Managing risks

The management of credit risk within CYBG Group is achieved through approval and monitoring of individual transactions, analysis of the performance of the various credit risk portfolios and the independent oversight of credit portfolios across CYBG Group. Portfolio monitoring techniques cover such areas as industry or geographic concentrations and delinquency trends.

Significant credit risk strategies are approved, and reviewed, by the CYBG Board and the CYBG's Risk Committee (the "**CYBG's Risk Committee**"). Through such review and approval, the CYBG Board establishes CYBG Group's tolerance for credit risk. For complex credit products and services, the Chief Credit Officer (and associated teams) provides a policy framework that identifies and quantifies risks and establishes the means of mitigating such risks. These policies and frameworks are delegated to, and disseminated under the guidance and control of, executive management, with oversight through executive governance committees. The overall composition and quality of credit portfolio exposures are monitored and periodically reported to the CYBG Board, and, where required, to the relevant supervisory authorities.

CYBG Group has internally-developed customer rating systems, which use data drawn from a number of sources to assess the potential risk in lending to its non-retail customers.

CYBG Group uses a variety of strategies to attempt to mitigate credit risk, including imposing standardised underwriting policies, taking collateral over property, forbearance where there is a realistic prospect of being repaid, and the entering into of derivative and netting agreements.

CYBG Group evaluates customers' creditworthiness on a case by case basis, including its debt servicing capacity or affordability which is reflective of repayment from cash generative activities. The amount of collateral to be obtained, if any, is based on management's credit evaluation of the counterparty. The nature of the collateral to be held varies, but may include: specific charges over defined assets, a floating charge over all assets and undertakings of an entity, specific or interlocking guarantees, and loan agreements that include affirmative and negative covenants and in some instances guarantees of counterparty obligations. Generally, CYBG Group does not take possession of collateral, but when it does so, its policy is to dispose of repossessed assets and use the proceeds to reduce or repay the outstanding claim. CYBG Group has implemented policies and procedures, which it regularly reviews, intended to ensure consistent application of forbearance.

Concentration of risk is managed by client/counterparty, by product and by industry sector. In addition, exposure limits exist to limit exposure to a single entity/counterparty.

(a) Retail credit risk

Residential property is CYBG Group's main source of collateral and means of mitigating loss in the event of default in its residential mortgage portfolios. CYBG Group aims to support its residential mortgage lending activities by a valuation using either professional valuers or indexed valuation.

Forbearance is exercised on retail customers (primarily on residential mortgages) in a number of different ways and is specific to the individual customer's circumstances. Retail forbearance options can include capitalisation of arrears, short term measures including temporary relief from payment, permanent or temporary conversion to interest only payments, a permanent change to the loan term and court mandated forbearance exposures. CYBG Group currently exercises limited forbearance strategies in relation to other types of retail credit, including money transmission accounts, unsecured loans and credit cards.

(b) Non-retail credit risk

Commercial property is CYBG Group's main source of collateral on non-retail lending and means of mitigating loss in the event of default in its non-retail portfolios. Collateral for the majority of non-retail loans comprises first legal charges over freehold or long leasehold property and/or a floating charge or debenture when lending to companies with limited liability.

Authority to grant forbearance measures for non-retail customers is exercised on the basis of consideration of a customer's financial position and prospects. Forbearance options can include: term extension, deferral of contracted capital repayments, reduction in contracted interest rates, alternative forms of payment (such as debt for equity, asset transfer and repayment by taking possession of collateral), debt forgiveness and refinancing on a non-commercial basis.

3.2 Operational risk

3.2.1 Definition

Operational risks arise from the day to day activities of CYBG Group, which may result in direct or indirect losses and could adversely impact CYBG Group's financial performance and position. These losses may result from both internal and external events, and risks, including, but not limited to, process error or failure, inadequate process design, poor product development and maintenance, poor change management, aging infrastructure and systems, system failure, security and physical protection, fraud, deficiencies in employees' skills and performance or human error, operational failures by third party providers (including offshored and outsourced providers), natural disasters, extreme weather events, political, security and social events and failings in the financial services industry or other idiosyncratic components of operational risk that are related to CYBG Group's particular size, nature and complexity.

Annexure G: Part Six
Risk Management

3.2.2 Principal risks

Operational risk exists across CYBG Group and is present in all business activities (including those that give rise to other risk types, such as credit risk), organisational changes such as project and business initiatives, the systems that support business activities and the way CYBG Group's people perform these activities.

Poorly designed, implemented, understood or managed processes, systems, controls and how people interact with these can result in the potential for significant operational risks to arise. These could lead to financial loss and/or negative non-financial impacts that can affect CYBG Group's ability to meet business objectives and targets, core processes, the ability to satisfy compliance obligations and CYBG Group's obligations to depositors, policy holders and/or customers.

While operational risk is characterised by numerous lower value exposures and events, Clydesdale Bank, in common with other financial institutions is also exposed to extreme, but plausible, operational risk events. Such risk events can have extreme impacts on Clydesdale Bank if and when they occur. Clydesdale Bank undertakes scenario analysis to gain insights into the stresses the business could be subject to in the event of this type of operational risk materialising. Clydesdale Bank maintains a suite of operational risk scenarios covering the Basel II event types relevant to its business. As part of the scenario analysis approach, the suite of operational risk scenarios are reviewed and updated on a regular basis for existing potential impacts and identification of potential new risk events. Management then document a proposed response to identify how the scenarios would be managed and monitored if they occurred.

3.2.3 Managing risks

To assist with the management of operational risk, risk categories aligned to Basel II are used to categorise and facilitate the consistent identification, assessment, mitigation, monitoring and reporting of risks and events. These risk categories are defined as follows:

- *Customer, products and sales practices ("conduct risk")* – the risk that CYBG Group's operating model, culture or actions result in unfair outcomes for customers. The treatment of customers and the management of customers impacts on all core activities. This is a principal focus of the CYBG Board, senior management and regulators, and CYBG Group seeks to ensure customers are treated fairly, products are designed and sold to meet their needs, customer expectations are met and complaints are dealt with effectively and fairly. Consideration of customer outcomes is embedded within CYBG Group's operating processes, and metrics are regularly monitored to help ensure outcomes are appropriate.
- *Regulatory environment and market practices* – the risk of regulatory sanction, material financial loss or reputational damage if CYBG Group fails to design and implement operational processes, systems and controls such that it can maintain compliance with all applicable regulatory requirements. CYBG Group is required to comply with a large volume of laws and regulations and the regulatory environment has been subject to substantial change in recent years. An ongoing focus of CYBG Group's management is to ensure that CYBG Group continues to operate within prudential parameters and that the conduct of CYBG Group's activities meets the expectations of CYBG Group's customers, shareholders and regulators. CYBG Group seeks to ensure visibility of all significant breaches with the CYBG Risk Committee and CYBG and Clydesdale Bank Boards and organises its activities to help maintain controls over regulatory risk, and seeks to maintain a strong, open and trusted relationship with its regulators.
- *Monitoring, reporting and oversight* – effective controls over business operations are essential for the protection of CYBG Group's customers and shareholders and are a key responsibility of all employees and managers. CYBG Group continues to reinforce frameworks, standards and oversight arrangements to enhance the quality of risk management in the organisation. Each business unit maintains a risk profile with embedded controls and actions to manage inherent risks.
- *Payments and process management* – CYBG Group processes a large volume of transactions for customers every day. In all operational activity there is a potential risk that established procedures are not followed, that errors fail to be detected or that inadequate controls are in place. However CYBG Group takes active steps to manage the risk in these and other operations to help ensure these activities are conducted safely and efficiently.
- *External fraud and criminal activities* – CYBG Group takes seriously its responsibilities to protect customers against financial crime. This includes preventing fraud activities in all channels through which customers transact; the prevention of money laundering; and compliance with legal sanctions requirements. Fraud management is an ongoing challenge for the financial services industry and presents a constant risk to CYBG Group as criminal activities evolve on a national and global basis. CYBG Group takes steps designed to ensure its systems and controls remain appropriate to mitigate against the risks faced.
- *Internal fraud and criminal activities* – CYBG Group recognises the risk of internal fraud associated with internal acts intended to defraud, misappropriate funds, information and physical assets, and circumvent policy. CYBG Group has zero tolerance for internal fraud and has a control framework in place to mitigate this risk.
- *Workplace practices and environment* – providing a safe environment for customers and colleagues is important for the success of the business and CYBG Group seeks to ensure adequate safeguards are in place and are operating effectively. CYBG Group's safeguards include (without limitation): (i) a health & safety policy providing

for health & safety issues to be reported to the property team; (ii) undertaking an annual inspection of all of the Company's properties by an independent service provider with sample checks conducted by the Company's property team; (iii) undertaking independent health & safety audits and fire risk assessments on a three year rolling basis by an independent service provider; and (iv) a planned preventative maintenance programme implemented across the Company's head office estate providing an overview of the life expectancy of key components of the building intended to ensure the property is fit for purpose.

- *Systems and infrastructure* – there is a risk of service interruption due to failure of CYBG Group's systems leading to a period of service disruption. CYBG Group has a strong framework of controls over the continuity of service provision for all critical processes including recovery procedures in the event of unplanned service interruption. CYBG Group also recognises the risk of cyber attack against its services and data. CYBG Group has implemented industry standard tools and internal controls to help prevent external intrusions of CYBG Group's systems and loss of sensitive information.
- *Third party providers* – failure to manage third party providers effectively may impact on the level of service available to customers. CYBG Group attempts to mitigate this risk through a control framework that supports the life cycle of third party relationships including oversight of procurement through to vendor management processes. An overarching Supplier Council has been established to ensure strong and consistent supplier governance across all areas of the business.

CYBG Group has an established operational risk framework. The framework consists of five elements, which collectively need to operate effectively to enable the identification, assessment, management, monitoring, measurement and reporting of operational risks. The five elements are: (i) establishing an effective governance structure, including the organisational structure, roles and accountabilities that support and enable management of operational risks and operational risk events; (ii) determining an operational risk appetite, which defines the level and types of operational risks that CYBG Group is willing to assume so as to achieve its strategic objectives; (iii) determining an operational risk profile, which includes the management of operational risks, controls, residual or expected impacts, severe impacts and scenarios; (iv) measuring operational risk, which allows CYBG Group to determine the level of capital required to protect against losses arising from operational risk events; and (v) setting operational risk policies, standards and tools.

Responsibility for the management of operational risk rests with the business managers, with oversight from the risk management function and independent assurance activities undertaken by internal audit.

3.3 Regulatory risk

3.3.1 Definition

Regulatory risk consists of regulatory strategy and change risk and regulatory relationship risk. Regulatory strategy and change risk is the risk of failing to identify and monitor changes in the regulatory environment and of failing to take opportunities to help shape the development of emerging legislative frameworks and/or to effectively implement the required changes. Regulatory relationship risk is the risk of damaging CYBG Group's relationship with regulators through non-compliance with regulatory requirements, not keeping regulators informed of relevant issues impacting (or which may potentially impact) CYBG Group, and not meeting the information requests and review findings of regulators, by providing incorrect or inadequate information, not meeting regulatory deadlines or obstructing the regulator from fulfilling its role.

3.3.2 Principal risks

CYBG Group is exposed to various forms of regulatory risk in its operations, including:

- that certain aspects of its business may be determined by the relevant legal or regulatory authorities or the courts not to have been conducted in compliance with applicable law or regulation or the terms of relevant licences, permissions or supervisory requirements;
- risks relating to conduct related liabilities, including the possibility of mis-selling financial products, lending irresponsibly or mishandling complaints related to the sale of such products by or attributed to CYBG Group's employees, resulting in disciplinary action or requirements to amend sales processes, withdraw products or provide restitution to affected customers;
- the possibility that products are improperly designed and/or do not operate as expected or designed not in compliance with applicable law, regulation or supervisory requirements leading to their withdrawal and resulting in disciplinary action or requirements to provide restitution to affected customers and a need to re-design such products;
- the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians;
- liability for damages to third parties harmed by the conduct of its business;
- the risk of regulatory proceedings and private litigation, arising out of regulatory investigations, enforcement actions or otherwise;
- non-compliance with regulatory and statutory reporting requirements.

3.3.3 Managing risks

CYBG Group's protocols sets forth governing principles for managing regulatory policies, that include conflicts of interest and privacy. The governing principles maintain protocols for, among others, monitoring outgoing and incoming communications with regulators (whether verbal or written), maintaining records of regulatory engagement, ensuring transparency with regulators, communicating with media and third parties, managing regulatory information requests and reporting incidents. The Head of Regulatory and Compliance Risk establishes the regulatory engagement policy and protocols, with the CYBG Risk Committee's approval required for material changes. Formal monitoring of compliance with the policy and protocols is managed through oversight by the Regulatory and Compliance Risk team, regular reporting to the CYBG Risk Committee, and regular risk dialogue with regulators.

3.4 Compliance risk

3.4.1 Definition

Compliance risk is the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives, as well as internal policies, standards, procedures and frameworks. Compliance risk incorporates financial crime risk, which includes risks relating to money laundering, terrorism financing, bribery and corruption and sanctions and embargoes.

3.4.2 Principal risks

Compliance risk is inherent in doing business in the financial industry, and may arise from:

- failure to design and implement and comply with operational arrangements, systems and controls that achieve legal and regulatory compliance;
- failure to design and operate and follow systems and controls to maintain compliance with prudential requirements;
- financial markets activity that is inappropriate and/or does not comply with regulatory requirements; and
- failure to establish and maintain effective systems and controls to prevent the risk that Clydesdale Bank might be used to further financial crime, including money laundering, counter-terrorism financing, sanctions, and bribery and corruption.

3.4.3 Managing risks

As a policy, CYBG Group does not tolerate non-compliance with applicable laws, regulations and voluntary commitments. The chief risk officer and his team are required to consider risks associated with each topic within compliance risk and as part of its risk appetite, assessment, profiling and reporting. The chief risk officer and his team are required to maintain suitable resources to undertake and provide local monitoring and oversight of risk management and reporting. CYBG Group maintains a compliance gateway to define and measure the minimum level of compliance expected of employees, determined by obligations set by laws, regulators, contracts, industry standards, and internal policies, standards and codes. Key compliance risks are overseen through the Risk Management Oversight and Compliance Monitoring Plan submitted annually to the CYBG's Risk Committee for review and approval as well as any significant deviations from the plan during the year. Criminal or unethical behaviour or failure to comply with the compliance gateway is punishable by disciplinary action, dismissal and prosecution, or other external legal or regulatory action.

With regards to anti-money laundering and counter terrorist financing, CYBG Group maintains processes aimed at: (i) assessing the money laundering and terrorist financing risks posed by its customers, products and services, and business operations; (ii) establishing customers' identities and verifying customers' identities where required by law; (iii) prohibiting relationships with customers who are individuals or entities it assesses as representing an unacceptable risk; (iv) undertaking monitoring and reporting to the extent required by local law and regulation, and the level of risk it identified; and (v) developing and implementing an anti-money laundering programme according to the requirements of the local jurisdiction.

3.5 Balance sheet and liquidity risk

3.5.1 Definition

Balance sheet and liquidity risk is the risk that CYBG Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. These obligations include the repayment of deposits on demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and tax, the payment of dividends and the ability to fund new and existing loan commitments.

3.5.2 Principal risks

CYBG Group faces balance sheet and liquidity risk in its ability to meet intra-day collateral requirements in relation to clearing and settlement obligations, its ability to meet its refinancing requirements for a predefined period (including the potential impact of undrawn commitments) and the liquidity risk profile of its balance sheet to accommodate CYBG Group's strategic plan and associated risk appetite. CYBG Group faces the risk that its funding needs may increase and that its funding structure may not continue to be efficient, giving rise, in both cases, to a requirement to raise other forms of funding (e.g. wholesale).

3.5.3 Managing risks

Liquidity within CYBG Group is managed in accordance with individual liquidity adequacy assessment standards that are approved by the CYBG Board. The individual liquidity adequacy assessment standards include the manner in which CYBG Group meets applicable regulatory requirements and CYBG Group's policy for the management of liquidity risk, as well as CYBG Group's overall liquidity adequacy rule. Oversight of liquidity risk is undertaken by management's Asset and Liability Committee (the "**Asset and Liability Committee**") as delegated by the Board. To meet the requirements of regulatory authorities, the liquidity of CYBG Group is managed on a daily basis using a combination of measures including cumulative cash flow mismatch, scenario and gap analysis and stress tests designed to ensure that CYBG Group meets its normal daily cash requirements and that adequate sources of liquidity are available to support unforeseen cash outflows. The CYBG Asset and Liability Committee delegates daily management responsibilities to CYBG Group's treasury division within agreed tolerances.

CYBG Group also has a detailed annual funding plan intended to ensure diversification of sources of funding to manage the balance sheet structure and balance sheet risk. CYBG Group has a contingency funding plan, which is used to detail actions to be taken in the event of an escalated liquidity requirement if CYBG Group experiences either restricted access to wholesale funding or a large increase in the withdrawal of funds. The plan identifies triggers for escalation, details the actions required, allocates the key tasks to individuals, provides a timeframe and defines a strategic management group, under delegation from the Asset and Liability Committee to manage the action plan.

CYBG Group has a number of different sources of funding, which it considers to be well diversified in terms of the type of instrument and product, currency, counterparty, term structure and market.

CYBG Group's main sources of funding include the following:

- Customer deposits;
- Access to sterling money markets through cash deposits and certificates of deposit;
- "Lanark" owner-occupied mortgage securitisation programme;
- "Lannraig" buy-to-let mortgage securitisation programme;
- Regulated Covered Bond programme ("**RCB Programme**"); and
- Access to the facilities within the Bank of England's Sterling Monetary Framework.

These sources are focused on a range of different investors and depositors with a range of maturities. Funding is typically raised in pounds sterling, USD and EUR and is swapped back to pounds sterling to fund the predominantly pounds sterling balance sheet.

3.6 Market risk

3.6.1 Definition

Market risk is the risk associated with adverse changes in the fair value of positions held by CYBG Group as a result of movement in market factors such as interest rates, foreign exchange rates, volatility and credit spreads.

(a) Structural interest rate risk

(i) Definition

Structural interest rate risk comprises the sensitivity of CYBG Group's current and future net interest income to movements in market interest rates.

(ii) Principal risks

In CYBG Group's activities, the main market risk arises from interest rate levels and the related volatility and basis risk.

There are three major contributors to interest rate risk:

- the investment of non interest-bearing deposits and equity into interest-bearing assets;
- the mismatch between repricing dates of interest-bearing assets and liabilities ("**mismatch risk**"); and
- the inability of the pricing 'basis' for asset and liability products to be replicated in the financial markets ("**basis risk**").

In the banking business, interest rate risk arises from the different re-pricing characteristics of assets and liabilities. Interest rates affect the cost and availability of CYBG Group's sources of funding, product margins and, in turn, net interest margin and revenue. Interest rates also affect net interest income, impairment levels and customer affordability. The interest rate levels of interest rate swaps also affect the returns achieved on certain investments.

(iii) Managing risks

CYBG Group manages interest rate risk principally through the use of interest rate swaps and by netting-off cashflows from its assets and liabilities.

Interest rate risk management across CYBG Group is overseen by the CYBG Asset and Liability Committee with delegation for day-to-day management to CYBG Group's treasury division. Within the objective to secure stable and optimal net interest income over the long term, mismatch risk is minimised by the investment of equity and non-interest-bearing deposits targeting the stability of net interest income.

Basis risk is managed through a combination of wholesale market basis risk management products, pricing strategies and product innovation.

A key feature of the risk management and oversight framework is the use of value at risk as a measure of interest rate risk, along with earnings at risk as a measure to inform the impact of interest rate risk on future net interest income. Limits for value at risk and earnings at risk are complemented by sensitivity and scenario analysis. Other key features of the internal interest rate risk management model are:

- historical simulation approach utilising instantaneous interest rate shocks including parallel rate movements and twists in the yield curve to assess risks around exposures to movements in short or long term interest rates;
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing);
- economic capital is allocated for the interest rate risk in the banking book based on a higher confidence interval and a longer holding period;
- the investment term for capital is modelled with an established benchmark term of between one and five years; and
- the investment term for core "non-interest" bearing assets and liabilities is modelled on a behavioural basis with an established benchmark term of between one and five years.

(b) Foreign exchange risk

(i) Definition

Foreign exchange risk exposures arise if future cash flows can only be converted to pounds sterling at rates that are different than at the time of the original transaction.

(ii) Principal risks

CYBG Group's primary foreign exchange exposure arises from the Company's business conducted outside of the UK and its transactions with customers, banks and other counterparties in non-Sterling currencies, most frequently the Euro and the US dollar, and its business may be affected by a change in currency exchange rates or change in the reserve status of these currencies.

CYBG Group prepares and presents its financial statements in Sterling, and therefore any fluctuations in Sterling as compared to other currencies, in particular the Euro and US dollar, might affect the carrying value of non-Sterling denominated assets and liabilities and the reported profit (or loss) incurred on non-Sterling denominated transactions.

(iii) Managing risks

CYBG Group's policy is to fully hedge foreign exchange exposures at the time of commitment for all exposures that are considered to be of a material size.

Transactional currency exposures principally arise from dealings with customers and CYBG Group hedges exposures through transactions with a range of counterparties, including NAB, subject to exposures being of a material size.

3.7 Defined benefit pension risk

3.7.1 Definition

Pension risk is the risk that, at any point in time, the available assets to meet defined benefit pension liabilities are at a value below current and future scheme obligations.

3.7.2 Principal risks

CYBG Group has funding obligations for its defined benefit occupational pension schemes. Pension risk arises from the risk that the returns from the schemes' assets, together with ongoing employer and member contributions, will be insufficient to cover the projected obligations of the scheme over time. The return on assets varies with movements in equity prices, interest rates, property prices and the value of other assets. The projection of the schemes' obligations includes estimates of mortality, inflation and future salary rises, and discount factors; the actual outturn of which may differ from the estimates. The schemes are also exposed to possible changes in pension legislation.

3.7.3 Managing risks

The scheme is managed by independent trustees. However, the impact of the scheme on CYBG Group is subject to management by CYBG Group and corresponding risk oversight. CYBG Group's Pension Risk Management Committee reports to the CYBG Risk Committee on pension risks. See Part 8 of this Annexure G: "*Additional Information of CYBG Group–Pensions–Defined contribution scheme*" and Part 1 of this Annexure G: "*CYBG Group Risk Factors–Risks Relating to Pension Schemes*" for further information.

3.8 Strategic risk

3.8.1 Definition

Strategic risk is the risk of significant loss or damage arising from business decisions that impact the long-term interests of CYBG Group's stakeholders or from an inability to adapt to external developments.

3.8.2 Principal risks

Strategic risk can arise if CYBG Group designs and/or implements an inappropriate strategic plan, designs an appropriate plan but fails to implement it and/or implements the strategic plan as intended however external circumstances change (e.g. CMA review on competition, regulatory impositions, competitor actions) and anticipated outcomes are not achieved.

The risk of the CYBG Group failing to execute on its strategy and generating an unsustainable business model is contemplated as part of CYBG Board's Risk Profile. The Company understands that this could be due to the CYBG Group's inability to respond to cultural, structural and regulatory changes that need to be made; failure to establish and execute a compelling digital strategy and platform and/or increase organisational capability (through investment); an inappropriate governance framework or it not operating as designed; inadequate product, portfolio and pricing decisions; and/or being an inefficient, high cost, uninspiring and/or uncompetitive provider of products and services.

3.8.3 Managing risk

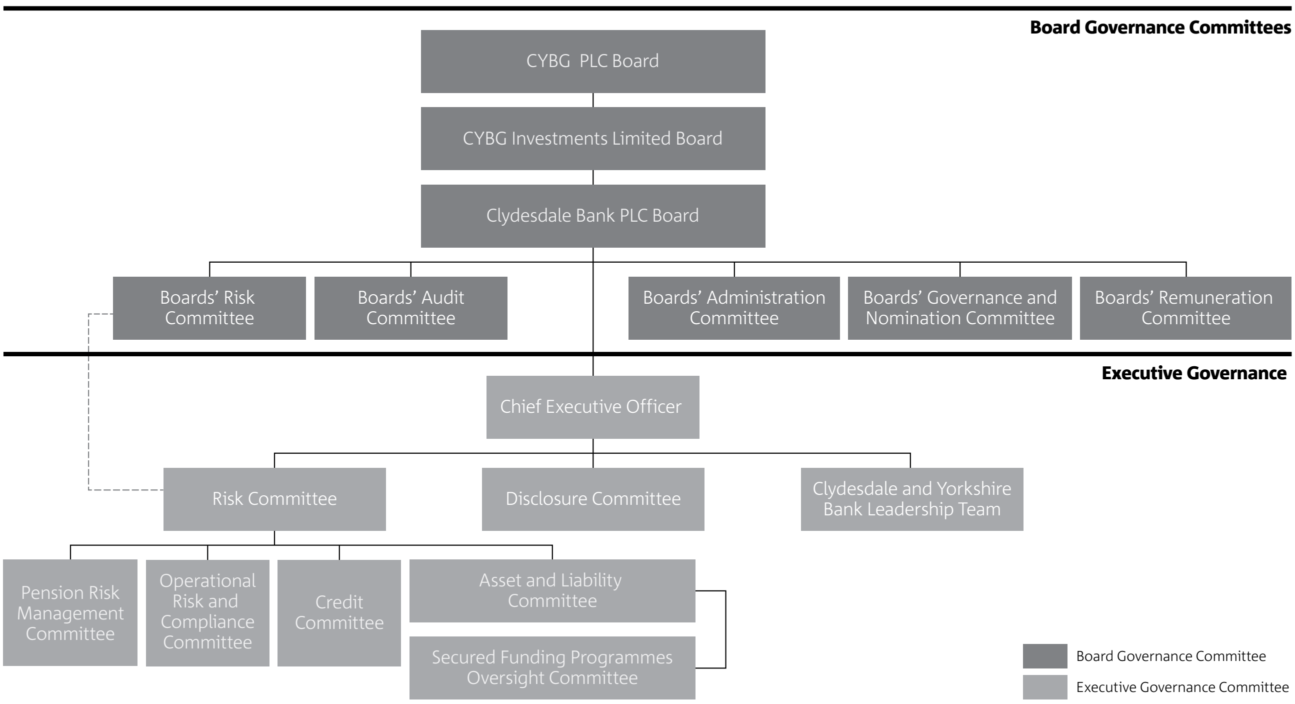
While CYBG Group has no specific formal policies or standards that govern strategic risk, the CYBG Board is ultimately responsible for overseeing the execution of CYBG Group's strategic plan and associated strategic risk, and on the recommendation of the CYBG CEO and executive management, the CYBG Board approves CYBG Group's strategic and operational plans.

The CYBG Group considers the strategic risk described above as part of CYBG Board's Risk Profile. A consolidated report is prepared and presented (for discussion) to the CYBG Board's Risk Committee which outlines CYBG Group's exposure to strategic risk.

4. Risk governance structure

CYBG Group believes its risk governance structure strengthens risk evaluation and management, while also positioning CYBG Group to manage the changing regulatory environment in an efficient and effective manner.

The oversight of the risk governance structure is facilitated by CYBG Board and Clydesdale Bank Board which approve the overall governance, risk and control frameworks and risk appetite. This risk and control framework was comprehensively reviewed following the FSA's (now the FCA's) skilled persons review (the "**Skilled Persons Review**") in 2012-2013 and is continually reviewed for new risks and developments. Additional oversight of risk appetite is provided by the CYBG's Board. See Part 3 of this Annexure G: "*CYBG Directors, Senior Management and Corporate Governance*" for further information on CYBG Board committees. The table below details CYBG Group's board and management risk reporting structure.



Annexure G: Part Six
Risk Management

4.1 Executive governance committees established under the authority of the CYBG CEO

The following executive governance committees have been established under the authority of the CYBG CEO where decisions within the remit of committees in the committee structure would otherwise be decisions of the CYBG CEO.

Committee	Risk Focus
Risk Committee	The Management Risk Committee supports the CYBG CEO in respect of his risk and control accountabilities and serves to provide leadership focus on key risk issues including: • devising the Risk Appetite Statement for approval by CYBG Board and Clydesdale Bank Board; • overseeing and challenging the enterprise-wide risk performance and control environment of CYBG Group and business units, including the effective use of policy, frameworks and tools; • monitoring the status of regulatory relationships, the reputation of CYBG Group in relation to its regulators and the changing state of the regulatory landscape including the impacts for and readiness of CYBG Group; • monitoring the strength of risk capability and capacity, including risk training and education plans to ensure an effective risk and control framework; and • reviewing and endorsing risk policies, frameworks and tools for use across CYBG Group.
Disclosure Committee	The Disclosure Committee is responsible for ensuring CYBG Group complies with the continuous disclosure obligations of the exchanges on which it has equity and debt securities listed.
Clydesdale and Yorkshire Bank Leadership Team	The Clydesdale and Yorkshire Bank Leadership Team supports the CYBG CEO to lead CYBG Group in its efforts to make Clydesdale Bank a strong, customer focused bank for its communities by focusing on four business priorities; customers, risks and controls, sustainable returns and people.

The Risk Committee is supported by the following committees:

Committees	Risk Focus
Pension Risk Management Committee	The Pension Risk Management Committee is responsible for overseeing pension risk management and strategy. This committee also oversees and governs interaction with pension scheme trustees.
Operational Risk and Compliance Committee	The Operational Risk and Compliance Committee is responsible for ensuring that the risk management frameworks and associated policies relating to Operational Risk, Financial Crime Risk, Regulatory Compliance and Conduct Risk remain effective. The committee will also have oversight of the management of medium and high risk change initiatives and resolution of material events.
Credit Committee	The Credit Committee is responsible for ensuring that the Credit Risk Management Framework and associated policies remain effective. The committee will have oversight of the quality, composition and concentrations of the credit risk portfolio and recommend strategies to adjust the portfolio to react to changes in market conditions.
Asset and Liability Committee	The Asset and Liability Committee is responsible for monitoring the performance of CYBG Group against the CYBG Board's approved capital and funding plans. The committee focuses on CYBG Group's non-traded market risks including capital, funding, liquidity, interest rate risk and pension risk to ensure that CYBG Group's activity complies with regulatory and corporate governance requirements and also delivers CYBG Group policy objectives.
Secured Funding Programmes Oversight Committee	The Secured Funding Programmes Oversight Committee is responsible for supporting the Asset and Liability Committee in relation to its risk monitoring and oversight responsibilities of all secured funding programmes and supporting the CYBG Chief Financial Officer in relation to the compliance of the RCB Programme with FCA regulations and the RCB Sourcebook.

4.2 Stress testing

Stress testing within CYBG Group's risk governance and capital framework

Stress testing within CYBG Group has been developed to inform future business and risk planning initiatives, strategic risk management (including the setting of risk appetite) and capital management. Specifically, stress testing is used or considered in informing the following management decisions:

(a) *Risk appetite and strategic business planning* – as part of an annual assessment of future opportunities for, and threats to, CYBG Group, stress testing outputs are used to inform the strategic planning process and to develop risk posture and risk appetite settings.

(b) *Capital planning* – stress testing informs the assessment and quantification of risk exposures in the course of calculating capital requirements as part of the capital planning process.

(c) *Liquidity management* – scenarios provide insight into potential vulnerabilities in CYBG Group's funding strategies. Regular stress tests are undertaken to understand and monitor exposure to liquidity risk with their regularity being aligned to the nature of, and exposure to, the risk type.

(d) *Recovery and resolution plan* – the recovery and resolution plan helps inform both stress testing and reverse stress testing scenario development. Reverse stress testing explores circumstances, or a set of circumstances, that render CYBG Group's business model unviable, moving CYBG Group into insolvency. As a result, these stresses are recognised as a required risk management tool in the form of early warning indicators of potential stress events.

(e) *Strategic risk management* – stress testing informs the nature and level of risk carried by CYBG Group arising from opportunistic assessments such as investments, divestments and acquisitions through emerging material risks posed by trends in or changes to the business environment.

Stress Testing Oversight and Governance

The Clydesdale and Yorkshire Bank Leadership Team are responsible for ensuring that the outcome of the capital stress testing is subject to robust challenge and endorsement prior to CYBG Board approval.

The Clydesdale and Yorkshire Bank Leadership Team are engaged in stress testing to provide review, discussion and debate into the scenario selection process, based on their experience and knowledge as heads of each business unit. The Leadership Team also considers and assesses results in the context of future strategic decision-making, contingency planning and capital and business planning.

The Asset and Liability Committee reviews the scenarios, assumptions and results of liquidity stress testing. The results of liquidity stress scenarios are reported to the Asset and Liability Committee monthly. The scenarios are the liquidity stress scenarios approved by the CYBG Board as part of the individual liquidity adequacy assessment.

The CYBG Board engages at critical points of the stress testing cycle to provide a robust and strategic challenge in relation to scenario selection and development. In addition, the CYBG Board considers how the results are integrated into the future strategic decision-making, contingency planning, capital and business planning and risk appetite.

Annexure G: Part Seven
Supervision and Regulation

1. UK Regulators

Banks and investment firms in the UK must be authorised and are subject to regulatory supervision. Clydesdale Bank, as a bank, must comply with the relevant UK and European legislation. Certain other members of CYBG Group, including Yorkshire Bank Home Loans Limited and CYB Intermediaries Limited, also undertake regulated activities and are subject to certain elements of the regulatory regime.

Outlined below is an overview of UK and European regulation applicable to CYBG Group.

1.1 The Prudential Regulation Authority, the Financial Conduct Authority and the Financial Policy Committee

The Financial Services Act 2012 (the "FSA 2012") introduced a range of structural reforms to UK financial regulatory bodies, with the FSA being replaced from 1 April 2013 by the following bodies: (i) the PRA; (ii) the FCA; and (iii) the FPC. Clydesdale Bank is authorised by the PRA and is regulated by both the PRA and the FCA. Other entities in the CYBG Group which are regulated in the UK include Clydesdale Bank Asset Finance Limited, Yorkshire Bank Home Loans Limited and CYB Intermediaries Limited, which are authorised and regulated by the FCA. CGF No. 9 Limited has received interim permission from the FCA to perform consumer credit activities and its application for full consumer credit permissions is pending approval by the FCA. Clydesdale Bank has received an interim variation of permission for its consumer credit related activity while the FCA continues its review to confirm the full approval of those permissions.

The PRA, a subsidiary of the Bank of England, has responsibility for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets, including banks, insurers and some large investment firms. The PRA's general objective is promoting the safety and soundness of PRA-authorised firms. The PRA is required to advance this objective primarily by seeking to:

- ensure that the business of a PRA-authorised firm is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
- minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system.

When discharging its general functions in a way that advances its objectives, the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by a PRA-authorised firm carrying on regulated activities.

The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA also has responsibility for market regulation and represents the UK's interests in this area at the European Securities and Markets Authority.

When discharging its general functions of rule-making, preparing and issuing rules under the FSMA, giving general guidance or determining general policy and principles, the FCA must, so far as is reasonably possible, act in a way which is compatible with its strategic objective of ensuring that relevant markets function well, and which advances one or more of its operational objectives of:

- securing an appropriate degree of protection for consumers (the consumer protection objective);
- promoting effective competition in the interests of consumers in financial markets (the competition objective); and
- protecting and enhancing the integrity of the UK financial system (the integrity objective).

So far as is compatible with its consumer protection and integrity objectives, the FCA must discharge its general functions in a way which promotes competition.

The FPC, which sits within the Bank of England, is tasked with macro-prudential regulation, or regulation of the stability and resilience of the financial system as a whole. The FPC has power to give directions (and recommendations) to the PRA and the FCA.

1.2 The UK Government

The UK Government has no operational responsibility for the activities of the PRA, the FCA or the FPC. However, there are a variety of circumstances where the PRA, the FCA and the FPC will need to alert HM Treasury (as the representative of the UK Government) about possible issues, for example, in terms of the PRA, where there may be a need for a support operation or a problem arises which could cause wider economic disruption and, in terms of the FCA, where there has been a significant regulatory failure to secure appropriate consumer protection.

1.3 The Financial Ombudsman Service

The FSMA established the FOS, which determines complaints by eligible complainants in relation to authorised financial services firms and certain other businesses in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money award by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012 (£100,000 for earlier complaints) plus interest and costs. The FOS may also make directions awards which direct the relevant business to take steps which the FOS considers just and appropriate.

Annexure G: Part Seven
Supervision and Regulation

2. UK Regulation

2.1 Overview of the UK financial services regulation

Financial Services and Markets Act 2000

The cornerstone of the regulatory regime in the UK is the FSMA, which came into force on 1 December 2001. However, the framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by European Union legislation.

The FSMA prohibits any firms from carrying on a "regulated activity" (as defined in the FSMA) by way of business in the UK unless that firm is authorised or exempt under the FSMA (the "**General Prohibition**"). Regulated activities include deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance as well as insurance mediation, consumer credit activities and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, managing investments and safeguarding and administering investments). The FSMA also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorised firm or exempt from such requirements.

The UK regulators are responsible for the authorisation and supervision of institutions that carry out regulated activities in the UK.

Clydesdale Bank is authorised by the PRA with permission to undertake, among other things, deposit-taking, issuing electronic money, mortgage and certain investment activities.

Authorised firms must at all times meet certain "threshold conditions" specified by the FSMA, which were modified to reflect the new regulatory structure under the FSA 2012. Dual-regulated firms, such as Clydesdale Bank, need to meet both the PRA's threshold conditions and the FCA's threshold conditions. The FCA threshold conditions for PRA authorised firms are: effective supervision; appropriate non-financial resources; suitability; and business model. At a high level, the PRA threshold conditions require: (i) that where a firm carries on the regulated activity of accepting deposits or issuing electronic money, the firm must be a body corporate or a partnership; (ii) a firm's head office and in particular its mind and management to be in the UK if it is incorporated in the UK; (iii) a firm's business to be conducted in a prudent manner and in particular that the firm maintains appropriate financial and non-financial resources; (iv) the firm itself to be fit and proper and appropriately staffed; and (v) the firm and its group to be capable of being effectively supervised.

Financial services regulators' handbooks

The FSMA (as amended by the FSA 2012) imposes an ongoing system of regulation and control on banks. The detailed rules and prudential standards set by the FCA and the PRA are contained in various parts of their respective handbooks (the "**FCA Handbook**") and the PRA rulebook (the "**PRA Rulebook**").

Once authorised, and in addition to continuing to meet the threshold conditions for authorisation, firms are obliged to comply with the FCA's Principles for Businesses set out in the FCA Handbook and, if a dual-regulated firm, the PRA's Fundamental Rules set out in the PRA Rulebook. The PRA's Fundamental Rules include requirements on firms to conduct their business with integrity, to act in a prudent manner, to maintain at all times adequate financial resources and to have effective risk strategies and risk management. The FCA's Principles for Businesses include requirements on firms to conduct their business with due skill, care and diligence, to treat customers fairly and to communicate with customers in a manner that is clear, fair and not misleading.

Manuals of the FCA Handbook and the PRA Rulebook which are of particular relevance to Clydesdale Bank, the CRR firm section of the PRA Rulebook, the Senior Management Arrangements, Systems and Controls sourcebook ("**SYSC**"), the Supervision sourcebook ("**SUP**"), the Conduct of Business sourcebook ("**COBS**"), the Insurance: Conduct of Business sourcebook ("**ICOBS**"), the Client Assets sourcebook ("**CASS Sourcebook**"), the Consumer Credit sourcebook ("**CONC**"), the Banking: Conduct of Business sourcebook ("**BCOB**"), the Mortgages and Home Finance Conduct of Business sourcebook ("**MCOB**"), the Dispute Resolution sourcebook ("**DISP**") and the Recovery and Resolution rulebook. In addition, individuals carrying out key functions within Clydesdale Bank must be approved by the PRA or the FCA and comply with the standards of conduct set out in the Statement of Principle for Approved Persons in the FCA Handbook.

2.2 Supervision and Enforcement

Supervision

Each of the PRA and the FCA has wide powers, where relevant, to supervise and intervene in the affairs of a firm authorised and regulated under, or pursuant to, the FSMA. These powers were extended under the FSA 2012.

The nature and extent of the PRA's and/or the FCA's supervisory relationship with a firm depends on how much of a risk the PRA and/or the FCA considers that firm could pose to its statutory objectives. The PRA's supervisory interventions will focus on reducing the likelihood of a firm failing and on ensuring that if it does fail, it does so in an orderly manner. The PRA has introduced the 'Proactive Intervention Framework' to support early identification of risks to a firm's viability (and enable appropriate supervisory actions to be taken to address such risks if necessary) on the basis of information collected.

When taking action, the PRA and/or the FCA can, for instance, require firms to provide particular information or documents to it, require the production of a report by a "skilled person" (as defined in the glossary to the FCA Handbook and PRA Rulebook), appointed by either the authorised firm or the PRA and/or the FCA, or formally investigate a firm. Where it will advance its objectives, the PRA and the FCA have a broad power of direction over qualifying unregulated parent undertakings.

Enforcement

The PRA and/or the FCA have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within them. Most notably, enforcement actions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an approved person's status. The PRA and/or the FCA can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months or six months in certain cases, or that fails to meet the threshold conditions.

Challenging the PRA/FCA

Where an authorised firm wants to challenge the decisions of the PRA or FCA, it could make formal representations and also bring a case to the Upper Tribunal (Tax and Chancery Chamber) (for the purposes of this Part 7 of Annexure G, the "**Tribunal**"). The amendments made to the FSMA which introduced the PRA and the FCA made a number of amendments to the appeal process, which have broadly reduced the powers of the Tribunal. Although the grounds for making a reference have remained unchanged, the courses of action available to the Tribunal in the event that it disagrees with the PRA have been reduced. Under the previous system, the Tribunal had the power to make its own decision in place of one made by a regulator with which it disagrees. That remains the position for a disciplinary reference or a reference in connection with specific third party rights, but the Tribunal no longer has the power to substitute its own decision for that of the regulator in a supervisory context.

2.3 Controller regime (including shareholders)

Under section 178 of the FSMA, if a person intends to acquire or increase its "control" of a UK authorised firm (such as Clydesdale Bank), it must first notify the appropriate regulator (in the case of Clydesdale Bank, this is the PRA). The PRA has 60 working days (after consulting with the FCA) to decide whether to approve the acquisition or increase of control beginning on the day on which the PRA acknowledges receipt of the notification. The 60 working day period can be interrupted if the PRA requests further information from the applicant. The PRA will not approve any new controller or any increase of control without being satisfied that the controller is financially sound and suitable to be a controller of, or acquire increased control of, the UK authorised firm. Acquiring control for the purposes of FSMA includes where a person first holds 10 per cent. or more of the shares or voting power in an authorised firm or its parent undertaking or anyone who holds shares or voting power in an authorised firm or its parent undertaking as a result of which they are able to exercise significant influence over the management of the authorised firm. A person will be treated as increasing his or her control over a UK authorised firm, and therefore require further approval from the PRA, if the level of his or her shareholding or entitlement to voting power increases from a holding below certain thresholds to a holding above them. The thresholds are 10 per cent., 20 per cent., 30 per cent. or 50 per cent. of shares or voting power.

When determining a person's level of control, that person's holding of shares or entitlement to voting power will be aggregated with the holdings or entitlements of any person with whom he or she is "acting in concert".

Acquisition or increase of control without PRA (or where appropriate FCA) approval is a criminal offence.

2.4 Capital adequacy and Liquidity

In the UK, the minimum capital and liquidity required to be held by a retail bank are established through discussions between that retail bank and the PRA and are set by the PRA in the form of Individual Capital Guidance ("**ICG**") and Individual Liquidity Guidance ("**ILG**"). The PRA sets a retail bank's ICG and ILG following submission by that bank of an Internal Capital Adequacy Assessment Process and an Individual Liquidity Adequacy Assessment Process. Typically a bank will hold a capital and liquidity buffer above these minimum requirements. The key metrics used to assess a bank's capital and liquidity requirements are discussed in more detail below.

The existing regulatory framework for capital adequacy and liquidity has witnessed a number of changes in recent years on account of the "Basel III" changes. The Basel Committee in "Basel III" introduced significant changes to the existing capital framework including new capital and liquidity requirements intended to reinforce capital standards, with heightened requirements for global systemically important banks, and to establish minimum liquidity standards for credit institutions. The changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a Leverage Ratio as well as short-term liquidity and longer-term funding measures (the Liquidity Coverage Ratio ("**LCR**") and the Net Stable Funding Ratio ("**NSFR**")). Basel III also introduced a credit valuation adjustment measure which aims to quantify the risk that counterparties to derivative transactions may be more or less credit worthy at any given time during the life of a transaction.

Annexure G: Part Seven
Supervision and Regulation

Basel III has been implemented in Europe through CRD IV and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (the "**CRR**"). CRD IV and CRR came into force in January 2014, but will only be fully implemented by January 2019. CRD IV and national discretions contained in the text of the CRR have been transposed into national law in the UK and are set out in the FCA Handbook and the new PRA Rulebook. Institutions are also required to refer directly to the CRR text and related technical standards issued by the EBA, reports and guidelines.

Capital

A bank's ability to absorb losses is determined by the amount of capital it holds. Consequently, a bank's total assets and RWAs determine the minimum capital the bank is required to hold. Three types of capital (among others) are defined by the CRR:

- Common Equity Tier 1 ("**CET1**") Capital: comprising common equity and retained earnings;
- Additional Tier 1 Capital: comprising deeply subordinated perpetual instruments issued in accordance with the requirements of the Capital Requirements Regulation; and
- Tier 2 Capital: comprising dated or perpetual subordinated instruments issued in accordance with the requirements of the Capital Requirements Regulation as well as: (i) any share premium account generated by the issuance of such instruments; and (ii) certain other risk-weighted exposure amounts.

The principal metrics used to assess capital strength are the Common Equity Tier 1 Capital Ratio and the Leverage Ratio.

In the UK, the PRA currently requires major banks and building societies to meet a minimum 7 per cent. Common Equity Tier 1 Capital Ratio and a minimum 3 per cent. Tier 1 Leverage Ratio.

The UK Government intends to introduce a new Leverage Ratio Framework in the UK. In February 2015, HM Treasury published the outcome of its consultation, wherein it sought views on how to implement the FPC's recommendations to grant the FPC powers to give directions to the PRA to set Leverage Ratio requirements and buffers for PRA-regulated institutions. HM Treasury noted in its outcome to the consultation that it also intended to grant the FPC a power to set supplementary ratio buffers.

Following a direction by the FPC in July 2015, the PRA consulted on the implementation of the new UK leverage ratio framework which is expected to include a 3 per cent. minimum Leverage Ratio requirement and additional leverage ratio buffers in the form of a countercyclical Leverage Ratio buffer requirement and an additional leverage ratio buffer for global systemically important institutions. The FPC has also directed the PRA to require at least 75 per cent. of the minimum leverage ratio requirement to be met by CET1 capital and to secure that 100 per cent. of leverage ratio buffers be met by CET1 capital. The changes proposed by the PRA are intended to impact banks and building societies with consolidated retail deposits equal to or greater than £50 billion. The PRA has proposed that the new leverage ratio framework should come into force on 1 January 2016, with a twelve-month transitional period for certain requirements. The PRA is expected to publish its policy statement, final rules and supervisory statements by the end of 2015.

Liquidity

A bank's ability to manage shocks to the financial system is assessed by the extent to which its assets are covered by funding with equal or longer maturity. The principal metrics to assess bank long term funding are the Loan to Deposit Ratio ("**LDR**"), NSFR and LCR.

- The LDR is defined as the ratio of total customer loans to deposits. While the PRA does not officially set a maximum limit for this ratio, reducing the LDR has been a key focus of UK retail banks since the financial crisis.
- The NSFR is a key component of Basel III (discussed above) which is due to come into force in 2018. The ratio seeks to calculate the proportion of long-term assets which are funded by long term, stable funding. The Basel III regulations state that a bank's NSFR must be at least 100 per cent.
- The LCR is designed to ensure that financial institutions have the necessary assets available to withstand short-term liquidity disruptions. Banks are required to hold an amount of highly liquid assets equal to or greater than their net cash outflow over a 30-day period. The LCR will be introduced in October 2015, but is subject to a phased implementation such that the full 100 per cent. minimum will not be enforced until 1 January 2018.

2.5 Key structural and other reforms

The ICB made various recommendations for retail and SME and deposit ring-fencing requirements for banks, while the Parliamentary Commission on Banking Standards ("**PCBS**") issued its final report in June 2013. Many of these recommendations have been reflected in the Banking Reform Act, which received Royal Assent on 18 December 2013 and will (on its provisions coming into force on a day or days to be appointed in commencement orders) enact a number of reforms primarily related to the UK's banking sector. Reforms introduced by the Banking Reform Act include the following:

Ring-fencing vital banking services

The Banking Reform Act introduces a ring fence around retail deposits held by UK banks with the aim of separating certain core banking services critical to individuals and SMEs from wholesale and investment banking services. The ring-fencing regime is intended to implement the core recommendation of the ICB that UK banks should ring fence their retail and SME deposit-taking businesses in certain financially independent legal entities which are separate and distinct from certain designated trading and banking activities. Secondary legislation setting out the detail of the ring-fencing regime would exempt from ring-fencing those banks whose "core deposits" (as defined in the draft secondary legislation) do not exceed £25 billion as a rolling average over a three-year period. CYBG Group will not be impacted by certain requirements under the ring-fencing regime since relevant CYBG Group companies are currently ring-fenced.

In October 2015, the PRA published a consultation paper on the implementation of ring fencing rules in the UK which covered prudential requirements, intra-group arrangements and the use of financial market infrastructures. The PRA proposes rules requiring a ring-fenced bank and entities in its ring-fenced sub-group not to make distributions to group entities that are not in the ring-fenced sub-group unless reasonable notice has been given to the PRA of the intention to make the distribution. The proposed rules would enable the PRA to monitor intended distributions from a ring-fenced bank or entity in its ring-fenced sub-group, evaluate the impact of these payments on the ring-fenced bank's ability to continue to meet regulatory capital requirements on an individual and sub-consolidated basis and, as appropriate, prevent such distributions by imposing a requirement that adequate capital resources are maintained. However, provided these regulatory requirements are satisfied, the PRA does not intend to require changes to a ring-fenced bank's dividend policy, or that of its ring-fenced bank sub-group. The UK Government intends to implement the ring-fencing regime from 1 January 2019.

Additional primary loss-absorbing capacity requirements

The Banking Reform Act introduces mechanisms that will require systemically important UK banks and building societies (including ring fenced banks and UK-headquartered global systemically important banks) to hold loss-absorbing capacity in addition to capital held to satisfy their capital requirements. Draft secondary legislation setting out the detail of the primary loss-absorbing capacity ("**PLAC**") requirements would require the minimum PLAC requirements for UK-headquartered global systemically important banks to be calibrated on a sliding scale from 13.1 per cent. of risk-weighted assets to 17 per cent. of risk-weighted assets depending on the "bucket" of systemic importance to which they are assigned. Lower PLAC requirements could be imposed for entities that are not UK-headquartered global systemically important banks. These reforms are intended to implement recommendations of the ICB relating to PLAC requirements and the resolution buffer.

The UK Government also intends to use the PLAC requirements to implement the BRRD for firms to maintain a minimum amount of "eligible liabilities" (that is, liabilities that may be bailed in using the BRRD bail-in tool). The UK Government has deferred the implementation of this requirement under the BRRD until 1 January 2016.

Depositor preference

In response to ICB recommendations, the Banking Reform Act amended the Insolvency Act 1986 and related Scottish legislation to provide that deposits eligible for protection under the FSCS are preferential debts, ranking ahead of unsecured creditors and floating charge holders. The relevant provisions of the Banking Reform Act came into force on 31 December 2014.

Senior persons regime, licensing regime and banking standards rules

The Banking Reform Act (not yet all in force) introduces a new accountability framework for individuals within banking which will replace the existing approved persons regime. The FCA and PRA consulted on and have published their final rules in relation to the new framework, which is due to commence in March 2016 with relevant firms expected to submit transitional documentation by February 2016. The new framework consists broadly of the following three elements:

Senior Managers Regime: The senior managers' regime (the "**Senior Managers Regime**") will apply to the top layer of executive management, directors and non-executive directors in Clydesdale Bank who will be subject to regulatory approval. The exception to this is standard non-executive directors (who do not act as chairman, senior independent director or chair any committees) who will fall out of the scope of the Senior Managers Regime and will not be subject to regulatory approval.

Banks will be required to assess these individuals as fit and proper and a notification of their appointment will be submitted to the regulator. Clydesdale Bank will be required to allocate a range of responsibilities (known as senior management functions) to these individuals and to assess their fitness and propriety on a regular basis. When applying for regulatory pre-approval for these individuals, Clydesdale Bank will have to include a statement of responsibilities setting out the areas that the prospective senior manager will be responsible for managing.

Clydesdale Bank will also be required to prepare, maintain and update a management responsibilities map, which is a single document that will describe Clydesdale Bank's management and governance arrangements. Senior Managers will also be subject to an increased criminal sanction of up to 7 years in prison or an unlimited fine where they make a decision which leads to the bank failing. Clydesdale Bank is required to identify and notify the regulators by 8 February 2016 of the approved persons who are to be senior managers. The Senior Managers Regime will come into force on 7 March 2016.

Certification Regime: The certification regime (the "**Certification Regime**") will require Clydesdale Bank to assess (and re-assess annually) the fitness and propriety of certain employees in positions where the decisions they make could pose a risk of significant harm to Clydesdale Bank or any of its customers (known as significant harm functions). These individuals will be the next tier down from Senior Managers and will not be subject to regulatory approval. Clydesdale Bank is required to identify its population of certified employees by 7 March 2016 and issue certificates for the concerned individuals by 7 March 2017.

Conduct Rules: The new conduct rules take the form of high-level principles, setting out the standards of behaviour for employees. These rules will replace the existing statements of principle and code of practice for approved persons. There are two tiers of conduct rules: five rules that will apply to all individuals in Clydesdale Bank (except ancillary employees) and four further senior manager conduct rules which will also apply to those that fall within the Senior Manager Regime. Clydesdale Bank will be required to train and make employees aware of the conduct rules, and notify the regulators when they suspect or know there has been a breach of the conduct rules. The senior manager conduct rules will apply from 7 March 2016; the date for the commencement of the other conduct rules is to be confirmed.

Criminal sanctions for managerial misconduct

The Banking Reform Act introduces a new criminal offence of reckless misconduct in the management of a bank, as recommended by the PCBS in its final report. The scope of this offence will be limited to individuals covered by the senior persons regime. The maximum sentence for the new offence will be seven years in prison and/or an unlimited fine. These provisions will come into force on 7 March 2016.

Regulators' powers over holding companies

Under the FSMA, the FCA and the PRA have the power to impose requirements on UK parent undertakings (qualifying parent undertakings) of certain regulated firms. The Banking Reform Act amends the FSMA to introduce new powers allowing the PRA or the FCA, as appropriate, to impose rules on qualifying parent undertakings for the purposes of requiring arrangements that would allow or facilitate the exercise of resolution powers in respect of the qualifying parent undertaking or any subsidiary undertaking and allowing the appropriate regulator to make rules applying to UK-incorporated parent companies of ring-fenced banks to support the objectives of ring-fencing. The Company could be subject to PRA or FCA requirements as the parent undertaking of Clydesdale Bank.

New Payment Systems Regulator

In response to the PCBS' recommendation, the Banking Reform Act introduced a new regulator for UK payment systems, the PSR. The PSR operates under the FCA but with separate duties and powers and is tasked with the objectives of promoting effective competition in the market for payment systems, promoting the innovation in and development of payment systems and ensuring that payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, its services.

In addition to early focus on the creation of a new payments strategy forum with wide industry and consumer representation, the PSR has launched two market reviews, one looking into the supply of indirect access to payment systems and the other looking at ownership and competitiveness of infrastructure provision. Each review is anticipated to take 12 months with a further six months for the PSR to assess any proposed remedies.

European Regulatory Landscape

In January 2014 the European Commission published a proposal on structural measures to improve the resilience of credit institutions. The proposal builds on the recommendations published in October 2012 by a High Level Expert Group established by the Commission and chaired by the Governor of the Bank of Finland, Mr Erkki Liikanen. The proposed regulation intends to introduce a ban on proprietary trading for EU credit institutions which are global systemically important institutions or above a specific financial threshold. Regulators would also be granted powers to require credit institutions to separate certain trading activities.

2.6 Recovery and resolution

The UK Banking Act established a special resolution regime for UK banks and building societies which provides the PRA, the Bank of England and HM Treasury with tools for dealing with failing institutions. These tools consist of three stabilisation options, which are designed to address a distressed bank which is failing or is likely to fail to meet the threshold conditions and which cannot be assisted through normal regulatory action or market-based solutions. The UK Banking Act also makes provision for special insolvency processes which authorities can utilise to deal with failing banks.

The Banking Reform Act amends the UK Banking Act 2009 to introduce a bail-in tool. The amendments establish the bail-in option as a new stabilisation option available to the Bank of England as lead resolution authority under the special resolution regime.

European regulatory developments

The BRRD, which was adopted in June 2014, established an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Member States were required to have put in place national legislation implementing the provisions of the BRRD by 1 January 2015, except for certain bail-in provisions which Member States can implement by 1 January 2016. The European Banking Authority consulted on a wide range of guidelines and technical standards most of which have been submitted to the European Commission. The provisions of the BRRD (including those relating to bail-in) have been implemented in the UK.

2.7 Consumer credit regulation

With effect from 1 April 2014, reforms have brought the UK consumer credit regime under the umbrella of the FSMA and transferred the responsibility for the oversight and regulation of consumer credit from the OFT to the FCA. The regulatory framework comprises the FSMA and its secondary legislation, retained provisions in the CCA and rules and guidance in the FCA Handbook, including the CONC (for the purposes of this section, collectively the "**Consumer Credit Regime**").

Under the Consumer Credit Regime, the definition of "regulated activities" is extended to consumer credit activities including entering into a "regulated credit agreement" as lender. A regulated credit agreement is any "credit agreement" that is not an "exempt agreement". A credit agreement is any agreement between an individual or relevant recipient of credit ("A") and any other person ("B"), under which B provides A with "credit" of any amount. Credit is widely defined and includes cash loans and any other form of financial accommodation. Exempt agreements include those predominantly for the purposes of a business, those secured on land or otherwise by mortgage and those where a local authority or other specified type of organisation is the lender. Other consumer credit activities which are now regulated include credit broking, debt-related consumer credit activities, entering into a regulated consumer hire agreement as owner or lender, operating an electronic system in relation to lending and providing credit information services and credit references.

Consumer credit activities are subject to the General Prohibition and the FSMA authorisation regime discussed earlier in this Part 7 of Annexure G.

Key features of the UK consumer credit regime include:

- *Authorisation*: to become authorised by the FCA, firms must meet threshold conditions, report information which is subject to scrutiny by the FCA and obtain pre-approval for those in key roles in the applicant firm;
- *Supervision*: under the Consumer Credit Regime there is close supervision of firms engaged in higher risk consumer credit activities and a less intensive supervision regime for lower risk firms. Firms are subject to regular reporting requirements in relation to their consumer credit activities and the FCA will engage in thematic work in response to systemic issues;
- *Rules*: the CCA statutory regulations and OFT guidance have been replaced by FCA general standards, rules (breaches of which can be penalised), guidance and retained consumer protections in the CCA. The guidance set out in the FCA Handbook rules has the force of law. The stringent FSMA financial promotions regime also applies. The FCA has also imposed financial promotion rules for high cost short term credit, cold calling and debt management companies. The financial promotions regime does not apply to second charge loans by firms that also carry on first charge residential lending, the financial promotion requirements in relation to these firms remain similar to previous requirements until they are transferred to the longer-term mortgage regime referred to in paragraph 2.8 below;
- *Enforcement*: the FCA has greater powers of enforcement than the OFT and those include bringing criminal, civil and disciplinary proceedings, power to withdraw authorisations, ban firms from financial services, suspend firms or individuals for 12 months and the power to issue unlimited fines. It is also able to use its product intervention powers in the consumer credit market which can include restrictions on product features and selling practices or product bans; and
- *Complaints and redress*: consumers continue to have access to the FOS. The FCA also has the power to require firms to reimburse consumers who have suffered loss due to a firm's actions.

European regulatory landscape

In April 2008, the European Parliament and the Council of the European Union adopted a second directive on consumer credit (Directive 2008/48/EC) which provided that, subject to exemptions (including loan agreements secured by land mortgage), loans not exceeding €75,000 must be regulated. This directive repealed and replaced the first consumer credit directive and was implemented in the UK through changes to the Consumer Credit Regime.

2.8 Residential mortgage lending

The FSMA regulates lending in relation to residential property which falls within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A residential mortgage is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (i) the credit agreement is one under which the lender provides credit to an individual or to trustees; (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the FSMA as to authorisation or financial promotions are contravened, then the relevant regulated mortgage contract (and, in the case of financial promotions, other credit secured on land) is unenforceable against the borrower without a court order. The MCOB sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorised firm (such as Clydesdale Bank) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

Following FSA's wide ranging consultation on mortgage lending, the FSA's MMR, the FSA published final rules on 25 October 2012 which amended the existing conduct rules for mortgage lending. The new rules came into effect on 26 April 2014.

Principal changes centre upon responsible lending and include:

- more thorough verification of borrowers' income (no self-certification of income, mandatory third-party evidence of income required);
- assessment of affordability of interest-only loans on a capital and interest basis unless there is a clearly understood and believable alternative source of capital repayment;
- application of interest rate stress tests – lenders must consider likely interest rate movements over a minimum period of five years from the start of the mortgage term; and
- when making underwriting assessments, lenders must take account of future changes to income and expenditure that a lender knows of or should have been aware of from information gathered in the application process and lenders may base their assessment of customers' income on actual expected retirement age rather than state pension age. Lenders will be expected to assess income into retirement to judge whether the affordability tests can be met.

There are also significant changes to mortgage distribution and advice requirements in sales, arrears management and requirements on contract variations such as when additional borrowing is requested.

European regulatory landscape

The Directive on credit agreements relating to residential property, also commonly known as the MCD, came into effect on 20 March 2014. The MCD was to some extent modelled on the second directive on consumer credit and 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. The MCD regulates both first and second charge mortgage lending.

Member States are required to implement the MCD into national law by March 2016.

The Financial Services and Markets (Mortgage Credit Directive) Order 2015, which implements the MCD in the UK, was published in March 2015, with the provisions coming into force in stages between April 2015 and March 2016. Firms may elect to comply with the new rules from September 2015. HM Treasury has also amended the definition of regulated activities under the RAO, so that second charge mortgages which are currently regulated under the Consumer Credit Regime will move into the regulatory regime for residential mortgages from March 2016.

2.9 Payment Services Directive and Multilateral Interchange Fee Regulation

Directive 2007/64/EC on payment services in the internal market harmonises the regulatory regime across the European Union for payment services (the "**PSD**"). The PSD was implemented in the UK through the Payment Services Regulations, 2009 and related amending legislation. The regulations create a separate authorisation and registration regime which differs from the authorisation requirements under the FSMA, for businesses which provide payment services (including credit card services) in the UK. Credit institutions are only subject to the conduct of business requirements in the regulations to the extent that they provide payment services.

In July 2013, the European Commission published a legislative proposal to revise the PSD, the PSD2. The EU Council published the final compromise text of the legislation, following the provisional agreement reached between the EU Parliament, Council and Commission. The aim of PSD2 is to extend the scope of entities covered by the regulation and to improve the transparency and security of payment services. It is expected to be transposed into national law in 2017.

The Commission also adopted a proposal on multilateral interchange fees, the MIF Regulation, which aims to introduce a cap on bank interchange fees charged on consumer credit and debit card transactions. The MIF Regulation lays down business rules and other technical requirements that apply to all types of card-based payment transactions. The MIF Regulation was published in the Official Journal on 19 May 2015 and most of the provisions came into force on 8 June 2015. Rules capping interchange fees for consumer debit and credit card transactions will apply from 9 December 2015.

On 19 December 2014, the EBA published its final guidelines on the security of internet payments. The guidelines set minimum security requirements that EU payment service providers are expected to implement in respect of internet payments. All EU competent authorities are expected to comply with the guidelines by incorporating them into their supervisory practices. The FCA has stated that it intends to incorporate the detail of the EBA guidelines into its supervisory framework in line with the timetable for the transposition of PSD2.

Other significant payment services legislation include regulation (EU) 260/2012 establishing technical and business requirements for credit transfers and direct debits in Euro (the "**SEPA Migration Regulation**") and Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**").

The SEPA Migration Regulation sought to create an integrated market for electronic payments in Euro, by replacing existing national payment schemes in Euro with pan-European SEPA payment schemes. The new SEPA payment schemes were implemented for Eurozone countries by 2014. The deadline for implementation of these schemes by non-Eurozone countries (including the UK) is 31 October 2016.

The Payment Accounts Directive introduced measures that banks and other payment service providers must comply with including in relation to provision of standard fee information in relation to payment accounts to consumers, facilitation of account switching and ensuring basic bank accounts are available to all EU consumers. The Payment Accounts Directive came into force in September 2014, with Member States being required to transpose its provisions into national law by September 2016.

2.10 Financial Services Compensation Scheme and the EU Deposit Guarantee Scheme Directive

Financial Services Compensation Scheme

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example, for claims against firms declared in default on or after 1 January 2010 (31 December 2010 for deposits): (i) for deposits, 100 per cent. of the first £85,000 (this limit was reduced on 3 July 2015 to £75,000, with the new limit taking effect for existing depositors on 1 January 2016); (ii) for investment business (including mortgage advice and arranging) 100 per cent. of the first £50,000; and (iii) for insurance firms declared to be in default after 3 July 2015, 90 per cent. of the claim with no upper limit (except that claims that arise in respect of a liability subject to compulsory insurance or to professional indemnity insurance is protected in full; no protection is available for goods in transit, marine, aviation and credit insurance and contracts of reinsurance). The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim.

EU Deposit Guarantee Scheme Directive

Directive 94/19/EC on deposit guarantee schemes as amended by DGSD, requires Member States to adopt at least one deposit guarantee scheme for the protection of deposits. The UK deposit guarantee scheme is the FSCS. The DGSD sets the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at €100,000.

The DGSD has been recast and will be replaced by a new Directive 2014/49/EU on deposit guarantee schemes (the "**Recast DGSD**") which was published in the Official Journal in June 2014. DGSD introduces requirements on banks to contribute to their national deposit guarantee scheme at least annually and to have reached a minimum target pre-funded level of 0.8 per cent. of deposits covered by the DGSD by 3 July 2024. The Recast DGSD must be implemented by Member States into national law by 3 July 2015.

In March 2015, the Deposit Guarantee Scheme Regulations were published to implement the Recast DGSD in the UK. In April 2015, the PRA issued its final rules for implementing Recast DGSD requirements. The majority of the new rules came into force on 3 July 2015 with the exception to this being some core system and information requirements which are due to be implemented by 1 December 2016. Key changes required for July 2015 include enhancements in eligibility for deposit protection, protection for temporary high balances and more prescriptive disclosure requirements.

2.11 Competition regulation

CYBG Group companies are subject to supervision and oversight by a number of competition regulators, including the CMA, sectoral regulators and the European Commission. The Banking Reform Act gives the FCA and the Payment Systems Regulator concurrent powers with the CMA to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively.

The Banking Reform Act gives the PRA a new statutory objective relating to competition, through amendments to the FSMA. This implements the PCBS' recommendation, set out in its final report, that the PRA should be given a secondary competition objective. These changes came into force on 1 March 2014.

The FCA and the CMA conducted a joint market study on banking services for SMEs and published their findings in July 2014. Based on the findings from the review the CMA announced its decision in November 2014 to launch an in-depth market investigation into the personal current account and SME retail banking sectors after having concerns about the effectiveness of competition in these sectors. The CMA published its provisional findings and possible remedies on 22 October 2015 and is expected to publish its final report in April 2016. The FCA also launched its review of the Current Account Switch Service and account number portability in September 2014 and published the results of its review in March 2015. The FCA has also conducted market studies and made recommendations in relation to general insurance add-ons, retirement income and cash savings plans and launched market studies on the credit card market in November 2014 and into competition in investment and corporate banking services (following its review into competition in the wholesale sector) in February 2015 and into competition in the mortgage market in October 2015. While the outcome of ongoing studies, and the scope of any future studies, is inherently uncertain, they may ultimately result in the application of behavioural and/or structural remedies by the regulator.

Annexure G: Part Seven
Supervision and Regulation

The FCA published research reports on overdraft charges in June 2014. The FCA raised concerns that overdraft providers have incentives to raise revenue by increasing overdraft limits and have historically imposed very high, complex and opaque charges for unauthorised overdrafts. There are existing voluntary measures in place designed to help reduce overdraft costs (as agreed between the UK Government, the OFT and industry members). However, the FCA announced its intention to investigate (together with the CMA) how providers set and monitor overdraft limits and their governance and strategies for doing so, and indicated that it would also consider making some of the existing voluntary measures mandatory.

2.12 Other relevant legislation and regulation

Money Laundering Regulations

The UK Money Laundering Regulations 2007 place a requirement on authorised firms to verify the identity and address of customers opening accounts with it, and to keep records to help prevent money laundering and fraud.

Guidance in respect of the Money Laundering Regulations 2007 is contained in the Guidance Notes of the Joint Money Laundering Steering Group, including in respect of the identification of new clients, record keeping and otherwise. Directive 2005/60/EC, which underpins the Money Laundering Regulations 2007, was reviewed by the European Commission between 2010 and 2012 and it found that there were no fundamental shortcomings in the regime.

In response to the European Commission's review, broad support was expressed for the proposed alignment to the revised Financial Action Task Force standards and for greater clarification of certain issues, in particular in the area of data protection and cross-border transactions. In February 2013, the European Commission adopted proposals for a directive on the prevention of the use of the financial systems for the purpose of money laundering and terrorism financing and a regulation on information accompanying transfer of funds to secure due traceability of these transfers. The new money laundering directive and regulation on information accompanying transfer of funds was published in the Official Journal on 5 June 2015 and came into force on 25 June 2015. Member States will have until 26 June 2017 to transpose and comply with the new directive. The new regulation will become directly applicable from 26 June 2017.

Data Protection

The UK Information Commissioner's Office is responsible for overseeing implementation of the Data Protection Act 1998 which regulates, among other things, the retention and use of data relating to individual customers and such individual's access to the data.

Unfair Terms in Consumer Contracts Regulations

Prior to the entering into force of the Consumer Rights Act, 2015, the UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) (the "**UTCCR**") applied to consumer contracts entered into on or after 1 July 1995. The main effect of these regulations is that a contract term which is "unfair" will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services. The FCA has issued statements of good practice in this regard in May 2005, January 2007 and January 2012.

Consumer Rights Directive implementing legislation

The Directive on Consumer Rights (2011/83/EC) ("**EU Consumer Rights Directive**") has been implemented in the UK through the Payment Surcharges Regulation 2012 (which prohibits traders from imposing excessive charges on customers in relation to the use of a means of payment), the Consumer Contracts Regulation, 2013 (which prescribed requirements in relation to information to be provided to consumers, interest charges and additional payments) and the Consumer Rights Act, which received royal assent in March 2015 with the majority of provisions taking effect in October 2015. The Consumer Rights Act replaces the UTCCR with a consolidated regime in respect of unfair contract terms which will also extend to individually negotiated contracts and to consumer notices, for contracts entered into on or after 1 October 2015. Contracts entered into before that date will continue to be subject to the UTCCR. The Consumer Rights Act also contains clarificatory provisions in relation to consumer rights in respect of goods, services and digital content and provisions which are intended to provide easier access to customers to compensation arising from breaches of consumer or competition law.

Banking Conduct Regime

On 1 November 2009, the FSA introduced its "Banking Conduct Regime" for retail banking conduct of business. The Banking Conduct Regime includes the full application of the FCA's Principles for Businesses, the conduct of business requirements contained in the Payment Services Regulations and BCOB.

The Lending Code

On 1 November 2009, the British Bankers' Association, the Building Societies Association and The UK Cards Association launched "The Lending Code", a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the "Business Banking Code" then ceased to have effect. The Lending Code has been revised from time to time with the latest revision being made in October 2014. A further review of the Lending Code is currently underway.

Bank levy

From 1 January 2011 banks have been required to pay the so-called "bank levy", in addition to the fees that they pay to the PRA and FCA. The bank levy aims to ensure that banks contribute at a level that reflects the risk that bank failure poses to the UK economy and aims to encourage banks to reduce riskier funding. Banks are required to contribute based on their equity and liabilities (subject to some exceptions) or that of their group for a given chargeable period. In its March 2014 consultation paper on adopting a 'banding approach' to bank levies, HM Treasury noted that it intends to use the bank levy to fund ex ante funding requirements under the DGSD and BRRD.

The July 2015 UK budget proposed a phased reduction of the bank levy from the existing rate of 0.21 per cent. to 0.10 per cent. from January 2021 and a change in the scope of the levy so that UK headquartered banks are levied on their UK liabilities from 1 January 2021. The budget also proposed the introduction of a new tax on banking sector profit from 1 January 2016 which would be set at a permanent rate of 8 per cent.

The Pensions Regulator

The Pensions Regulator is responsible for the supervision of work-based pension schemes including the DB Scheme. The Pensions Regulator has wide ranging statutory powers in relation to the funding of such schemes, including the power to intervene in valuation and funding processes. It also has the ability in some circumstances to require employers and certain associates of employers to put lump sums into or otherwise provide additional financial support to the scheme. The Pensions Regulator has a role to play in some corporate transactions and can support the trustees in making demands of the employer if there are concerns regarding the deterioration of the employer covenant.

The Pension Regulator's objectives are set out in the Pensions Act 2004 and include promoting and improving understanding of the good administration of work-based pensions.

The objectives set out in the Pensions Act 2004 are to protect the benefits of members of occupational pension schemes, to protect the benefits of members of personal pension schemes (where there is a direct payment arrangement), to promote, and to improve understanding of the good administration of work-based pension schemes, to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund, to maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008 and to minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the regulator's functions under Part 3 of the Pensions Act 2004 only).

MiFID II

On 15 May 2014, the European Parliament and European Council adopted a directive (Directive 2014/65/EU) and associated regulation (Regulation 600/2014) on markets in financial instruments (together "**MiFID II**"), which will repeal and recast the existing Directive 2004/39/EC on markets in financial instruments. MiFID II introduces a number of new measures which are designed to overhaul existing rules for market infrastructures (including the application of regulatory requirements to a new category of multilateral, discretionary trading venues for non-equities, the Organised Trading Facility), increase transparency and transaction reporting requirements, enhance existing conduct of business requirements and supervisory enforcement powers, increase regulation of commodities business and introduce new rules for third country firms accessing EU markets. The new requirements introduce a number of changes to the banking sector's market infrastructure and conduct rules (including enhanced suitability requirements) and introduces new investor protection measures including product governance requirements.

MiFID II entered into force on July 2014, however the majority of the provisions will only apply from January 2017. Final regulatory and implementing technical standards and guidelines regarding the implementation of various provisions are expected to be published by ESMA and the Commission during the course of 2016. Member states are also expected to transpose national implementation measures by July 2016.

EMIR

The European market infrastructure regulation (Regulation 648/2012) ("**EMIR**"), was adopted by the European Parliament and European Council on 4 July 2012. EMIR provides for certain OTC derivatives contracts to be submitted to central clearing and imposes, *inter alia*, margin posting and other risk mitigation techniques, reporting and record keeping requirements. CYBG Group is subject to reporting obligations which are already in force. The clearing and margin requirements are being phased in and CYBG Group will be subject to these requirements in relation to those classes of derivatives that are declared to be subject to the clearing obligation (with the first clearing obligation in respect of certain interest rate swaps expected to come into force in April 2016).

Fair and Effective Markets Review

In June 2014, the Chancellor of the Exchequer announced FEMR, a joint review by the Bank of England, HM Treasury and the FCA into the way wholesale financial markets function. The aim of the FEMR was to identify ways to reinforce confidence in the fairness and effectiveness of wholesale financial market activity conducted in the UK and to influence the international debate on trading practices. The review ran for 12 months. The three main purposes of the FEMR report were to analyse the root causes of recent misconduct and other sources of perceived unfairness in the wholesale sector, to evaluate the impact of existing reform measures to address these causes and to make recommendations to plug any gaps. FEMR's final report was published on 10 June 2015 and sets out 21 key recommendations consisting of a mix of near-term actions to improve conduct in wholesale markets and principles to guide a more forward-looking approach to these markets. The recommendations made include extending UK criminal sanctions for market abuse for individuals and firms to a wider range of wholesale market instruments, lengthening the maximum sentence for criminal market abuse from seven to 10 years' imprisonment and mandating detailed regulatory references to help firms prevent the 'recycling' of individuals with poor conduct records between firms. The review's chairs are expected to provide a full update on the implementation of the recommendations to the Chancellor of the Exchequer and the Governor of the Bank of England by June 2016.

Small and Medium Sized Business (Finance Platforms) Regulations

In February 2015, Department for Business, Innovation & Skills published a draft version of the draft Small and Medium Sized Business (Finance Platforms) Regulations which HM Treasury intends to make under sections 5 and 6 of the Small Business, Enterprise and Employment Act 2015 and which is expected to come into force on 1 January 2016. The regulations, which are intended to assist small and medium sized businesses who are unsuccessful in obtaining financing from credit institutions to seek funding from alternate lenders, will require credit institutions above a certain market threshold to provide specified information about unsuccessful finance applications of such businesses to designated online finance platforms which can be accessed by alternative lenders who meet certain conditions. In its August 2014 statement, the UK government indicated that it intends to designate Clydesdale Bank as one of the credit institutions which will be required to provide credit information under these regulations.

Foreign Account Tax Compliance Act

The United States has enacted rules, commonly referred to as "FATCA", that generally impose a new reporting and withholding regime with respect to certain U.S. source payments made by, and financial accounts held with, entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with the United Kingdom.

The FATCA provisions impose substantial burdens on UK businesses in identifying US taxpayers, and registering and reporting information. Further, significant aspects of how FATCA will apply in the future remain unclear and, as a result, the scope of compliance may change.

Annexure G: Part Eight
Additional information on CYBG Group

1. Incorporation And Registered Office

1.1 CYBG PLC was incorporated in England and Wales on 18 May 2015 with registered number 9595911 as a public company limited by shares under the *Companies Act (UK)* with the name Pianodove PLC.

1.2 Pianodove PLC changed its name to CYBG PLC on 1 October 2015.

1.3 The principal legislation under which CYBG PLC operates is the *Companies Act (UK)*.

1.4 The registered office of CYBG PLC is at 20 Merrion Way, Leeds, LS2 8NZ (telephone number +44 (0)113 807 2000).

1.5 The head office and principal place of business in the UK of CYBG PLC is at 40 St Vincent Place/51 West George St, Glasgow (telephone number +44 (0)141 242 4533).

2. Share Capital

2.1 The issued and fully paid share capital of CYBG PLC as at incorporation was as follows:

	Issued and fully paid		
Class	**Nominal Value**	**Number**	**Amount**
Ordinary	£1.00 each	1	£1.00

CYBG PLC does not have an authorised share capital.

2.2 Immediately following UK Admission, the issued and fully paid share capital of CYBG PLC is expected to be as follows:

	Issued and fully paid		
Class	**Nominal Value**	**Number**	**Amount**
Ordinary	£1.25 each	879,315,256	£1,099,094,070

If the CYBG Capital Reduction does not become effective there will be no change to the share capital as set out above.

2.3 If the CYBG Capital Reduction becomes effective, the issued and fully paid share capital of CYBG PLC immediately following the CYBG Capital Reduction becoming effective is expected to be as follows:

	Issued and fully paid		
Class	**Nominal Value**	**Number**	**Amount**
Ordinary	10 pence each	879,315,256	£87,931,525.60

2.4 All calculations in this Part 8 regarding the issued share capital of CYBG PLC at UK Admission have been calculated using the Anticipated Nominal Value of £1.25 per CYBG Share, and all calculations of the issued share capital of CYBG PLC immediately following the CYBG Capital Reduction becoming effective have been calculated using the value of 10 British pence per CYBG Share. As described in detail at Section 3.8 of this Scheme Booklet, it may be necessary to adjust the Anticipated Nominal Value prior to the close of proxies for the Scheme Meeting which would impact the calculations in this Part 8.

2.5 None of the capital of CYBG PLC has been paid for with assets other than cash within the period from incorporation to the date of this Scheme Booklet.

2.6 On incorporation the share capital of CYBG PLC was £1.00, being 1 CYBG Share of £1.00.

2.7 Since incorporation, the issued share capital of CYBG PLC has been changed as follows:

2.7.1 on 11 September 2015, CYBG PLC issued 49,999 CYBG Shares of £1.00 each, resulting in an issued share capital of 50,000 CYBG Shares; and

2.7.2 on 20 November 2015, CYBG PLC initially consolidated the CYBG Shares into 1 CYBG Share with a nominal value of £50,000 and then subsequently divided that CYBG Share into 40,000 CYBG Shares each with a nominal value of £1.25.

2.8 The shareholder of CYBG PLC resolved at a general meeting of CYBG PLC held on 20 November 2015 that CYBG PLC be granted the following powers and authorities in connection with the Demerger and in substitution for all authorities existing at the date of the meeting:

2.8.1 the CYBG Directors be unconditionally authorised in accordance with section 551 of the *Companies Act (UK)* to exercise all the powers of the Company to allot ordinary shares in the Company up to an aggregate nominal amount of £2,000, such authority to expire on the earlier of immediately following implementation of the Demerger and 31 August 2016 (the "**Preparatory Allotment Authority**"), and to disapply pre-emption rights in connection with such allotment;

2.8.2 the CYBG Directors be unconditionally authorised in accordance with section 551 of the *Companies Act (UK)* to exercise all the powers of the Company to allot shares in the Company up to an aggregate nominal amount of £1,099,094,070 in so far as such shares are to be allotted and issued by the Company pursuant to the terms of the Sale and Purchase Agreement, such authority to expire on the earlier of the day immediately following implementation of the Demerger and 31 August 2016 (the "**Demerger Authority**");

2.8.3 the CYBG Directors directors be unconditionally authorised in accordance with section 551 of the *Companies Act (UK)* to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £200,000,000 in so far as such shares are to be allotted and issued or such rights are to be granted by the Company pursuant to the terms of the Conduct Indemnity Deed, and to disapply pre-emption rights in respect of any such allotment, such authority to expire on 20 November 2020, being five years from the date the authority was granted, but so that the Company may make offers and enter into agreements (including, but not limited to, the Conduct Indemnity Deed) before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires, and the directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired (the "**Conduct Indemnity Authority**");

2.8.4 the CYBG Directors be unconditionally authorised in accordance with section 551 of the *Companies Act (UK)* to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £450,000,000 in connection with the issue by the Company of £450,000,000 fixed rate reset perpetual subordinated contingent convertible notes on or around the date of the Demerger, and to dispply pre-emption rights in connection with any such allotments, such authority to expire on 20 November 2020, being five years from the date the authority was granted, but so that the Company may make offers and enter into agreements before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires, and the directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired (the "**Convertible Notes Authority**"); and

2.8.5 subject to and conditional upon: (i) the Scheme having become effective and having been implemented; and (ii) the ordinary shares of £1.25 each in the capital of the Company required to be allotted and issued by the Company pursuant to the terms of the Sale and Purchase Agreement as contemplated by the Scheme, having been allotted and issued and registered in the name of NAB in the Company's register of members, the share capital of the Company be reduced by cancelling paid up share capital to the extent of 115 pence on each ordinary share of CYBG PLC and reducing the nominal value of each such ordinary share from £1.25 to 10 pence.

2.9 The shareholder of CYBG PLC resolved at the same general meeting referred to at paragraph 2.8 above held on 20 November 2015 that, CYBG PLC be granted the following powers and authorities, subject to and conditional upon the earlier of UK Admission or Australian Admission becoming effective, and in place of all existing authorities and/or powers save for the Preparatory Allotment Authority, the Conduct Indemnity Authority, the Convertible Notes Authority and the Demerger Authority:

2.9.1 the CYBG Directors be generally and unconditionally authorised in accordance with section 551 of the *Companies Act (UK)* to exercise all the powers of CYBG PLC to allot shares in CYBG PLC or grant rights to subscribe for or to convert any security into shares in CYBG PLC:

(a) up to an aggregate nominal amount of £29,310,508 being an amount equal to approximately one-third of the issued share capital of CYBG PLC immediately following completion of the CYBG Capital Reduction (such amount to be reduced by the aggregate nominal amount allotted or granted pursuant to the authority referred to in paragraph (b) below in excess of £29,310,508 being an amount equal to approximately one-third of the issued share capital of CYBG PLC immediately following completion of the CYBG Capital Reduction); and

(b) comprising equity securities (as defined in section 560(1) of the *Companies Act (UK)*) up to an aggregate nominal amount of £58,621,017 being an amount equal to approximately two-thirds of the issued share capital of CYBG PLC immediately following completion of the CYBG Capital Reduction (such amount to be reduced by the aggregate nominal amount allotted or granted pursuant to the authority referred to in paragraph (a) above) in connection with an offer by way of a rights issue:

(i) to ordinary CYBG Shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the CYBG Directors otherwise consider necessary,

and so that the CYBG Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authorities to apply until the end of CYBG PLC's next annual general meeting (or, if earlier, until the close of business on 31 March 2017) but, in each case, so that CYBG PLC may make offers and enter into agreements before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires and the CYBG Directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired.

The limb of the resolution described in paragraph (b) above allows the CYBG Directors to issue up to 87,931,520 CYBG Shares of 10 British pence each for cash without having first to offer the shares to existing CYBG Shareholders. This number represents approximately 10 per cent. of the issued share capital of CYBG PLC immediately following completion of the CYBG Capital Reduction and is in line with the UK Pre-Emption Group's Statement of Principles, as updated in March 2015 (the "Statement of Principles"). In exercising this power, the CYBG Directors intend to adhere to the provisions in the Statement of Principles and not to allot shares for cash on a non pre-emptive basis pursuant to the authority in the resolution described in this paragraph 2.9.1: (i) in excess of an amount equal to 5 per cent. of the total issued ordinary share capital of CYBG PLC excluding treasury shares; or (ii) in excess of an amount equal to 7.5 per cent. of the total issued ordinary share capital of CYBG PLC excluding treasury shares within a rolling three year period, without prior consultation with CYBG Shareholders, in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six month period and is disclosed in the announcement of the allotment.

2.9.2 the CYBG Directors be generally empowered pursuant to section 570 of the *Companies Act (UK)* to allot equity securities (as defined in section 560(1) of the *Companies Act (UK)*) for cash pursuant to the authority referred to in paragraph 2.9.1 above and/or pursuant to section 573 of the *Companies Act (UK)* to sell ordinary shares held by CYBG PLC as treasury shares for cash, in each case free of the restriction in section 561 of the *Companies Act (UK)*, such power to be limited:

(a) to the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or an invitation to apply for, equity securities (but in the case of an allotment pursuant to the authority referred to in paragraph 2.9.1(b) above, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only):

(i) to CYBG Shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the CYBG Directors otherwise consider necessary,

and so that the CYBG Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(b) to the allotment of equity securities pursuant to the authority referred to in paragraph 2.9.1(a) above and/or sale of treasury shares for cash (in each case otherwise than in the circumstances referred to in paragraph 2.9.2(a) above) up to a nominal amount of £8,793,152 being an amount equal to approximately 10 per cent. of the issued share capital of CYBG PLC immediately following completion of the CYBG Capital Reduction in aggregate calculated, in the case of equity securities which are rights to subscribe for, or to convert securities into, ordinary shares by reference to the aggregate nominal amount of relevant shares which may be allotted pursuant to such rights,

such power to apply until the end of CYBG PLC's next annual general meeting (or, if earlier, until the close of business on 31 March 2017) but so that CYBG PLC may make offers and enter into agreements before the power expires which would, or might, require equity securities to be allotted after the power expires and the CYBG Directors may allot equity securities under any such offer or agreement as if the power had not expired.

2.9.3 CYBG PLC be generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693(4) of the *Companies Act (UK)*) of CYBG Shares, subject to the following conditions:

(a) the maximum number of CYBG Shares authorised to be purchased is 87,931,525 representing approximately 10 per cent. of the issued ordinary share capital of CYBG PLC immediately following the Demerger;

(b) the minimum price which may be paid for a CYBG Share is the nominal value of a CYBG Share; and

(c) the maximum price which may be paid for a CYBG Share shall be the higher of:

(i) an amount equal to 105 per cent. of the average middle market quotation for a CYBG Share for the five business days immediately preceding the day on which that CYBG Share is contracted to be purchased; and

(ii) an amount equal to the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out, in each case exclusive of expenses;

such authority to expire at the end of CYBG PLC's next annual general meeting (or, if earlier, at the close of business on 31 March 2017) but so that CYBG PLC may enter into a contract to purchase CYBG Shares which will or may be completed or executed wholly or partly after the expiry of the authority and CYBG PLC may purchase CYBG Shares pursuant to any such contract as if the authority had not expired;

2.9.4 a general meeting of CYBG PLC, other than an annual general meeting, may be called on not less than 14 clear days' notice, such authority to expire at the end of CYBG PLC's next annual general meeting (or, if earlier, at the close of business on 31 March 2017);

2.9.5 CYBG PLC and any member of the CYBG Group be generally and unconditionally authorised for the purposes of sections 366 and 367 of the *Companies Act (UK)* to:

(a) make political donations to political parties or independent election candidates not exceeding £100,000 in total;

(b) make political donations to political organisations other than political parties not exceeding £100,000 in total; and

(c) incur political expenditure not exceeding £100,000 in total,

as such terms are defined in the *Companies Act (UK)* and provided that the aggregate of (a), (b) and (c) shall not exceed £100,000 and may comprise sums in different currencies which shall be converted at such rate as the directors may in their absolute discretion determine to be appropriate. Such authority will expire at the end of CYBG PLC's next annual general meeting (or, if earlier, at the close of business on 31 March 2017).

It is not the policy of the CYBG Group to make donations to political parties, or to make other political donations within the normal meaning of that expression, and the CYBG Directors have no intention of changing that policy. However, as a result of the wide definitions in the *Companies Act (UK)*, normal expenditure (such as expenditure on organisations concerned with matters of public policy, law reform and representation of the business community) and business activities (such as communicating with government and political parties at local, national and European level) might be construed as political expenditure or as a donation to a political party or other political organisation and fall within the restrictions of the *Companies Act (UK)*, and so the authority has been taken to avoid any inadvertent breach of the provisions of the *Companies Act (UK)*.

2.10 If UK Admission becomes effective, CYBG PLC will be subject to the continuing obligations of the UK Listing Rules published by the FCA with regard to the issue of securities for cash and, whether or not UK Admission becomes effective, the provisions of section 561 of the *Companies Act (UK)* (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) in respect of any shares in the capital of CYBG PLC issued which are not the subject of the disapplications referred to at paragraphs 2.8 and 2.9 above.

2.11 The CYBG Shares are in registered form and, from UK Admission, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations). Where CYBG Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where CYBG Shares are held in CREST, the relevant CREST stock account of the registered members will be credited.

2.12 Save as disclosed in this Scheme Booklet:

2.12.1 no share or loan capital of CYBG PLC or any of its subsidiaries has within the period from incorporation to the date of this Scheme Booklet (other than intragroup issues by wholly owned subsidiaries or pursuant to the Institutional Offer) been issued or been agreed to be issued fully or partly paid, either for cash, or for a consideration other than cash and no such issue is now proposed;

2.12.2 no commissions, discounts, brokerages or other special terms have been granted by CYBG PLC or any of its subsidiaries within the period from incorporation to the date of this Scheme Booket in connection with the issue or sale of any share or loan capital of any such company; and

2.12.3 no share or loan capital of CYBG PLC or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option.

2.13 A description of the CYBG CDIs, which will provide the holder with beneficial ownership of the underlying CYBG Shares, and of the rights attaching to them is set out in Section 4.4.5 of this Scheme Booklet.

3. Articles Of Association

3.1 By way of special resolution of CYBG PLC passed on 20 November 2015 the Articles of Association adopted subject to and conditional upon and with effect on and from implementation of the Demerger contain provisions to the following effect:

3.1.1 Objects

The objects of CYBG PLC, in accordance with s.31(1) of the *Companies Act (UK)*, are unrestricted.

3.1.2 Limited Liability

The liability of the members is limited to the amount, if any, unpaid on the shares in CYBG PLC respectively held by them.

3.1.3 Rights Attaching to CYBG Shares

(a) Voting Rights of Members

Subject to any special terms as to voting for the time being attached to any class of shares (as to which there are none at present) and subject to disenfranchisement in the event of non-payment of any call or other amount due and payable in respect of any share or non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares, on a show of hands every member present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for every share of which he is a holder (except in the case of the Authorised Nominee who shall have (or whose proxy shall have) one vote for every CYBG CDI in respect of which a valid voting instruction is received).

The Authorised Nominee may appoint a CYBG CDI Holder or a third party nominated by a CYBG CDI Holder as its proxy or proxies so as to enable the person so appointed to attend, speak and vote at general meetings and to demand or join in demanding a poll.

(b) Dividends

Subject to the *Companies Act (UK)* and the Articles, CYBG PLC may by ordinary resolution declare dividends, and the CYBG Directors may decide to pay interim dividends. A dividend must not be declared unless the CYBG Directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the CYBG Directors and no dividend may be declared or paid unless it is in accordance with members' respective rights.

Unless the members' resolution to declare or CYBG Directors' decision to pay a dividend, or the terms on which shares are issued, specify otherwise, it must be paid by reference to each members' holdings of shares on the date of the resolution or decision to declare or pay it.

Subject to the provisions of the *Companies Act (UK)* and rights attached to shares, CYBG PLC or the CYBG Directors may fix any date as the record date for a dividend. The record date may be on or at any time before or after a date on which the dividend is declared or paid.

Except as otherwise provided by the Articles or the rights attached to, or the terms of issue of, any shares, all dividends must be declared and paid according to the amounts paid up on the shares on which the dividend is paid and apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Except as otherwise provided by the rights attached to the shares, the CYBG Board may determine (i) the currency in which dividends shall be declared; (ii) the currency or currencies in which any dividends declared shall be paid; and (iii) how and when any currency exchange calculations shall be carried out and how any associated costs shall be met.

All dividends or other sums which are payable in respect of shares and unclaimed after having been declared or become payable may be invested or otherwise made use of by the CYBG Directors for the benefit of CYBG PLC until claimed. If 12 years have passed from the date on which a dividend or other sum became due for payment and the distribution recipient has not claimed it, the distribution recipient is no longer entitled to that dividend or other sum and it ceases to remain owing by CYBG PLC.

The CYBG Directors may pay any dividend (including any dividend payable at a fixed rate) if it appears to them that the profits available for distribution justify the payment. If CYBG PLC's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears.

Subject to the Articles, CYBG PLC may, by ordinary resolution on the recommendation of the CYBG Directors, decide to pay all or part of a dividend or distribution payable in respect of a share by transferring non-cash assets of equivalent value (including shares or other securities in any company).

Subject to the *Companies Act (UK)* and the Articles, CYBG PLC may by ordinary resolution offer to shareholders the right to elect to receive, in lieu of a dividend, an allotment of new ordinary shares credited as fully paid.

(c) Return of Capital

A liquidator may, on obtaining any sanction required by law, divide among the members in kind the whole or any part of the assets of CYBG PLC and may, for that purpose, value any assets and determine how the division is carried out as between the members or different classes of members.

3.1.4 Currency

The CYBG Board may differentiate between members as to the currency in which any amount payable to a member is paid.

In deciding the currency in which a payment is to be made to a member, the CYBG Board may have regard to the registered address of the member, the register on which a member's CYBG shares are registered and/or any other matters as the CYBG Board thinks fit in its absolute discretion.

3.1.5 Method of Payment

CYBG PLC may pay any dividend, interest or other amount payable in respect of a CYBG share as the CYBG Board may decide in its absolute discretion. If the CYBG Board decides that a payment will be made by bank or other funds transfer system to an account nominated by a person entitled to the payment, but no such account is nominated by the relevant person or the transfer into a nominated account is rejected or refunded, CYBG PLC may credit the amount payable to an account of CYBG PLC to be held until the person entitled to the payment nominates a valid account. An amount so credited will be treated as having been paid to the person entitled to the payment at the time it is credited. CYBG PLC will not be a trustee of the money and no interest will accrue on the money.

3.1.6 Transfer of Shares

(a) Subject to the Articles, shares of CYBG PLC are free from any restriction on transfer. In exceptional circumstances approved by the FCA, the CYBG Directors may refuse to register a transfer of certificated shares **provided that** such refusal would not disturb the market in those shares.

(b) Certificated shares may be transferred by means of an instrument of transfer in writing in any usual form or any other form approved by the CYBG Directors, which is executed by or on behalf of:

(i) the transferor; and

(ii) (if any of the shares is partly paid) the transferee.

(c) Subject to the Regulations, the transferor remains the holder of a share until the transferee's name is entered in the register of members as the holder of it.

(d) The CYBG Directors may also, in their absolute discretion, refuse to register the transfer of a certificated share or a renunciation of a renounceable letter of allotment of a share unless all of the following conditions are satisfied:

(i) it is in respect of only one class of shares;

(ii) it is in favour of (as the case may be) a single transferee or renounce or not more than four joint transferees or renounce

(iii) it is duly stamped (if required); and

(iv) it is delivered for registration to the registered office of CYBG PLC or such other place as the CYBG Directors may decide, accompanied by the certificate for the shares to which it relates (except in the case of a person to whom CYBG PLC is not required by sections 769, 776, 777 or 778 of the *Companies Act (UK)* to issue a certificate, or in the case of a renunciation) and such other evidence as the CYBG Directors may reasonably require to prove the title of the transferor or person renouncing and the due execution by him of the transfer or renunciation or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

(e) If the CYBG Directors refuse to register the transfer of a certificated share or renunciation of a renounceable letter of allotment, the instrument of transfer or renunciation must be returned to the transferee or renounce as soon as practicable and in any event within two months of the date on which the transfer or renunciation was lodged with CYBG PLC with the notice of refusal and reasons for refusal unless they suspect that the proposed transfer or renunciation may be fraudulent.

(f) In accordance with and subject to the provisions of the Regulations, the operator of the relevant system ("**Operator**") shall register a transfer of title to any uncertificated share or any renounceable right of allotment of a share which is a participating security held in uncertificated form unless the Regulations permit the Operator of the relevant system to refuse to register such transfer in certain circumstances in which case the said Operator may refuse such registration.

(g) In accordance with the Regulations, if the Operator refuses to register the transfer of an uncertificated share or of any such uncertificated renounceable right of allotment of a share it must, as soon as practicable and in any event within two months after the date on which the relevant system-member instruction or issuer instruction (as the case may be) was received by the Operator, send notice of the refusal to the relevant system member or participating issuer (as the case may be).

(h) In accordance with and subject to the provisions of the Regulations, where title to an uncertificated share is transferred by means of a relevant system to a person who is to hold such share in certificated form after such transfer, CYBG PLC as participating issuer must register the transfer in accordance with the relevant Operator instruction, but so that CYBG PLC may refuse to register such a transfer in any circumstance permitted by the Regulations.

(i) In accordance with the Regulations, if CYBG PLC as participating issuer refuses to register the transfer of title to an uncertificated share transferred by means of a relevant system to a person who is to hold such share in certificated form after such transfer, it must, as soon as practicable and in any event within two months after the date on which the Operator instruction was received by CYBG PLC, send notice of the refusal to the transferee.

(j) CYBG PLC (at its option) may or may not charge a fee for registering the transfer of a share or the renunciation of a renounceable letter of allotment or other document or instructions relating to or affecting the title to a share or the right to transfer it or for making any other entry in the register.

3.1.7 Sale of Small Holdings

The CYBG Directors or the secretary may send a notice to a Small Holder notifying him of CYBG PLC's intention to sell or arrange the sale of his shares or in the case of a CYBG CDI Holder, the shares to which his CYBG CDIs relate, unless within a specified period of not less than 6 weeks (as set out in the notice), that Small Holder increases his holding to at least a Marketable Parcel, all of the securities to which the notice relates are sold by the Small Holder, or the Small Holder notifies CYBG PLC in writing that he wishes to retain the securities to which the notice relates (a "**Divestment Notice**").

If a Divestment Notice has been sent to a Small Holder, then, unless within the period specified in such notice, the Small Holder has increased his holding to at least a Marketable Parcel, he has sold all of his securities, or he notifies CYBG PLC in writing that he wishes to retain his securities, the shareholder to whom the relevant Divestment Notice relates (or where the Divestment Notice relates to CYBG CDIs, the Authorised Nominee) is deemed to have irrevocably appointed CYBG PLC as the shareholder's agent to sell all of the shares which are the subject of the Divestment Notice at such price and on such terms as may be determined by the secretary or the CYBG Directors in their sole discretion, and to receive the proceeds of sale on behalf of the Small Holder. CYBG PLC may take any action it considers necessary or desirable to effect such a sale.

CYBG PLC is not obliged to sell any shares to which a Divestment Notice relates. However, if any disposal is to be made, it must be effected within the period of 10 days following the expiration of the period specified in the Divestment Notice. If any shares are sold, CYBG PLC is required to send the proceeds of such sale to the relevant Small Holder in such manner and by such means as may be determined by the CYBG Directors. CYBG PLC will bear the costs of sale of the transferor of the shares sold but is not liable for tax on income or capital gains of the Small Holder.

CYBG PLC may not serve more than one Divestment Notice on a particular Small Holder in any 12 month period.

3.1.8 Variation of Rights

Subject to the *Companies Act (UK)*, the rights attached to a class of shares may be varied or abrogated (whether or not CYBG PLC is being wound up) either (i) with the consent in writing of the holders of at least three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or (ii) with the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class validly held in accordance with the Articles.

The rights attached to a class of shares are not, unless otherwise expressly provided for in the rights attaching to those shares, deemed to be varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by CYBG PLC of its own shares in accordance with the *Companies Act (UK)*.

3.1.9 Company's Lien on Partly Paid shares in CYBG PLC

CYBG PLC has a lien over every share which is partly paid for any part of that share's nominal value and any premium at which it was issued, which has not been paid to CYBG PLC, and which is payable immediately or at some time in the future, whether or not a call notice has been sent in respect of it. CYBG PLC's lien over a share takes priority over any third party's interest in that share and extends to any dividend or other money payable by CYBG PLC in respect of that share and (if that lien is enforced and the share is sold by CYBG PLC) the proceeds of sale of that share.

The CYBG Directors may at any time decide that a share which is or would otherwise be subject to CYBG PLC's lien shall not be subject to it, either wholly or in part. Unless otherwise agreed with the transferee, the registration of a transfer of a share operates as a waiver of CYBG PLC's lien (if any) on that share solely for the purposes of the transfer.

3.1.10 Forfeiture

If a person is liable to pay a call and fails to do so by the due date for payment, the CYBG Directors may issue a notice of intended forfeiture to that person and, until the call is paid, that person must pay CYBG PLC interest on the call from the due date for payment to the actual date of payment (both dates inclusive) at the relevant rate. A notice of intended forfeiture must be in writing, may be sent in respect of any share in respect of which a call has not been paid as required by a call notice, must be sent to the holder of that share or a person entitled to it by reason of the holder's death, bankruptcy or otherwise, must require payment of the call and any accrued interest (and all costs, charges and expenses incurred by CYBG PLC by reason of non-payment) by a date which is not less than 14 days after the date of the notice, must state how the payment is to be made and must state that if notice is not complied with, the shares in respect of which the call is payable will be liable to be forfeited.

If a notice of intended forfeiture is not complied with before the date by which payment (including interest, costs, charge and expenses) of the call is required in the notice of intended forfeiture, the CYBG Directors may decide that any share in respect of which it was given is forfeited, and the forfeiture is to include all dividends or other moneys payable in respect of the forfeited shares and not paid before the forfeiture.

If a person's shares have been forfeited, that person remains liable to CYBG PLC for all sums payable by that person under the Articles at the date of forfeiture in respect of those shares, including any interest at the relevant rate (whether accrued before or after the date of forfeiture) and costs, charges or expenses.

Failure to give notice to the relevant holder of the share will not invalidate the forfeiture. Forfeited shares shall become the property of CYBG PLC.

3.1.11 Redeemable shares in CYBG PLC

Subject to the *Companies Act (UK)*, CYBG PLC may issue shares which are to be redeemed or are liable to be redeemed at the option of CYBG PLC or the holder, and the CYBG Directors may determine the terms, conditions and manner of redemption of any such shares.

3.1.12 Governing Law

The Articles and the laws of England and Wales govern the relationship between CYBG PLC and its members. The Articles, the laws of England and Wales and, for so long as CYBG PLC is listed and the CYBG CDIs remain quoted on the ASX, the ASX Settlement Operating Rules govern the relationship between CYBG CDI Holders and CYBG PLC.

The governing law provisions of the Articles will apply, or will continue to apply, as and to the extent applicable, to any member who becomes a CYBG CDI Holder through transmutation of shares in CYBG PLC into CYBG CDIs and to any CYBG CDI Holder who becomes a member through transmutation of CYBG CDIs into shares in CYBG PLC.

3.1.13 ASX Settlement Operating Rules

For so long as CYBG PLC is listed and the CYBG CDIs remain quoted on the ASX and notwithstanding any provision of the Articles, the CYBG Directors are authorised to vary or depart from any provisions of the Articles concerning the holding of CYBG CDIs if and to the extent necessary to comply with the ASX Settlement Operating Rules save to the extent that such rules conflict or are otherwise inconsistent with the laws of England and Wales or any Resolution Power of any Relevant Resolution Authority.

Each person who is a CYBG CDI Holder shall have the right, in respect of the number of CYBG CDIs held by them, to direct the Authorised Nominee as to how it should vote with respect to a resolution, to appoint him as its proxy or to appoint as its proxy a person nominated by him.

3.1.14 ASX Standard Listing

Save to the extent any of the following conflicts with or is otherwise inconsistent with the laws of England and Wales, any Resolution Power of any Relevant Resolution Authority, the governing law provisions described in paragraph 3.1.12 above or the provisions in respect of Resolution Powers described in paragraph 3.1.16 below, if CYBG PLC is admitted to the official list of ASX (excluding as an ASX Foreign Exempt Listing), then for so long as it is so admitted and it is not, at such time, admitted to listing on the Official List and to trading on the London Stock Exchange's main market for listed securities:

(a) notwithstanding any other provision of the Articles (other than the governing law provisions described in paragraph 3.1.12 above and in respect of the Resolution Powers described in paragraph 3.1.16 below), if the ASX Listing Rules (Standard Listing) prohibit an act being done, that act must not be done;

(b) no provision of the Articles (other than the governing law provisions described in paragraph 3.1.12 above and in respect of the Resolution Powers described in paragraph 3.1.16 below) shall prevent an act being done that the ASX Listing Rules (Standard Listing) require to be done;

(c) if the ASX Listing Rules (Standard Listing) require an act to be done or not to be done, authority shall be deemed to have been given for that act to be done or not to be done (as the case may be);

(d) the ASX Listing Rules (Standard Listing) require that the Articles contain a particular provision and it does not contain such a provision, the Articles shall be deemed to contain that provision;

(e) if the ASX Listing Rules (Standard Listing) require that the Articles (other than the governing law provisions described in paragraph 3.1.12 above and in respect of the Resolution Powers described in paragraph 3.1.16 below) do not contain a particular provision and they contain such a provision, the Articles (other than the governing law provisions described in paragraph 3.1.12 above and in respect of the Resolution Powers described in paragraph 3.1.16 below) shall be taken not to contain that provision; and

(f) if any provision of the Articles (other than the governing law provisions described in paragraph 3.1.12 above and in respect of the Resolution Powers described in paragraph 3.1.16 below) is or becomes inconsistent with the ASX Listing Rules (Standard Listing), the Articles (other than the governing law provisions described in paragraph 3.1.12 above and in respect of the Resolution Powers described in paragraph 3.1.16 below) shall be taken not to contain that provision to the extent of the inconsistency.

3.1.15 Registers

Subject to the *Companies Act (UK)* and the Regulations, the CYBG Directors may exercise powers conferred on CYBG PLC with regard to the keeping of an overseas, local or other register and may make and vary regulations as it thinks fit concerning the keeping of such a register, including the creation of and/or discontinuance of any overseas, local or other register and the transfer of entries in any such register to the main register of CYBG PLC or to such other overseas, local or other register as the CYBG Directors think fit.

Each member and each CYBG CDI Holder is deemed to consent to the creation or discontinuance by or on behalf of the CYBG Directors of any overseas, local or other register and the transfer of entries in any such register to or from the main register of CYBG PLC in connection with the exercise of any Resolution Power by any Relevant Resolution Authority.

If CYBG PLC is admitted to listing and the CYBG CDIs become quoted on the ASX the CYBG Directors shall, in accordance with the ASX Settlement Operating Rules, establish and (for so long as CYBG PLC or the CYBG CDIs remain so listed) maintain a register of CYBG CDI Holders.

3.1.16 Resolution Powers

The entitlement of a member or any CYBG CDI Holder to any CYBG PLC shares and CYBG CDIs, any such person's rights attaching to any CYBG PLC shares or any CYBG CDIs, CYBG PLC's obligations to any member in their capacity as a member of CYBG PLC or CYBG CDI Holder and the provisions of the Articles are subject to the exercise by a Relevant Resolution Authority of a Resolution Power, including by, but not limited to:

(a) the cancellation or reduction of any amount owed by CYBG PLC to any member or CYBG CDI Holder in respect of any CYBG PLC shares or CYBG CDIs or any dividend or distribution thereon;

(b) the cancellation of any CYBG PLC shares, or the reduction of the nominal value of any CYBG PLC shares;

(c) the transfer or issue of or suspension of rights (in whole or in part) in respect of any or all CYBG PLC shares, CYBG CDIs or other instruments of ownership or other securities or obligations of CYBG PLC to any Relevant Resolution Authority or such other person as that Relevant Resolution Authority determines; or

(d) the conversion of any or all CYBG PLC shares and/or CYBG CDIs into other instruments of ownership or other securities or obligations of CYBG PLC as any Relevant Resolution Authority may determine,

that may result from or relate to any such exercise, and each member and CYBG CDI Holder is deemed to consent to any such exercise.

CYBG PLC, each member and each CYBG CDI Holder is bound by any exercise by a Relevant Resolution Authority of a Resolution Power in relation to any or all of the CYBG PLC shares and/or CYBG CDIs. The entitlement of a member or a CYBG CDI Holder to CYBG PLC shares and CYBG CDIs, any such person's rights attaching to the CYBG PLC shares and the CYBG CDIs and CYBG PLC's obligations to any such person are subject to and will be varied, to the extent necessary, to give effect to any exercise by a Relevant Resolution Authority of a Resolution Power.

The CYBG Directors may authorise any CYBG Director or other person to do anything, exercise any powers, take any action and/or execute and deliver any document as agent for and on behalf of any member or CYBG CDI Holder as the CYBG Directors consider necessary to give effect to the exercise by a Relevant Resolution Authority of a Resolution Power and the related provisions in the Articles (including in respect of the transfer of any CYBG PLC shares or CYBG CDIs and/or any discontinuance of any overseas, local or other register). All acts and things done by or on behalf of any CYBG Director or other person will be as good and valid as if they had been done by the relevant member or CYBG CDI Holder, who is deemed to ratify and confirm whatever is done in the exercise of that authority.

The validity of any action or exercise of the authority granted by the Articles in respect of a Resolution Power is not to be questioned and all claims, demands and rights against CYBG PLC of the relevant member or CYBG CDI Holder are extinguished in respect of the exercise of the authority granted by the Articles.

3.1.17 General Meetings

At least 21 clear days' notice must be given to call an annual general meeting. Subject to the *Companies Act (UK)*, at least 14 clear days' notice must be given to call all other general meetings.

The notice of a general meeting must be given to the members (other than who, under the provisions of the Articles or the terms of allotment or issue of shares are not entitled to receive notice), to the CYBG Directors, to the beneficial owners nominated to enjoy information rights under the *Companies Act (UK)* and to CYBG PLC's auditors. The accidental omission to give notice of a general meeting or to send, supply or make available any document or information relating to a meeting to, or the non-receipt of any such notice by, a person entitled to receive any such notice shall not invalidate the proceedings at that meeting.

All members present in person, and their duly appointed proxy or proxies shall be entitled to attend and to speak at all general meetings of CYBG PLC and, such proxy or proxies are entitled to vote instead of such member both on a show of hands and on a poll. A proxy need not also be a member of CYBG PLC. A member may appoint more than one proxy in relation to a meeting provided each proxy is appointed to exercise the rights attached to different shares held by that member.

Generally, two qualifying persons present and entitled to vote are a quorum at a general meeting. If CYBG PLC has only one member entitled to attend and vote at the general meeting, one qualifying person present at the general meeting and entitled to vote is a quorum.

3.1.18 Notices and Communications

(a) A notice, document or other information may be served on or delivered to any member at this registered address or (if he has no registered address within the UK or Australia), at the address if any, within the UK or Australia supplied by him to CYBG PLC as his address for the service of notices.

(b) Save where the Articles expressly require otherwise, any notice, document or information to be sent or supplied by or to CYBG PLC may be sent or supplied in accordance with the *Companies Act (UK)* (whether authorised or required to be sent or supplied by the *Companies Act (UK)* or otherwise) in hard copy form, in electronic form or by means of a website.

(c) In the case of joint holders of a share, a notice, document or information shall be validly sent or supplied to all joint holders if sent or supplied to whichever of them is named first in the register in respect of the joint holding. Anything to be agreed or specified in relation to a notice, document or information to be sent or supplied to joint holders, may be agreed or specified by the joint holder who is named first in the register in respect of the joint holding.

(d) A notice, document or information sent by post and addressed to a member at his registered address or address for service: (i) is deemed to be given to or received by the intended recipient 24 hours after it was put in the post if prepaid as first class post; 48 hours after it was put in the post if prepaid as second class post; and (ii) 72 hours after it was put in the post if pre-paid for airmail. In proving such service, it shall be sufficient to prove that the envelope containing the notice, document or information was properly addressed, pre-paid and posted.

(e) A notice, document or information sent or supplied by electronic means to an address specified for the purpose by the member is deemed to have been given to or received by the intended recipient 24 hours after it was sent, and in proving service it is sufficient to prove that the communication was properly addressed and sent.

(f) A notice, document or information sent or supplied by means of a website is deemed to have been given to or received by the intended recipient when (i) the material was first made available on the website or (ii) if later, when the recipient received (or is deemed to have received) notification of the fact that the material was available on the website.

(g) In the case of a member registered on a branch register, any notice, documents or other information may be posted or dispatched either in the UK or in the country in which such branch register is maintained.

(h) A member (having no registered address in the UK or Australia) who has not supplied to CYBG PLC an address within the UK or Australia or an address for the purposes of communications by electronic means shall not be entitled to receive notices from CYBG PLC.

3.1.19 CYBG Directors

(a) *Number of CYBG Directors*

Unless otherwise determined by CYBG PLC by ordinary resolution, the number of CYBG Directors (other than alternate CYBG Directors) must not be less than 2 and must not be more than 16.

(b) *Appointment*

Subject to the *Companies Act (UK)*, a person can be appointed (or remain) a CYBG Director regardless of his age.

Subject to the Articles, any person who is willing to act as a CYBG Director, and is permitted by law to do so, may be appointed to be a CYBG Director by ordinary resolution at a general meeting, by a decision of the CYBG Directors or under the Articles if CYBG PLC has only one CYBG Director.

(c) *Remuneration*

Unless otherwise determined by ordinary resolution, CYBG Directors (but not alternate CYBG Directors) are entitled for their services to such total fees as the CYBG Directors determine. The total fees paid to CYBG Directors must not exceed £2.5 million per annum, or any other amount as decided by ordinary resolution. The total fees will be divided among the CYBG Directors in the proportions that the CYBG Directors decide or, if no decision is made, the total fees will be divided equally.

Subject to the *Companies Act (UK)* and to the Articles, the CYBG Directors' fees may be payable in any form and, in particular, the CYBG Directors may arrange for part of a fee payable to be provided in the form of fully-paid shares of CYBG PLC. The amount of the fee will be applied to purchase or subscribe for shares on behalf of a CYBG Director.

The CYBG Directors can pay additional remuneration (whether by way of salary, percentage of profits or otherwise) and expenses to any CYBG Director who at the request of the CYBG Directors makes a special journey for CYBG PLC, performs a special service for CYBG PLC or works abroad in connection with CYBG PLC's business.

CYBG PLC may repay any reasonable travelling, hotel and other expenses which a CYBG Director properly incurs in performing his duties as a CYBG Director in connection with his attendance at CYBG Directors' meetings, committee meetings, general meetings or separate meetings of the holders of a class of shares or debentures of CYBG PLC, or otherwise in connection with the exercise of their powers and the discharge of his responsibilities in relation to CYBG PLC. Subject to the *Companies Act (UK)*, the CYBG Directors may make arrangements to provide a CYBG Director with funds to meet expenditure incurred (or to be incurred) by him for the purposes of CYBG PLC or for the purpose of enabling him properly to perform his duties as an officer of CYBG PLC or to enable him to avoid incurring any such expenditure.

The CYBG Directors may decide whether to pay or provide (by insurance or otherwise) pensions, retirement or superannuation benefits, death, sickness or disability benefits, gratuities or other allowances to any person who is or who was a director of (i) CYBG PLC, (ii) a subsidiary undertaking of CYBG PLC, (iii) any company which is or was allied to or associated with CYBG PLC or any of its subsidiary undertakings, or (iv) a predecessor in business of CYBG PLC or of any of its subsidiary undertakings (or, in each case, to any member of his family, including a spouse or former spouse, or a person who is or was dependent on him). For this purpose the CYBG Directors may establish, maintain, subscribe and contribute to any scheme, trust or fund and pay premiums. The CYBG Directors may arrange for this to be done either by CYBG PLC alone or in conjunction with another person.

(d) *Indemnity*

To the extent permitted by the *Companies Act (UK)* and without prejudice to any indemnity to which he may otherwise be entitled, every person who is or was a director or other officer of CYBG PLC or an associated company (other than any person (whether or not an officer of CYBG PLC or an associated company) engaged by CYBG PLC or an associated company as auditor) shall be and shall be kept indemnified out of the assets of CYBG PLC against all costs, charges, losses and liabilities incurred by him (whether in connection with any negligence, default, breach of duty or breach of trust by him or otherwise as a director or such other officer of CYBG PLC or an associated company) in relation to CYBG PLC or an associated company or their affairs, other than in respect (broadly) of any liability incurred by such person to CYBG PLC or to an associated company, any criminal or regulatory fine or the costs of defending any criminal proceedings in which such person is convicted.

(e) *Removal of CYBG Director*s

In addition to any power of removal under the *Companies Act (UK)*, CYBG PLC may by ordinary resolution, remove a CYBG Director even though his time in office has not ended (without prejudice to a claim for damages for breach of contract or otherwise) and subject to the Articles, by ordinary resolution appoint a person to replace a CYBG Director who has been removed in this way. A person appointed to replace a CYBG Director who has been removed, will be due to retire when the CYBG Director he replaces would have been due to retire. A CYBG Director may also be removed from office by the service on him of a notice to that effect signed by or on behalf of all his co-directors.

(f) *Annual Retirement*

At each annual general meeting one third of the CYBG Directors who are subject to retirement by rotation will retire by rotation and be eligible for re-election. The CYBG Directors who retire will be, first, those who wish to retire and, secondly, those CYBG Directors who have been longest in office since their last appointment or reappointment, or in the case of those who were appointed or reappointed on the same day, the CYBG Director to be subject to retirement will (unless they otherwise agree) be determined by lot.

A CYBG Director who retires at an annual general meeting can be reappointed by members. If he is not reappointed (or deemed to be reappointed), he may remain a CYBG Director until the meeting appoints someone in his place or, if it does not appoint anyone, until the end of the meeting.

If CYBG PLC does not fill the vacancy of a CYBG Director who retires by rotation at an annual general meeting, the retiring CYBG Director (if willing) will be deemed reappointed unless it is expressly resolved not to fill the vacancy or a resolution for reappointment of the CYBG Director is put to the meeting and lost.

(g) *CYBG Directors' Interests*

The CYBG Directors may authorise any matter proposed to them which would, if not so authorised, involve a breach of duty by a CYBG Director under section 175 of the *Companies Act (UK)*. Any such authorisation will be effective only if any requirement as to the quorum at the meeting or part of the meeting at which the matter is considered is met without counting the CYBG Director in question or any other CYBG Directors interested in the matter under consideration and the matter was agreed to without such CYBG Directors voting or would have been agreed to if such CYBG Directors' vote had not been counted.

A CYBG Director shall be under no duty to CYBG PLC with respect to any information which he obtains or has obtained otherwise than as a CYBG Director and in respect of which he owes a duty of confidentiality to another person.

A CYBG Director who is in any way, directly or indirectly, interested in a proposed transaction or arrangement with CYBG PLC must declare the nature and extent of his interest to the other CYBG Directors before CYBG PLC enters into the transaction or arrangement. Such declaration may (but need not) be made at a meeting of the CYBG Directors or by notice in writing in accordance with section 184 of the *Companies Act (UK)* or by general notice in accordance with section 185 of the *Companies Act (UK)*.

Annexure G: Part Eight
Additional information on CYBG Group

A CYBG Director who is in any way, directly or indirectly, interested in a transaction or arrangement that has been entered into by CYBG PLC must declare the nature and extent of his interest to the other CYBG Directors as soon as is reasonably practicable (unless the interest has already been declared as above). Such declaration must be made at a meeting of the CYBG Directors or by notice in writing in accordance with section 184 of the *Companies Act (UK)* or by general notice in accordance with section 185 of the *Companies Act (UK)*.

Subject to the *Companies Act (UK)* and provided he has declared to the CYBG Directors the nature and extent of any direct or indirect interest of his in accordance with the Articles, a CYBG Director may be a party to or otherwise be interested in any transaction or arrangement with CYBG PLC or in which CYBG PLC is directly or indirectly interested or may act by himself or through his firm in a professional capacity for CYBG PLC (otherwise than as auditor) and in any such case on such terms as to remuneration and otherwise as the CYBG Directors may decide or may be a CYBG Director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise be interested in, any body corporate in which CYBG PLC is directly or indirectly interested.

A CYBG Director shall not, by reason of his office, be accountable to CYBG PLC for any remuneration or other benefit which he derives from any office or employment or from any transaction or arrangement or from any interest in any body corporate the acceptance, entry into or existence of which has been authorised by the CYBG Directors under the Articles or which he is permitted to hold or enter into by virtue of the Articles.

CYBG PLC may by ordinary resolution suspend or relax the provisions in the Articles relating to CYBG Directors' interests to any extent. Subject to the *Companies Act (UK)*, CYBG PLC may by ordinary resolution ratify any transaction or arrangement not properly authorised by reason of a contravention of the provisions in the Articles relating to CYBG Directors' interests.

(h) *General Voting and Quorum Requirements*

Save as otherwise provided by the Articles, a CYBG Director shall not vote on or be counted in any quorum in relation to a resolution of the CYBG Directors or a committee of the CYBG Directors concerning a matter in which he has a direct or indirect interest which is, to his knowledge, a material interest (otherwise than by virtue of his interest in shares, debentures or other securities of or otherwise in or through CYBG PLC). This prohibition does not apply to a resolution concerning any of the following matters:

(i) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of, or for the benefit of, CYBG PLC or any of its subsidiary undertakings;

(ii) the giving of a guarantee, security or indemnity in respect of a debt or obligation of CYBG PLC or any of its subsidiary undertakings for which the CYBG Director has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;

(iii) a transaction or arrangement concerning an offer of shares, debentures or other securities of or by CYBG PLC or any of its subsidiary undertakings for purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

(iv) a transaction or arrangement to which CYBG PLC is or is to be a party concerning another company (including a subsidiary undertaking of CYBG PLC) in which such CYBG Director or any person connected with him is interested (directly or indirectly) whether as an officer, shareholder, creditor or otherwise, **provided that** he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 820 to 825 of the *Companies Act (UK)*) representing one per cent. or more of either any class of the equity share capital (excluding any shares of that class held as treasury shares) in the relevant company or of the voting rights available to members of the relevant company;

(v) a transaction or arrangement for the benefit of the employees of CYBG PLC or any of its subsidiary undertakings (including any pension fund or retirement, death or disability scheme) which does not award him a privilege or benefit not generally awarded to the employees to whom it relates; or

(vi) a transaction or arrangement concerning the purchase or maintenance of any insurance policy for the benefit of CYBG Directors or for the benefit of persons including CYBG Directors.

A CYBG Director shall not vote on or be counted in the quorum in relation to any resolution of the CYBG Directors or committee of the CYBG Directors concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of an office or place of profit with CYBG PLC or any body corporate in which CYBG PLC is directly or indirectly interested. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or its termination) of two or more CYBG Directors to offices or places of profit with CYBG PLC or any body corporate in which CYBG PLC is directly or indirectly interested, such proposals may be divided and a separate resolution considered in relation to each CYBG Director. In which case each of the CYBG Directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

The CYBG Directors may in their discretion exercise (or cause to be exercised) the powers conferred by shares of another company held (or owned) by CYBG PLC or a power of appointment to be exercised by CYBG PLC.

(i) *Executive CYBG Directors*

Subject to the *Companies Act (UK)*, the CYBG Directors may appoint one or more of the CYBG Directors to hold an executive office within CYBG PLC for such term and on such other terms and conditions as (subject to the *Companies Act (UK)*) the CYBG Directors think fit.

The CYBG Directors may revoke or terminate an appointment, without prejudice to a claim for damages for breach of the contract of service between the CYBG Director and CYBG PLC or otherwise.

The salary or other remuneration of a CYBG Director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the CYBG Directors, and may be in addition to or instead of a fee payable to him for his services as a CYBG Director pursuant to the Articles.

3.1.20 Failure to Disclose Interests in CYBG Shares

Having regard to the requirements of the UK Listing Rules, where notice is served by CYBG PLC under section 793 of the *Companies Act (UK)* (a "**section 793 notice**") on a member, or another person appearing to be interested in shares held by that member, and the member or other person has failed in relation to any shares (the "**default shares**", which expression includes any shares allotted or issued after the date of the section 793 notice in respect of those shares) to give CYBG PLC the information required within the prescribed period from the date of service of the section 793 notice, the following sanctions apply, unless the CYBG Directors otherwise decide:

(a) the member shall not be entitled in respect of the default shares to be present or to vote (either in person, by proxy or by corporate representative) at a general meeting or at a separate meeting of the holders of a class of shares or on a poll; and

(b) where the default shares represent at least 0.25 per cent. in nominal value of the issued shares of their class (excluding any shares of their class held as treasury shares):

(i) a dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by CYBG PLC, which has no obligation to pay interest on it, and the member shall not be entitled to elect, under the Articles, to receive shares instead of a dividend; and

(ii) no transfer of any certificated default shares shall be registered unless the transfer is an excepted transfer or:

(A) the member is not himself in default in supplying the information required; and

(B) the member proves to the satisfaction of the CYBG Directors that no person in default in supplying the information required is interested in any of the shares the subject of the transfer.

Annexure G: Part Eight
Additional information on CYBG Group

4. Other Directorships

4.1 The companies and partnerships of which the CYBG Directors and Senior Managers are, or have been, within the past five years, members of the administrative, management or supervisory bodies or partners (other than, where applicable, directorships held in CYBG PLC and/or the CYBG Group) are as follows:

4.2 Save as disclosed below, during the period of 5 years preceding the date of this Scheme Booklet none of the CYBG Directors or Senior Managers:

CYBG Directors

Name	Current directorships/ partnerships	Previous directorships/ partnerships
James Pettigrew	Crest Nicholson Holdings PLC Aberdeen Asset Management PLC The Edinburgh Investment Trust PLC RBC Europe Limited	Hermes Fund Managers Limited AON UK Limited
David Duffy		Allied Irish Banks PLC
Debbie Crosbie	Skidz Limited	Scottish Court Service
Ian Smith	67 Pall Mall Limited	Deloitte LLP
David Bennett	Ashmore Group PLC Paypal (Europe) S.a.r.l et Cie S.C.A. Jerrold Holdings Limited Homeserve Membership Ltd Cheshire Mortgage Corporation Limited	Easyjet plc Bank of Ireland (UK) PLC Pacnet Ltd CMC Markets PLC Clarity Commerce Solutions Lex Futura Limited (Dissolved) David Bennett Advisory Ltd
Richard Gregory	Richard Gregory Consulting Limited Sheffield Children's Hospital NHS Foundation Trust	Chesterfield Royal Hospital NHS Foundation Trust Science City York Limited Derbyshire Health and Wellbeing Board The Foundation Trust Network
David Allvey	Costain Group plc The Costain Charitable Foundation Aviva Life & Pensions UK Limited Friends Annuities Limited Friends Life and Pensions Limited Friends Life Limited Friends Life Services Limited Friends Provident International Limited Aviva Annuity UK Limited Aviva Life Holdings UK Limited Aviva Life Services UK Limited	Intertek Group plc Arena Coventry Limited Thomas Cook Group plc Friends Life FPG Limited William Hill plc Friends Life Holdings plc Friends Life Group Limited

Name	Current directorships/ partnerships	Previous directorships/ partnerships
Adrian Grace	Aegon UK Corporate Services Limited Aegon UK Services Limited Scottish Equitable plc Aegon UK IT Services Limited Scottish Equitable Holdings Limited Aegon Investment Solutions Ltd. Aegon Investment Solutions Nominee 1 (Gross) Ltd. Aegon Investment Solutions – Nominee 2 (Net) Ltd. Aegon Investment Solutions – Nominee 3 (ISA) Ltd. Aegon UK Plc Aegon Holdings (UK) Limited Aegon Pension Trustee Limited Aegon UK Property Fund Limited Scottish Equitable (Managed Funds) Limited Scottish Equitable Life Assurance Society Aegon SIPP Nominee Ltd Aegon Platform Services Limited Aegon SIPP Guarantee Nominee Limited Newcast Property Developments (One) Limited Newcast Property Developments (Two) Limited Aegon NV Origen Trustee Services Limited Momentum Group Limited	Scottish Financial Enterprise Guardian Assurance Limited Guardian Linked Life Assurance Limited Guardian Pensions Management Limited Guardian Financial Services Limited Aegon EDC Limited Guardian Companies Services Limited Guardian Nominees Limited Think Synergy Limited Origen Limited Origen Financial Services Limited Positive Solutions (Financial Services) Ltd. Intrinsic Financial Services Limited Aegon UK Direct Limited (Dissolved) Aegon Benefit Solutions Limited (Dissolved) Aegon UK Distribution Holdings Limited (Dissolved) Noah Financial Services Ltd. (Dissolved) Scottish Equitable Finance Limited (Dissolved) Scottish Equitable International Holdings Plc (Dissolved) Aegon Ireland Plc

Annexure G: Part Eight
Additional information on CYBG Group

Name	Current directorships/ partnerships	Previous directorships/ partnerships
David Browne	Blue Island Residents Association Limited Pinnacle Partners Limited London Youth Rowing Limited	Man Ultraviolet Limited (Dissolved) ED&F Man Cocoa Investments Limited (Dissolved) ED&F Man Finance Limited (Dissolved) ED&F Man Trade Finance Limited (Dissolved) ED&F Man Treasury Limited (Dissolved) ED&F Man Produce Limited (Dissolved) ED&F Man Holco Limited (Dissolved) Faxcorner Limited ED&F Man Limited Man Group Holdings Limited Man Bluesky Limited Man Group UK Limited Man Investments Finance Limited Man Investments Holdings Limited Man Group Finance Limited (Dissolved) Man Group Investments Limited (Dissolved) ED&F Man Overseas Limited (Dissolved) Factornew Limited (Dissolved) RMF Holdings Limited (Dissolved) Sugarquay Limited (Dissolved) E D & F Man Capital Investments Limited E D & F Man Investments Limited Eastern Sugar Investments B.V. Man Group Insurances Limited E D & F Man Investments B.V. GILT B.V.

Name	Current directorships/ partnerships	Previous directorships/ partnerships
Barbara Ridpath	Charitable Trustee – Chatham House, The Royal Institute of International Affairs Charitable Trustee – Capital Mass	The International Centre for Financial Regulation (Dissolved)
Teresa Robson-Capps	ACS Clothing Group Limited Broker Network Holdings Limited Payment Shield Group Holdings Limited Towergate Partnershipco Ltd (in Liquidation) TIG Topco Ltd TIG Midco Ltd TIG Finco Plc Towergate Insurance Limited	PowerPlace Insurance Services Limited
Alex Shapland	Littleton Consulting Limited UKMentors Ltd Community Action Hampshire Zion Arts Centre Limited	PricewaterhouseCoopers LLP
Richard Sawers[(1)]	Export Finance & Insurance Corporation	Australian Financial Markets Association Great Western Bancorporation Inc Great Western Bank National Americas Investment Inc

(1) It is proposed that Richard Sawers will resign from the CYBG Board prior to pricing and placing of the Institutional Offer. If the Institutional Offer does not proceed or it proceeds but NAB retains an interest in CYBG Securities representing at least 20 per cent. of the CYBG Shares in issue, Richard Sawers will be re-appointed to the CYBG Board but as a Non-Executive CYBG Shareholder Director in accordance with NAB's rights under the terms of the Relationship Agreement. For further details of the Relationship Agreement, see Section 5.3 of this Scheme Booklet.

Annexure G: Part Eight
Additional information on CYBG Group

Senior Managers

Name	Current directorships/ partnerships	Previous directorships/ partnerships
Robert Beattie	–	–
Steve Fletcher	–	–
Gavin Opperman	–	Standard Chartered Bank (Hong Kong) Ltd Standard Chartered Bank Korea Limited Standard Chartered Korea Limited Standard Chartered Bank (China) Limited
Derek Treanor(1)	–	–
Lynn McManus	–	–
Helen Page	–	–
James Peirson	–	–
Paul Shephard	–	–
Kate Guthrie(2)	Action for Children	Scottish Widows Pension Trustees Limited Scottish Widows Services Limited Bank of Scotland Foundation
Miles Storey	–	–

(1) Derek Treanor is currently operating as Acting Chief Risk Officer whilst a search is undertaken for a Chief Risk Officer.
(2) Subject to regulatory approval.

4.2.1 has any convictions in relation to fraudulent offences;

4.2.2 has been associated with any bankruptcy, receivership or liquidation when acting in his or her capacity as a member of the administrative, management or supervisory body or senior manager of another company, save for Barbara Ridpath, who was chief executive of The International Centre for Financial Regulation which was placed into voluntary administration on 28 November 2012 until 19 November 2013 when it was placed in voluntary creditors liquidation and subsequently dissolved on 5 February 2015; and Teresa Robson-Capps, who was a director at Towergate Partnershipco Limited which was placed into members' voluntary liquidation on 24 August 2015; or

4.2.3 has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

4.3 Save as disclosed below, none of the CYBG Directors or Senior Managers has any potential conflicts of interests between their duties to CYBG PLC and their private interests or other duties.

4.4 If the Institutional Offer does not proceed or it proceeds but NAB retains an interest in CYBG Securities representing at least 20 per cent. of the CYBG Shares in issue, Richard Sawers will be re-appointed to the CYBG Board by NAB as the Non-Executive CYBG Shareholder Director in accordance with NAB's rights under the terms of the Relationship Agreement. For further details of the Relationship Agreement see Section 5.3 of this Scheme Booklet.

Annexure G: Part Eight
Additional information on CYBG Group

5. CYBG Directors' And Other Interests

5.1 As far as CYBG PLC is aware, as at 7 December 2015, none of the CYBG Directors or Senior Managers have any interests in the share capital of CYBG PLC prior to UK Admission. Certain CYBG Directors and Senior Managers hold shares in NAB which will entitle them to receive CYBG Securities in the Demerger such that immediately following UK Admission their interest in CYBG PLC will be as set out below:

	7 December 2015		Immediately following UK Admission	
Name	**Number of CYBG Shares currently held**	**% of issued share capital**	**Number of CYBG Shares**	**% of issued share capital**
James Pettigrew	–	–	0	0.00
David Duffy	–	–	7,839	0.00
Ian Smith	–	–	8,649	0.00
Debbie Crosbie	–	–	1,287	0.00
David Bennett	–	–	0	0.00
Richard Gregory OBE	–	–	0	0.00
David Allvey	–	–	0	0.00
David Browne	–	–	0	0.00
Adrian Grace	–	–	0	0.00
Barbara Ridpath	–	–	0	0.00
Teresa Robson-Capps	–	–	0	0.00
Alex Shapland	–	–	0	0.00
Richard Sawyers(1)	–	–	21,426(2)	0.00
Gavin Opperman	–	–	0	0.00
Derek Treanor	–	–	164	0.00
James Peirson	–	–	1,145	0.00
Lynne McManus	–	–	930	0.00
Helen Page	–	–	589	0.00
Paul Shephard	–	–	903	0.00
Kate Guthrie(3)	–	–	0	0.00
Steve Fletcher	–	–	422	0.00
Robert Beattie	–	–	437	0.00
Miles Storey	–	–	51	0.00

(1) Should NAB be entitled to appoint a CYBG Non-Executive Shareholder Director pursuant to its rights under the Relationship Agreement, and should NAB re-appoint Richard Sawers, he will have interests in the share capital of CYBG PLC.

(2) Figure assumes that, prior to UK Admission, Richard Sawers will exercise his rights that vest in December 2015.

(3) Subject to regulatory approval.

CYBG Directors and certain other employees will be granted awards shortly after Demerger under the DEP (see "*CYBG Employee Share Plans- DEP*" below).

5.2 CYBG PLC is not aware of any person who holds, or who will immediately following UK Admission hold, as a shareholder (within the meaning of the Disclosure and Transparency Rules (the "**DTRs**") published by the FCA), directly or indirectly, 3 per cent. or more of the issued share capital of CYBG PLC. However, if the Institutional Offer does not proceed, or does not proceed in full, NAB could retain more than 3 per cent. of the issued share capital of CYBG PLC.

5.3 CYBG PLC is not aware of any person who immediately following UK Admission, directly or indirectly, jointly or severally, will own or could exercise control over CYBG PLC.

5.4 CYBG PLC and the CYBG Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of CYBG PLC.

6. CYBG Directors' Service Agreements And Letters Of Appointment

6.1 Executive Service Agreements

Each Executive CYBG Director has entered into a service agreement with Clydesdale Bank which takes effect from UK Admission, as follows:

David Duffy is engaged as Chief Executive Officer under a service agreement dated 25 November 2015. His period of continuous employment commenced on 5 June 2015. Under his service agreement he is entitled to an annual salary of £1,000,000, an annual car allowance of £30,000, an accommodation allowance of £35,000 per annum payable up to 4 June 2016 (which may be extended at the discretion of the Remuneration Committee for up to an additional 12 months) and an annual cash allowance of £180,000 in lieu of an employer's pension contribution.

Ian Smith is engaged as Chief Financial Officer under a service agreement dated 3 December 2015. His period of continuous employment commenced on 1 November 2014. Under his service agreement he is entitled to an annual salary of £460,000, an annual car allowance of £6,840 and a cash allowance in lieu of employer's pension contribution equal in value (after statutory deductions) to 10 per cent. of base salary.

Debbie Crosbie is engaged as Chief Operating Officer under a service agreement dated 24 November 2015. Her period of continuous employment commenced on 9 June 1997. Under her service agreement she is entitled to an annual salary of £450,000 and an annual car allowance of £6,840. She also participates in the DB Scheme and receives an annual pension allowance of 20 per cent. of the difference between her base salary and the standard scheme-specific earnings cap. This is adjusted to reflect any increased employer national insurance contributions as a consequence of the allowance being taken in cash.

Each Executive CYBG Director is entitled to the following benefits: 30 days' holiday (in addition to applicable bank/public holidays), private medical insurance and death in service benefit of four times base annual salary. The service agreements also provide for directors' and officers' liability insurance cover and reimbursement of reasonable business expenses.

Under their service agreements each Executive CYBG Director may be awarded remuneration on terms determined by the Remuneration Committee. This includes participation in a short-term incentive plan (the "**Short Term Incentive Plan**") for CYBG Directors as well as a long-term incentive plan (the "**Long Term Incentive Plan**"), as referred to in sections 8 and 9 below.

Each Executive CYBG Director's service agreement is terminable by either party on not less than 12 months' written notice. In addition, the employer may terminate the service agreements without notice if payment of base salary in lieu of any unexpired notice is made, payable in equal monthly instalments over the unexpired part of the notice period. The payment in lieu of notice will be reduced by any remuneration the Executive CYBG Director receives in return for providing his services to any third party during the unexpired part of the notice period. The Executive CYBG Directors' service agreements also provide for the right to place them on garden leave during any period of notice.

The employer may terminate the employment of any of the Executive CYBG Directors with immediate effect if the Executive CYBG Director: (i) becomes disqualified from being a director; (ii) commits any act of gross misconduct; (iii) commits any serious or repeated breach or non-observance of their service agreement or refuses to comply with any reasonable and lawful direction; (iv) engages in any conduct which prejudicially affects the interests of the group; (v) is convicted of any criminal offence or any offence under any regulation or legislation relating to insider dealing; (vi) commits any breach of fiduciary duty or act of fraud or dishonesty, whether or not relating to their employment; (vii) is guilty of a serious breach of any rules regarding electronic communications systems; (viii) is declared bankrupt, makes any arrangement with or for the benefit of their creditors, or has a county court administration order made against them; (ix) is negligent and/or incompetent in the performance of their duties; (x) becomes of unsound mind; (xi) ceases to have the right to work in the UK; (xii) fails or ceases to meet the requirements of or becomes disqualified from maintaining any approval, registration or licence required by or from any regulatory body, or commits any breach of the rules, conduct requirements or regulations required by such body in relation to such duties (or as set out in any compliance manual); or (xiii) resigns or vacates any office as a CYBG Director except as requested or in accordance with any requirement to retire by rotation.

Each Executive CYBG Director is subject to a confidentiality undertaking without limitation in time, as well as to six-month post-termination restrictive covenants covering non-competition, non-solicitation of and non-dealing with clients, non-interference with suppliers or contractors and non-solicitation of employees. The duration of the restrictive covenants is reduced by any period spent on garden leave.

In compliance with the *Companies Act (UK)*, the Executive CYBG Directors' remuneration is subject to shareholder approval. In the event that such approval is not obtained when required the service agreements provide that the Executive CYBG Directors will have no entitlement to compensation or damages in respect of loss suffered as a consequence.

6.2 Non-Executive appointment letters

Each Non-Executive CYBG Director (other than the Non-Executive CYBG Shareholder Director) has entered into a letter of appointment with CYBG which takes effect from UK Admission, as follows:

James Pettigrew is engaged as a Non-Executive CYBG Director and Chairman of CYBG PLC under an appointment letter dated 11 November 2015. He is entitled to a fee of £360,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from UK Admission.

David Bennett is engaged as an Independent Non-Executive CYBG Director and Deputy Chairman of CYBG PLC under an appointment letter dated 23 November 2015. He is entitled to a fee of £165,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from UK Admission.

Richard Gregory OBE is engaged as the senior independent Non-Executive CYBG Director under an appointment letter dated 11 November 2015. He is entitled to a fee of £162,500 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from UK Admission.

David Allvey is engaged as an Independent Non-Executive CYBG Director under an appointment letter dated 11 November 2015. He is entitled to a fee of £110,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from UK Admission.

David Browne is engaged as an Independent Non-Executive CYBG Director under an appointment letter dated 11 November 2015. He is entitled to a fee of £100,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from UK Admission.

Adrian Grace is engaged as an Independent Non-Executive CYBG Director under an appointment letter dated 11 November 2015. He is entitled to a fee of £100,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from UK Admission.

Barbara Ridpath is engaged as an Independent Non-Executive CYBG Director under an appointment letter dated 11 November 2015. She is entitled to a fee of £85,000 per annum. She is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from UK Admission.

Teresa Robson-Capps is engaged as an Independent Non-Executive CYBG Director under an appointment letter dated 11 November 2015. She is entitled to a fee of £80,000 per annum. She is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from UK Admission.

Alexander Shapland is engaged as an Independent Non-Executive CYBG Director under an appointment letter dated 11 November 2015. He is entitled to a fee of £85,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from UK Admission.

Richard Sawers (as the Non-Executive CYBG Shareholder Director) has entered into an appointment letter dated 11 November 2015 whereby he will continue as a Non-Executive CYBG Director only if the Institutional Offer does not proceed, or it proceeds but NAB retains an interest in CYBG Securities representing at least 20 per cent. of the CYBG Shares in issue. If applicable he would then be entitled to a fee of £70,000 per annum. If he becomes a Non-Executive CYBG Director then he would also become a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which would also take effect from UK Admission.

Where relevant, the fees set out above are inclusive of any further amounts due for holding additional office, directorships or committee appointments within the CYBG Group.

Each Non-Executive CYBG Director (other than the Non-Executive CYBG Shareholder Director) is engaged for an initial term of three years, but terminable by either party on not less than three months' written notice, except in the case of the Chairman on six months written notice. Upon termination the Non-Executive CYBG Directors are not entitled to receive any payments or benefits other than accrued fees for past services, payment of fee in lieu of notice and reimbursement for any outstanding reasonably incurred expenses.

Each Non-Executive CYBG Director is eligible for directors' and officers' liability insurance cover and reimbursement of reasonable business expenses. The Non-Executive CYBG Directors are not entitled to participate in CYBG Group's bonus, share or other incentive arrangements.

Each Non-Executive CYBG Director is subject to a confidentiality undertaking without limitation in time. They are not subject to post-termination restrictive covenants.

6.3 Benefits upon termination

Save as set out in this section 6 there are no existing or proposed service agreements between any CYBG Director and any member of CYBG Group providing for benefits upon termination of employment.

6.4 Other employment considerations

By the date of UK Admission, CYBG PLC intends to have in place directors' and officers' indemnity insurance in respect of the CYBG Directors. This insurance is currently provided by NAB.

7. Compensation

7.1 In the financial year ended 30 September 2015, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to the current CYBG Directors and current Senior Managers by members of CYBG Group was £11 million. Of this amount, remuneration to each of the CYBG Directors was paid as set out below.

2015 £'000	Salary and fees	Benefits & Allowances	Short term incentives(1)	Long term incentives(2)	Total Emoluments
Executive CYBG Directors					
David Duffy(3)	318	78	950	1,500	2,846
Debbie Crosbie	367	119	450	450	1,386
Ian Smith(4)	253	53	253	450	1,009
Non-Executive CYBG Directors					
David Allvey	92	–	–	–	92
David Bennett(5)	–	–	–	–	–
David Browne	80	–	–	–	80
Adrian Grace(6)	47	–	–	–	47
Richard Gregory OBE	140	–	–	–	140
James Pettigrew	300	–	–	–	300
Barbara Ridpath	70	–	–	–	70
Teresa Robson-Capps(7)	67	–	–	–	67
Alexander Shapland	70	–	–	–	70
Richard Sawers(8)	–	–	–	–	–
Total CYBG Directors	**1,804**	**250**	**1,653**	**2,400**	**6,107**

(1) The short-term incentives referred to above include both cash and deferred elements. The deferred elements will be awarded in CYBG Shares following Demerger. The figures also include David Duffy's commencement award of £500,000 which was awarded over NAB shares (see 9.1 below).

(2) The long-term incentives will be granted under the DEP following Demerger (see "*Approach to remuneration*" below).

(3) David Duffy was appointed as an executive director of CYBI on 5 June 2015. The figures in the table above represent his emoluments from that date.

(4) Ian Smith was appointed as an executive director of CYBI on 11 March 2015. The figures in the table above represent his emoluments from that date and not from the date of his appointment as Chief Financial Officer.

(5) David Bennett was appointed as a non-executive Deputy Chairman of CYBI on 22 October 2015.

(6) Adrian Grace was appointed as a non-executive director of CYBI on 23 December 2014. The figures in the table above represent his emoluments from that date.

(7) Teresa Robson-Capps was appointed as a non-executive director of CYBI on 8 October 2014. The figures in the table above represent her emoluments from that date.

(8) Richard Sawers was remunerated as an employee of NAB.

Annexure G: Part Eight
Additional information on CYBG Group

7.2 The total amount within the aggregated total remuneration shown above that is set aside or accrued by CYBG Group to provide pension, retirement or other similar benefits to the current CYBG Directors and current Senior Managers is £0.2 million.

8. Renumeration

8.1 Approach to remuneration

CYBG PLC's overall philosophy to remuneration is designed to support both its culture and its business strategy. It is based on the approach that remuneration should be linked to the performance and behaviour of an individual, business results, shareholder outcomes and fair customer outcomes.

CYBG PLC's remuneration arrangements are fully compliant with all regulatory requirements, in particular the PRA Remuneration Code. Remuneration arrangements will operate in line with the PRA Remuneration Code as amended from time to time.

The remuneration approach is intended to:

- provide competitive, transparent and fair rewards, benefits and conditions;
- reward achievement of short and long-term individual objectives and business strategy;
- align the interests of employees and shareholders through employee share ownership;
- deliver outcomes over short and long-term horizons with appropriate performance and risk adjustments, ensuring performance assurance principles are applied;
- support the Risk Management Framework; and
- attract, recognise, motivate and retain high performers.

When awarding variable pay, CYBG PLC operates a balanced scorecard approach for all employees, with individual objectives linked to business strategy. Employees are required to meet both the balanced scorecard objectives and a number of compliance hurdles to qualify for variable pay. A review of the variable pay structure is currently underway by CYBG Group with the aim of simplifying and harmonising the schemes currently in operation. The intention is for any changes to be in place during the 2015/16 financial year.

In light of CYBG PLC's desire to encourage employee share ownership, it is intended that, shortly after Demerger, all employees who are employed by CYBG Group on the date of Demerger will receive an award of CYBG Shares with a value of £500 under the SIP.

Shortly after Demerger, the Executive CYBG Directors and certain other employees will be granted awards of CYBG Shares under the DEP. The terms of the DEP summarised at 9.2 below, including the limits on issuing CYBG Shares, will apply to the awards. The awards will be made instead of 2015 awards being granted under the LTIP.

The awards are designed to support the retention and motivation of the leadership team after UK Demerger. For the Executive CYBG Directors, the awards will be over CYBG Shares with a value at grant equal to 150 per cent. of base salary as at 30 September 2015 (being £1,500,000) for the CEO and 100 per cent. of base salary as at 30 September 2015 for the other Executive CYBG Directors (being £450,000). The number of CYBG Shares subject to the awards will be calculated by dividing the monetary value of the award by the average of the middle market quotations of a CYBG Share during the three dealing days immediately before grant.

Shares will be awarded within the 2:1 cap on variable to fixed remuneration for the 2015 Financial Year and will be subject to malus and clawback in line with the PRA Remuneration Code and to forfeiture if the individual leaves the CYBG Group in certain circumstances. Shares will vest on the third anniversary of grant if CYBG PLC achieves its cumulative profit before tax plan as adjusted by its prudent valuation adjustment figure for the previous three Financial Years. If the performance target is not met, the awards will lapse in full. Further information on the performance target will be disclosed once it is no longer deemed commercially sensitive.

It is anticipated that the total initial value of the £500 awards to all employees and the awards to Executive CYBG Directors and certain other employees under the DEP will total £8.5 million.

At the Chairman of the CYBG Board's discretion, an additional fee of up to 50 per cent. of a Non-Executive CYBG Director's total 2015 Financial Year fees may be paid post the date of UK Admission to recognise a Non-Executive CYBG Director's additional duties and increased time commitment in connection with the Demerger and Institutional Offer.

The structure and quantum of CYBG PLC's ongoing remuneration arrangements for the Executive CYBG Directors and material risk takers is in line with a 2:1 cap on variable to fixed remuneration as set out in the PRA Remuneration Code and which NAB as the current sole shareholder has already approved.

8.2 Executive CYBG Directors Remuneration Policy

Remuneration for Executive CYBG Directors is designed to be compliant with the PRA Remuneration Code and has been structured with due consideration of market practice. Executive CYBG Director remuneration is benchmarked against peer companies of equivalent size and complexity.

On UK Admission, Executive CYBG Directors' remuneration will comprise of a base salary, a short-term incentive award, a long-term incentive award and appropriate pension and benefit arrangements.

Salary

An Executive CYBG Director's salary takes into account the individual's professional experience, individual performance, level of responsibility, the scope and nature of their role and with reference to the market. Base salaries will typically be reviewed annually.

Short-Term Incentive Plan

The Executive CYBG Directors are eligible to receive an annual bonus. The annual bonus is designed to reward performance and is based on the achievement of pre-determined performance conditions relating to customer experience, financial soundness, risk culture and employee satisfaction.

The maximum award level will not exceed 100 per cent. of base salary.

A proportion of any bonus shall be made in the form of awards over shares which vest over a maximum three-year period and are, to the extent required by the PRA Remuneration Code, subject to a retention period of at least six months upon vesting. The deferred share award will be made under the DEP. A summary of which is set out below (see "*CYBG Employee Share Plans – DEP*" below).

Long-Term Incentive Plan

The Executive CYBG Directors are eligible to participate in the LTIP. The introduction of the LTIP provides a direct link to the achievement of sustainable performance over the longer term.

The maximum LTIP award for any Executive CYBG Director in any financial year is 100 per cent. of base salary.

Awards granted under the LTIP will vest after a performance period (intended to be three years initially), subject to the achievement of satisfactory levels of performance up until the point of vesting.

A summary of the plan and its intended operation is set out below (see "*CYBG Employee Share Plans – LTIP*" below).

Pensions and benefits

Each Executive CYBG Director has pension and other benefits.

CYBG Share ownership guidelines

The CEO of CYBG PLC will be subject to a shareholding requirement of 200 per cent. of base salary and other Executive CYBG Directors to 150 per cent. of base salary. Shareholding requirements must be achieved within five years of UK Admission or commencing employment (if later). CYBG Shares received (after the payment of tax) under incentive arrangements would normally have to be held until these requirements have been met. CYBG Shares held on UK Admission can be used to count towards this threshold.

Other CYBG share plans

The Executive CYBG Directors are also eligible to participate in the SIP and, if operated in the future, the SAYE Plan (for further information see "*CYBG Employee Share Plans*" below).

9. Employee Share Plans

9.1 NAB Employee Equity Plans

Employees of CYBG Group, including the Executive CYBG Directors, currently have a beneficial interest in NAB Shares through a trustee or hold Performance Rights over NAB Shares that were granted by NAB under the NAB Employee Equity Plans.

A summary of the number of NAB Shares and Performance Rights currently held by each Executive CYBG Director under the NAB Employee Equity Plans is as follows:

Award type	Normal vesting date	Performance period (if applicable)	Number of NAB Shares / Performance Rights		
			David Duffy	Ian Smith	Debbie Crosbie
2015					
Commencement Shares	5 Dec 2016#		10,348		
	5 Dec 2017#		10,348		
	5 Dec 2018#		10,661		
2014					
Commencement Shares	6 Apr 2016#			11,417	
	6 Apr 2017#			11,417	
	6 Apr 2018#			11,763	
Executive Long Term Incentive Rights (“**ELTI**”)	20 Jun 2018*#	11 Nov 2013 – 11 Nov 2017*			10,161
	21 Jun 2019*#	10 Nov 2014 – 10 Nov 2018*			13,380
Short Term Incentive Deferral Rights (“**STI Deferral**”)	4 Jun 2016#	-			1,825
	17 Jun 2016#	-			2,386
	17 Jun 2017#	-			2,531
Year End Employee Share Offer Shares (“**YESO**”)	10 Dec 2017#	-			30
2013					
ELTI	19 Jun 2017#	1 Jan 2013 – 30 Sept 2016			4,928+
YESO	11 Dec 2016	-			26
2012					
YESO	12 Dec 2015	-			36
NAB Shares acquired under NAB Share Incentive Plan.	n/a	-			1,264

* If hurdle not met, performance period will be extended to five years with vesting date pushed back for another 12 months.
# Includes six-month retention period.
+ Debbie Crosbie will also receive a cash amount of £70,000 should the performance conditions be met.

From the date that CYBG PLC ceases to be a subsidiary of NAB, NAB Shares and Performance Rights granted to CYBG Group employees under the NAB Employee Equity Plans will be treated as set out below.

NAB Performance Rights Plan

Performance Rights held under the National Australia Bank Performance Rights Plan will continue to vest on their original vesting dates, subject to the satisfaction of performance conditions. Performance conditions will not be adjusted on Demerger, but the NAB Board has discretion to adjust vesting outcomes to mitigate the impact of the Demerger. On the vesting of Performance Rights, participants who exercise their rights will receive NAB Shares.

NAB Staff Share Ownership Plan and NAB Staff Share Allocation Plan

As a result of Demerger, there will be no accelerated vesting of NAB Shares held under the National Australia Bank Staff Share Ownership Plan or the National Australia Bank Staff Share Allocation Plan. The NAB Shares will continue to vest on their original vesting dates.

Participants in the National Australia Bank Staff Share Ownership Plan and National Australia Bank Staff Share Allocation Plan are able to participate in the Demerger, through the trustee, in the same way as other NAB Shareholders. The CYBG Shares or CYBG CDIs received by the trustee on behalf of the participants on the Demerger that relate to the NAB Shares held through the National Australia Bank Staff Share Ownership Plan and the National Australia Bank Staff Share Allocation Plan are not expected to be subject to vesting conditions and are expected to be sold or transferred as participants direct.

National Australia Bank Share Incentive Plan

Employees of CYBG Group, including certain of the Executive CYBG Directors, hold NAB Shares through a trustee as a result of participation in the National Australia Bank Share Incentive Plan.

Following Demerger, participants in the National Australia Bank Share Incentive Plan will continue to hold their NAB Shares in accordance with the plan but no further NAB Shares will be awarded or available for purchase under the plan. NAB Shares held by employees of CYBG Group will be transferred to those employees following the Demerger.

Participants in the National Australia Bank Share Incentive Plan were eligible to participate in the Demerger, through the trustee, in the same way as other NAB Shareholders. The CYBG Shares or CYBG CDIs received by the trustee on behalf of the participants on the Demerger that relate to the NAB Shares held through the National Australia Bank Share Incentive Plan cannot be held within the plan and will be sold or transferred as participants direct.

9.2 CYBG Employee Share Plans

Conditional on Demerger, the CYBG Board has adopted the following plans:

- the CYBG Deferred Equity Plan ("**DEP**");
- the CYBG Long-Term Incentive Plan ("**LTIP**");
- the CYBG Share Incentive Plan (the "**SIP**"); and
- the CYBG Save As You Earn Plan ("**SAYE Plan**" and together with the DEP, the LTIP and the SIP, the "**CYBG Plans**")).

DEP

The DEP is a discretionary plan under which a proportion of any bonus awarded under the Short-Term Incentive Plan to material risk takers and any other employees selected by the Remuneration Committee will be deferred into an award over CYBG Shares which will, as a minimum, vest in accordance with the requirements of the PRA Remuneration Code.

The DEP may also be used to award other types of award for recognition, commencement or retention purposes.

LTIP

The Executive CYBG Directors and certain other employees are eligible to participate in the LTIP which provides a direct link to the achievement of sustainable performance over the longer term. Awards granted under the LTIP will vest after a performance period (intended to be three years initially), subject to the achievement of satisfactory levels of performance up until the point of vesting.

All awards will be in line with the requirements of the PRA Remuneration Code.

SIP

The SIP, which will be registered with HMRC, is an all-employee share plan which offers three ways to provide CYBG Shares to employees based in the UK on a tax-favoured basis: free, partnership and matching CYBG Shares. The SIP contains all three elements and the CYBG Board has the power to decide which, if any, of them should be implemented. The CYBG Board may also allow a participant to reinvest any dividends paid in buying additional dividend shares. The SIP operates in conjunction with a trust, which will hold CYBG Shares on behalf of employees.

In light of CYBG PLC's desire to encourage employee share ownership, it is intended that all employees who are employed by CYBG Group on the date of Demerger will receive an award of free CYBG Shares under the SIP with a value of £500. In addition, it is intended to issue invitations for partnership CYBG Shares on or shortly after Demerger.

SAYE Plan

The SAYE Plan, which will be registered with HMRC, is an all-employee savings-related share option plan under which participants save a monthly amount to buy CYBG Shares. The CYBG Board may decide to operate the SAYE Plan in the future.

9.3 Terms common to the CYBG Plans

Overall plan limits

In any 10-year period, not more than 10 per cent. of the issued share capital of CYBG PLC may be issued under the CYBG Plans and all other employees' share plans adopted by CYBG PLC. This limit does not include awards which have lapsed but will include awards satisfied with treasury CYBG Shares as if they were newly issued CYBG Shares for so long as required by UK institutional investor guidelines.

Source of shares

Awards under the CYBG Plans may be granted over newly issued CYBG Shares, CYBG Shares held in treasury or CYBG Shares purchased in the market.

Timing of awards

With the exception of the SIP, awards may normally only be granted within the six week period beginning with the date of UK Admission or CYBG PLC's announcement of its results for any period. Awards may be granted outside these periods in exceptional circumstances, as determined by the CYBG Board (or the Remuneration Committee). No awards may be granted more than 10 years after UK Admission.

Amendments

The CYBG Board (or the Remuneration Committee) can amend the CYBG Plans in any way. However, shareholder approval will be required to amend certain provisions to the advantage of participants. These provisions relate to eligibility, individual and plan limits, the basis for determining a participant's entitlement to, and the terms of, the CYBG Shares or cash comprised in awards, the adjustment of awards on any variation in CYBG PLC's share capital and the amendment powers.

Minor amendments can however be made without shareholder approval to benefit the administration of the CYBG Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

General

Any CYBG Shares issued under the CYBG Plans will rank equally with CYBG Shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date.

Options and awards granted under the CYBG Plans are personal to participants and, except on death, may not be transferred.

Awards will not form part of pensionable earnings.

9.4 SIP

Eligibility

All UK tax-resident employees of CYBG PLC and any participating subsidiaries must be offered the opportunity to join the SIP. The CYBG Board can set a minimum qualifying period of employment which may not exceed 18 months or, in certain circumstances, six months.

Free Shares

Free CYBG Shares ("**Free Shares**") up to a maximum of £3,600 can be awarded to each participant in any tax year. Free Shares must be awarded on similar terms, although the number of Free Shares awarded to each participant may be varied by reference to remuneration, length of service and hours worked. An award of Free Shares can be subject to performance targets.

Free Shares must be held in the SIP for a period of between three and five years at the discretion of the CYBG Board and will be free of income tax if held in the SIP for five years. During this period the participant cannot withdraw the Free Shares from the trust unless he leaves employment or a change of control event occurs.

The CYBG Board can provide that the Free Shares will be forfeited if the employee leaves employment, other than where he leaves due to injury, disability, redundancy, transfer of the employing business or company out of the CYBG Group, retirement or on death (as a "**Good Leaver**").

Partnership Shares

The CYBG Board may invite participants to buy CYBG Shares using contributions from pre-tax salary ("**Partnership Shares**") up to a maximum limit set by the CYBG Board which cannot exceed the lower of £1,800 or 10 per cent. of pre-tax salary in any tax year. A participant may stop and start deductions at any time.

Participants' contributions can be used to buy CYBG Shares immediately or can be accumulated for up to 12 months before being used to buy CYBG Shares.

Partnership Shares may be withdrawn from the SIP by the participant at any time and are not forfeitable in any circumstances but the participant will have to pay income tax if the CYBG Shares are taken out of the SIP within five years of being bought (unless the participant is a Good Leaver).

Matching Shares

Where a participant buys Partnership Shares, the CYBG Board may award the participant free, additional CYBG Shares (known as "**Matching Shares**"). Participants may currently be awarded a maximum of two Matching Shares for every Partnership Share purchased.

There is a holding period of between three and five years during which the participant cannot withdraw the Matching Shares from the SIP unless the participant leaves employment or a change of control event occurs.

The CYBG Board can provide that Matching Shares will be forfeited if the employee leaves employment, other than where he leaves as a Good Leaver.

Dividends

The CYBG Board may allow a participant to reinvest any dividends paid on Free, Partnership or Matching Shares in buying additional CYBG Shares ("**Dividend Shares**") which must be held in the SIP for three years, unless the participant leaves employment or a change of control event occurs. Dividend Shares are not forfeitable in any circumstances.

Voting rights

Participants may direct the trustees of the SIP how to exercise the voting rights attributable to the CYBG Shares held on their behalf. The trustees of the SIP will not exercise the voting rights unless they receive the participants' instructions.

9.5 SAYE Plan

Invitations and Eligibility

The CYBG Board may at any time (but subject to any relevant regulatory restrictions) invite all eligible employees to apply for options. An eligible employee is any employee or any CYBG Director who is obliged to devote not less than 25 hours a week to his duties with that company who:

- is employed by CYBG PLC or a participating subsidiary and is tax resident in the UK on the date that options are granted; and
- has been continuously employed by CYBG PLC or a participating subsidiary for a qualifying service period (not exceeding five years) set by the CYBG Board.

The CYBG Board can nominate employees who do not satisfy these conditions to participate and can decide which subsidiaries participate.

Savings contracts

An eligible employee who applies for an option under the SAYE Plan must also enter into a savings contract for a period of three or five years. The CYBG Board has discretion to determine which savings contract will be made available under any invitation to apply for options. Under the savings contract, the employee will agree to make monthly savings contributions of at least £5 but not more than £500 per month. CYBG Shares can only be bought using the amount saved plus any bonus paid under the savings contract.

Option Price

The option price must not be less than 80 per cent. of the market value of the CYBG Shares on the date specified in the invitation.

Scaling down

Applications to participate in the SAYE Plan may be scaled down by the CYBG Board if they exceed the number of CYBG Shares available for the grant of options. The ways in which scaling down may be carried out are set out in the rules of the SAYE Plan.

Exercise of options

Options are normally exercisable for a period of six months after the third or fifth anniversary of the start of the savings contract. Special provisions allow early exercise in the case of a Good Leaver. If a participant ceases employment for any other reason within three years of the grant date, his option will lapse.

Change of control, merger or other reorganisation

Options may generally be exercised early in the event of a change of control, scheme of arrangement, other reorganisation or on the winding up of CYBG PLC. Internal reorganisations do not automatically trigger the early exercise of options.

Variation of capital

Options may be adjusted in the event of any variation in the share capital of CYBG PLC.

9.6 Terms common to the LTIP and DEP ("Executive Plans")

Overall limits of the Executive Plans

In any 10-year period, not more than five per cent. of the issued share capital of CYBG PLC may be issued under awards granted under the Executive Plans and any other discretionary employees' share plans adopted by CYBG PLC. This limit does not include awards which have lapsed but will include awards satisfied with CYBG Shares transferred out of treasury for so long as required by UK institutional investor guidelines.

Forms of awards

Awards may be granted in different forms as (a) a conditional right to acquire CYBG Shares in the future at no cost, (b) an option with a nil exercise price or (c) an acquisition of CYBG Shares that are forfeitable in the event that specified vesting conditions are not met.

Malus and clawback

Certain participants in the Executive Plans will be material risk takers for the purposes of the PRA Remuneration Code and malus and clawback provisions will apply to them. For these participants, the Remuneration Committee may, within seven years of the grant of an award, decide to reduce the number of CYBG Shares or, where relevant, the cash amount to which an award relates (malus) or require the participant to make a repayment in respect of an award (clawback) where there is a material misstatement of financial results or in other circumstances prescribed by the PRA Remuneration Code.

Annexure G: Part Eight
Additional information on CYBG Group

Dividend equivalents

The Remuneration Committee may decide at any time before vesting that participants should receive an additional benefit equal in value to any dividends that they would have received during the vesting period, if they had been the holders of the vested CYBG Shares. The benefit can be provided as a cash sum or in the form of CYBG Shares. Alternatively, the Remuneration Committee may grant an award on terms that the number of CYBG Shares subject to the award shall increase by assuming that dividends that would have been paid on those CYBG Shares during the vesting period would have been used to buy further CYBG Shares.

Cash alternative and cash awards

Where an award has vested (or, in the case of an option, has been exercised) the Remuneration Committee may elect, instead of delivering CYBG Shares, to pay cash to the participant. The amount to be paid (subject to deduction of tax or similar liabilities) shall be equal to the market value of the CYBG Shares subject to the award. The Executive Plans also have flexibility to allow cash-settled awards to be granted from the outset if considered appropriate.

Holding period

Awards will be subject to a holding period of at least six months following vesting to the extent required by the PRA Remuneration Code. During the holding period, the award will be subject to the malus and clawback provisions but not to the leaver provisions. Instead, a participant will only lose the award where employment is terminated due to gross misconduct. The Remuneration Committee may set a different holding period for subsequent awards, depending on regulatory requirements which apply to CYBG Group in the future.

Leaving the CYBG Group

If a participant ceases to be employed as a Good Leaver, or for any other reason at the discretion of the Remuneration Committee, the award will vest on the normal vesting date to the extent that any performance condition has been met over the performance period and pro-rated for time, unless the Remuneration Committee decides otherwise. Alternatively, the Remuneration Committee may allow an award to vest early, subject to satisfaction of the performance condition up to the date that the participant leaves.

Takeovers and reorganisation

Awards will vest in the event of a change of control of CYBG PLC to the extent the performance condition has been met up to the event in question and, unless the Remuneration Committee decides otherwise, will be pro-rated for time. Internal reorganisations do not automatically trigger the early vesting of awards.

If any other corporate events occur such as a demerger, delisting or special dividend which, in the opinion of the Remuneration Committee, may affect the current or future value of CYBG Shares, the Remuneration Committee may determine that awards will vest. In this case awards will vest to the extent the performance condition has been met up to the event in question and, unless the Remuneration Committee decides otherwise, will be pro-rated for time.

Variation of capital

In the event of any variation in the share capital of CYBG PLC, the Remuneration Committee may make such adjustments as it considers appropriate to the number of CYBG Shares under award.

9.7 LTIP

Eligibility

Awards may be granted to selected CYBG Group employees (including Executive CYBG Directors) at the discretion of the Remuneration Committee.

Individual limits

The Remuneration Committee will determine the value of awards to be granted to each participant in a financial year up to a maximum of 100 per cent. of base salary in normal circumstances, with the Remuneration Committee retaining discretion to grant awards in excess of this limit in exceptional circumstances, including for the purpose of recruitment, subject always to the 2:1 cap on variable to fixed remuneration.

Performance Condition

The vesting of awards will be subject to the satisfaction of performance conditions which will be set by the Remuneration Committee before the grant of an award. The performance conditions will be disclosed to CYBG Shareholders in CYBG PLC's annual report and accounts.

Vesting of awards

In normal circumstances, an award will vest after a performance period (intended to be three years initially), subject to the achievement of satisfactory levels of performance up until the point of vesting.

9.8 DEP

Eligibility

The Remuneration Committee may select any CYBG Group employee, including any Executive CYBG Director, to participate in the DEP if the employee has earned an annual incentive over the previous performance year under the Short-Term Incentive Plan.

The DEP may also be used to grant other types of award for recognition, commencement or retention purposes.

Individual limits

In normal circumstances, the overall annual incentive will be up to 100 per cent. of base salary. Awards will be granted under the DEP in line with the PRA Remuneration Code requirements for deferral of variable remuneration.

Vesting of awards

Awards normally vest over a maximum of three years. The Remuneration Committee may set different vesting schedules for subsequent awards, depending on the regulatory requirements which may apply to CYBG Group in the future.

10. Pensions

Defined benefit scheme

Clydesdale Bank is the sponsoring employer of a funded tax registered defined benefit occupational pension scheme, the DB Scheme. Under the DB Scheme, benefits provided are based on employees' years of service using either a career average formula or final salary formula. Clydesdale Bank is now the only employer in the DB Scheme. As at 30 September 2015, the DB Scheme had 25,811 members of whom 3,083 were active members, 15,531 were deferred pensioners and 7,197 were pensioners. The DB Scheme was closed to new entrants in 2004 but current active members continue to build up benefits.

The DB Scheme is operated separately from CYBG Group; assets are held and the scheme managed by an independent corporate trustee, Yorkshire and Clydesdale Bank Pension Trustee Limited (the "**DB Trustee**"). The DB Trustee has the power to determine the investment strategy of the DB Scheme after consultation with Clydesdale Bank. Regular actuarial valuations are held (at least every 3 years) to determine the funded status of the DB Scheme. At its last triennial valuation as at 30 September 2013, the DB Scheme was assessed to have a deficit of £450 million on an actuarial basis in line with the relevant statutory requirements, representing a funding level on this basis of 86 per cent. Following this valuation and in line with the relevant legal requirements, Clydesdale Bank agreed to make the following payments relating to the deficit in the DB Scheme: £65 million on 1 October 2013, £150 million by 30 June 2014, £50 million on each of 1 October 2017, 1 October 2018, 1 October 2019, 1 October 2020 and 1 October 2021, and £55 million on 1 October 2022. As at 30 September 2015, the estimated funding level of the scheme had increased to 90 per cent.

Clydesdale Bank has held discussions with the DB Trustee about potential security arrangements in respect of contributions payable under the recovery plan. These discussions are at an early stage and any arrangement would only be put in place if it could be designed to fit with the regulatory, capital and business requirement of Clydesdale Bank and to provide a level of security that the DB Trustee considers to be improved over the current position.

The following table sets out CYBG Group's pension liability on an accounting basis and on a cash funding basis as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Accounting basis	52	49	(197)	(301)
Cash funding basis	(396)	(244)	(450)	(699)

The cash funding basis refers to the value prepared in accordance with Part 3 of the Pensions Act 2004 and is calculated by the scheme actuary. In 2012, the cash funding basis was calculated as an approximate roll forward of the 2010 actuarial valuation. As at 30 September 2013, the cash funding basis was calculated as part of the full actuarial funding valuation. The cash funding basis will be calculated as an approximate roll forward of the 2013 valuation in subsequent periods. See CYBG's Historical Financial Information for further information.

Defined contribution scheme

CYBG Group operates a defined contribution pension scheme for its employees (the "**DC Scheme**").

The DC Scheme's assets are held in a separately administered trust that is managed independently of CYBG Group by the scheme's board of trustees (the "**DC Trustee**") to provide pension benefits to past and present employees. The DC Trustee is required to act in the best interests of the beneficiaries of the DC Scheme.

Since April 2006, all employees were automatically included in the DC Scheme on joining CYBG Group. As at 30 September 2015, approximately 8,222 employees, of which 4,773 are active members and 3,449 deferred members, participated in the DC Scheme. For the majority of employees, employer contributions to the DC Scheme are 5 per cent. of pensionable salary plus an additional percentage of pensionable salary up to 5 per cent. based on the level of employee contributions.

In the year ended 30 September 2015, CYBG Group paid approximately £11.9 million employer contributions, which excludes approximately £4.9 million salary sacrifice contributions, to the DC Scheme in accordance with the rates specified by the rules of the scheme.

Annexure G: Part Eight
Additional information on CYBG Group

11. Property, Plant And Equipment

As at 30 September 2015, the CYBG Group occupied 299 properties throughout the UK. Of these, 19 were held as freeholds, 42 as long-term leaseholds (leases of greater than 30 years at term commencement), 238 as short-term leaseholds (leases of less than 30 years at commencement). The majority of these properties are retail branches along with some Business & Private Banking locations. The properties are primarily located in Scotland, the Midlands and the North of England. Other buildings include CYBG Group's Head Office at 40 St Vincent Place/51 West George St, Glasgow and other customer support centres located to suit business needs, predominantly in and around Glasgow.

In addition, as at 30 September 2015, there were 25 properties which were vacant and 32 properties which were sub-let.

11.1 The CYBG Group does not own any material properties. The material properties leased by the CYBG Group as at the date of Demerger will be as follows:

Location	Desc & Tenure	Use	Area (Sq. M)
30-40 St Vincent Pl., Glasgow	Leasehold to 2024	Head Office	3760
51 West George St., Glasgow	Leasehold to 2027	Head Office	4664
5 Fl Granite House, Stockwell St., Glasgow	Leasehold to 2024	Customer Support Centre	2902
1 Fl Guildhall, Queen St., Glasgow	Leasehold to 2018	Customer Support Centre	1719
2 Fl Guildhall, Queen St., Glasgow	Leasehold to 2019	Customer Support Centre	1719
3-5 Fl Guildhall, Queen St., Glasgow	Leasehold to 2024	Customer Support Centre	4857
7 Fl Guildhall, Queen St., Glasgow	Leasehold to 2017	Treasury and Dealing Room	1390
Bering House, Clydebank	Leasehold to 2024	Customer Support Centre	1440
Tasman House, Clydebank	Leasehold to 2018	Customer Support Centre	402
7 North Ave., Clydebank	Leasehold to 2024	Customer Support Centre	3066
Timor House, Clydebank	Leasehold to 2024	Customer Support Centre	1186
Production Block, 8 North Ave., Clydebank	Leasehold to 2024	Customer Support Centre	3094
The Bunker Data Centre, Sylvania Way, Clydebank	Leasehold to 2032	Data Centre	2393
Data Centre, Gordon Ave., Hillington	Leasehold to 2042	Data Centre	4605

12. Subsidiaries

12.1 CYBG PLC will be the holding company of the CYBG Group at UK Admission.

12.2 At UK Admission, CYBG PLC will have the following significant subsidiary undertakings, each of which are currently wholly owned, either directly or indirectly, by CYBI and consolidated into the annual financial statements of CYBI:

Proceedings in connection with conduct-related IRHP/FRTBL redress

For information on proceedings and provisions in connection with conduct-related IRHP/FRTBL redress see Part 5 of this Annexure G: "*Operating and Financial Review – Significant Factors Affecting Results of Operations and Financial Position – Legacy conduct-related redress – Interest Rate Hedging Products and Other Conduct*".

Name	Principal Activity	Registered Office	Percentage of shares and voting rights held	Jurisdiction
CYB Investments Limited	Holding Company	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales
CYB Services Limited	IT and group services	30 St Vincent Place, Glasgow, G1 2HL	100%	Scotland
Clydesdale Bank PLC	Banking	30 St Vincent Place, Glasgow, G1 2HL	100%	Scotland
Yorkshire Bank Home Loans Limited	Mortgage Finance	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales
CYB Intermediaries Holdings Limited	Holding Company	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales
CYB Intermediaries Limited	Insurance	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales

13. Working Capital

CYBG PLC is of the opinion that CYBG Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this document.

14. Litigation

Save as disclosed below, there are no other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which CYBG Group is aware) during the 12 months preceding the date of this Scheme Booklet which may have, or have had, a significant impact on CYBG Group's financial position, operations or profitability.

Proceedings in connection with conduct-related PPI redress

For information on proceedings and provisions in connection with conduct-related PPI redress see Part 5 of this Annexure G: "*Operating and Financial Review – Significant Factors Affecting Results of Operations and Financial Position – Legacy conduct-related redress-PPI Redress*".

15. Funding Programmes

CYBG Group raises funding partially through the issue of debt secured by mortgages to third party institutional investors.

In 2007, CYBG Group established a £20 billion residential mortgage-backed master trust note programme (the "**Lanark Programme**") through which CYBG Group has raised debt in the public markets on a periodic basis, most recently in the issuance under the programme in August 2015.

In 2008, Clydesdale Bank established the Clydesdale Bank €9 billion covered bond programme unconditionally and irrevocably guaranteed as to payments of interest and principal by Clydesdale Covered Bonds LLP (the "**Structured Covered Bond Programme**"). All covered bonds issued under the Structured Covered Bond Programme were retained by Clydesdale Bank upon issuance and all covered bonds issued under the Structured Covered Bond Programme were redeemed and the Structured Covered Bond Programme was unwound and terminated in January 2014.

Annexure G: Part Eight
Additional information on CYBG Group

In 2010, Clydesdale Bank established the Clydesdale Bank €10 billion regulated covered bond programme unconditionally and irrevocably guaranteed as to payments of interest and principal by Clydesdale Covered Bonds No.2 LLP (the "**RCB Programme**") through which CYBG Group has raised debt in the public markets, most recently in June 2012.

In 2011, CYBG Group established a £10 billion buy-to-let mortgage-backed master trust note programme (the "**Lannraig Programme**"). All notes issued under the Lannraig Programme have been retained by Clydesdale Bank and/or NAB since issuance.

Master trust structures, including the Lanark Programme and the Lannraig Programme, are a form of securitisation whereby assets (such as mortgage loans in the case of the Lanark Programme and the Lannraig Programme) are ring-fenced for the benefit of noteholders investing in that transaction. The master trust structure allows for multiple issuances from the same structure or platform backed by the relevant ring-fenced assets and assets are added to and removed from the ring-fence on an ongoing basis to support note issuances to investors in the transaction. Notes issued to investors pursuant to a master trust programme are issued by a special purpose vehicle issuer incorporated specifically for the purposes of the relevant transaction and are obligations of such issuer and are not guaranteed by, or the responsibility of, any other entity and therefore noteholders will not have recourse to the sponsor of the transaction or the seller of the assets. The performance of the notes and the issuer's ability to make payments of interest on and principal of the notes depend indirectly on the performance of, and cashflows derived from, the relevant ring fenced asset pool. The credit ratings of notes issued pursuant to a master trust programme are therefore linked, inter alia, to the credit quality of the underlying ring-fenced asset pool.

In contrast, covered bonds issued pursuant to a covered bond programme for a UK bank (including the RCB Programme) are issued by a bank (such as Clydesdale Bank) or other on-balance sheet company issuer rather than a special purpose vehicle issuer incorporated for the purpose of the relevant transaction. In addition, a ring-fenced pool of assets (such as mortgage loans in the case of the RCB Programme) is transferred to a special purpose vehicle (usually a limited liability partnership) which provides a guarantee of the relevant issuer's payment obligations in favour of bondholders. Investors in covered bonds therefore have full, priority recourse to the ring-fenced pool of assets backing the covered bond issuance as well as recourse to the issuer itself. The credit ratings of the covered bonds issued pursuant to a covered bond programme are therefore linked, in part, to the credit quality of the underlying issuer. As with master trust structures, the structure of a covered bond programme allows for multiple issuances from the same platform and, therefore, assets are added to and removed from the ring-fence on an ongoing basis to support bond issuances to investors in the transaction.

It should be noted that there are substantive structural differences between a master trust securitisation programme (such as the Lanark Programme or the Lannraig Programme) and a covered bond programme (such as the RCB Programme) including, without limitation, as described above.

In addition, CYBG Group issued £300 million perpetual capital notes on 20 December 2013 and £150 million perpetual capital notes on 29 December 2014, in each case held by NAB, as part of a capital restructure, which was undertaken to replace instruments that were non-compliant for CRD IV purposes with CRD IV compliant instruments. These Additional Tier 1 capital instruments include a provision whereby if the Common Equity Tier 1 Ratio of CYBG Group falls below 7 per cent., any distributions which were accrued and unpaid would be cancelled and the principal amount of each instrument reduced to zero. These instruments are perpetual securities and have no fixed redemption date and the issuer shall have the right to redeem them at its option on the date which falls after 5 years after its issuance or any interest payment date thereafter and, at any time, for regulatory reasons or for tax reasons, as more fully described in the terms and conditions of the notes.

Furthermore, CYBG Group issued £175,000,000 Callable Floating Rate Subordinated Notes due January 2021 on 25 January 2011 and £300,000,000 Callable Floating Rate Subordinated Notes due December 2023 on 20 December 2013, in each case held by NAB.

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's current interest in CYBG Group's existing Additional Tier 1 capital instruments and Tier 2 notes, with £450,000,000 Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the "**New AT1 Notes**") and £475,000,000 5 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026 (the "**New Tier 2 Notes**"), being an equivalent in principal amount to the notes being repurchased, to be issued by CYBG PLC at the Demerger Date and initially held by NAB. The arrangements for the new instruments will be effected (at CYBG Group's option in respect of the AT1 Notes only) on market terms, with pricing agreed and terms and conditions substantially agreed between NAB and CYBG Group on 4 November 2015. The effect of these arrangements is intended to allow CYBG Group to optimise its regulatory position in respect of its issuances of capital securities and to provide a single issuing entity for CYBG Group's capital securities following the Demerger.

It is NAB's intention to re-market and sell the New AT1 Notes and the New Tier 2 Notes it will hold in CYBG Group following the Demerger to third party investors during 2016, and NAB and CYBG Group have agreed that CYBG Group will assist NAB in the re-marketing and sale of the New AT1 Notes and the New Tier 2 Notes. The terms of the proposed New AT1 Notes and the New Tier 2 Notes and other information relating to the re-marketing and sale are set out in Section 4.10.2.3 of this Scheme Booklet.

15.1 Lanark Residential Mortgage – Backed Master Trust Note Programme

Description of the Lanark Programme

On 3 August 2007 Lanark Master Issuer plc (the "**Lanark Issuer**"), a special purpose vehicle, established the Lanark Programme. The Lanark Issuer's primary source of funds to make payments on the notes issued pursuant to the Lanark Programme are derived from payments pursuant to the global intercompany loan agreement (the "**Intercompany Loan Agreement**") entered into between the Lanark Issuer and Lanark Funding Limited ("**Lanark Funding**"). Lanark Funding pays amounts due under the Intercompany Loan Agreement principally from its share of the trust property which primarily comprises a portfolio of first ranking residential mortgage loans originated by Clydesdale Bank (and/or originated by Yorkshire Bank Home Loans Limited ("**YBHL**") and subsequently acquired by Clydesdale Bank) and, in each case, secured on properties located in England, Wales and Scotland. The mortgages trustee holds the mortgage portfolio on trust for Clydesdale Bank (in its capacity as seller of the mortgage portfolio) and Lanark Funding. Neither the Lanark Issuer nor the noteholders have any direct interest in the trust property, although the Lanark Issuer will share in the benefit of a security interest created by Lanark Funding over its share of the trust property. The Lanark Issuer's primary asset is its rights under the Intercompany Loan Agreement and the related security created by Lanark Funding. All notes issued to date by the Lanark Issuer have been admitted to the Official List and are admitted to trading on the regulated market of the LSE however, pursuant to the terms of the Lanark Programme, the Lanark Issuer may also issue notes listed or traded on other regulated markets and/or unlisted notes. The maximum aggregate principal amount of all notes from time to time outstanding under the Lanark Programme will not exceed £20 billion (or its equivalent in other currencies), subject to any increase in accordance with the terms of the Lanark Programme.

Underlying assets

The mortgage loans included in the mortgage portfolio are secured on residential properties located in England, Wales or Scotland and consist of several different types of loan product with a variety of characteristics relating to, among other things, calculation of interest and terms of repayment of principal but exclude buy-to-let mortgage loan products.

Status of the notes and recourse to CYBG Group

The notes are the obligations of the Lanark Issuer alone and are not guaranteed by, or the responsibility of, any other entity including Clydesdale Bank or any other member of CYBG Group. However, Clydesdale Bank still has a connection with the Lanark Programme for other reasons including acting in various capacities as a beneficiary of the mortgages trust, as seller of the mortgage loans, as service provider under the Lanark Programme such as servicer of the mortgage loans in the mortgage portfolio, collection account bank, cash manager, an account bank and a subordinated loan provider. Clydesdale Bank is therefore subject to certain rights and obligations pursuant to the Lanark Programme transaction documentation in each of these capacities. In addition, in respect of a number of these roles, the transaction documentation requires that a minimum corporate credit rating of Clydesdale Bank is maintained and, if such credit rating is not maintained, certain actions may be required to be taken pursuant to the transaction documentation (for example the transfer of such role to a third party counterparty or obtaining a guarantee of such obligations) and/or certain amendments may need to be made to the transaction documentation. See Part 1 of this Annexure G: "*Risk Factors – Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS, covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes*" above for further information.

Further, as at the date hereof, NAB also acts as a service provider in respect of the Lanark Programme in capacities such as an account bank and swap provider. NAB is therefore also subject to certain rights and obligations pursuant to the Lanark Programme transaction documentation in such capacities.

Ongoing obligations of CYBG Group under the Lanark Programme

Clydesdale Bank (as seller of the mortgage portfolio) may from time to time on an ongoing basis, subject to satisfaction of certain assignment conditions (including, without limitation, certain eligibility criteria and that Clydesdale Bank as seller make certain representations and warranties as to the nature and quality of the relevant mortgage loans) assign further mortgage loans and their related security (which is the security for the repayment of a mortgage loan, including the relevant mortgage) to the mortgages trustee to increase or maintain the size of the trust property. In particular, Clydesdale Bank may assign mortgage loans and their related security to the mortgages trustee in connection with an issue of notes by the Lanark Issuer, the proceeds of which are applied ultimately to fund the acquisition (by assignment) of such mortgage loans and their related security by the mortgages trustee or to maintain adequate over-collateralisation in the mortgages trust. In addition, Clydesdale Bank (as seller) is obliged to repurchase from the mortgages trustee any mortgage loan and its related security upon a material breach of the representations and warranties made by the seller in relation to the relevant mortgage loan which could have a material adverse effect on such mortgage loan and/or its related security (subject to a 28-day grace period). Further, Clydesdale Bank (as seller) is obliged to repurchase any mortgage loan which is the subject of a product switch and may repurchase any mortgage loan which is the subject of a further advance. Upon the occurrence of certain trigger events including, without limitation, the occurrence of an insolvency event in respect of Clydesdale Bank, Clydesdale Bank ceasing to act as servicer on the Lanark Programme and/or Clydesdale Bank failing to maintain certain minimum corporate credit ratings of Clydesdale Bank, Clydesdale Bank is required to notify borrowers of the mortgage loans which have been assigned to the mortgages trust of such assignment and execute and complete the transfer of legal title to the mortgages trustee of the mortgage loans in the mortgage portfolio and their related security.

Amendments and modifications of the Lanark Programme

Amendments and modifications are required to be made to the Lanark Programme and the transaction documents from time to time, including for example, to implement changes in law and regulation, to comply with changes in relevant rating agency criteria or rating methodology and to implement changes necessary or desirable for the general upkeep of the Lanark Programme.

In accordance with the relevant terms and conditions of the notes issued pursuant to the Lanark Programme and the transaction documents, amendments and modifications may be made to the Lanark Programme and the transaction documents either (i) with the consent of the note trustee, issuer security trustee and/or funding security trustee and without the consent of any noteholders of any series or secured creditors under the Lanark Programme in certain limited circumstances, including where such modification or amendment is, in the opinion of the note trustee, issuer security trustee and/or funding security trustee, not materially prejudicial to the interests of any noteholders of any series or secured creditors under the Lanark Programme or such amendment or modification is to correct a manifest error or is of a formal, minor or technical nature or is made to comply with mandatory provisions of law, or (ii) with the consent and sanction of the noteholders. See Part 1 of this Annexure G: "*Risk Factors Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS, covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes*" above for further information.

The transaction documents relating to the Lanark Programme contain certain minimum rating requirements in relation to various transaction parties (including Clydesdale Bank) which require certain action to be taken if the ratings of those transaction parties (including Clydesdale Bank) fall below certain minimum levels. If the ratings of Clydesdale Bank were to fall below certain required minimum rating levels in respect of a transaction party, Clydesdale Bank may be replaced in that capacity under the Lanark Programme or may be required to take other action predetermined in the transaction documents. Such other action is typically that required by the rating agencies' rating criteria and is designed to mitigate against the future potential default or insolvency of that transaction party of such failure to maintain the relevant minimum required ratings. Minimum rating requirements under the Lanark Programme apply to Clydesdale Bank, inter alia, in its capacities as seller of the mortgage loans, servicer of the mortgage loans and collection account bank in respect of amounts received from borrowers under the mortgage loans. There could be a number of adverse consequences arising from the ratings of Clydesdale Bank falling below the relevant minimum required ratings, for example if Clydesdale Bank's long term, unsecured, unsubordinated and unguaranteed debt obligation ratings were to fall below "BBB-" by S&P or Fitch or Clydesdale Bank's long term bank deposit rating were to fall below "Baa3" by Moody's, Clydesdale Bank could be required to notify borrowers of the assignment of Clydesdale Bank's interest in their mortgage loans to the mortgages trustee for the Lanark Programme. Other trigger events include being required to transfer the collection account away from Clydesdale Bank to a third party and advise borrowers to make future payments and repayments under their mortgage loans to the new collection account and appoint a third party back up servicer and cash manager to the programme.

Notes outstanding

The table below summarises the notes outstanding under the Lanark Programme, as at the date of this Scheme Booklet:

Series	Tranche	Legal Maturity Date	Step Up/ Call Option Date	Original Balance
Series 2012-2	1A	Dec 2054	Feb 2016	$800,000,000
Series 2012-2	2A	Dec 2054	Nov 2017	£525,000,000
Series 2013-1	1A1	Dec 2054	Aug 2016	$300,000,000
Series 2013-1	1A2	Dec 2054	Aug 2016	£350,000,000
Series 2014-1	1A	Dec 2054	Aug 2017	€300,000,000
Series 2014-1	2A	Dec 2054	Nov 2018	£350,000,000
Series 2014-2	1A	Dec 2054	Aug 2018	€550,000,000
Series 2014-2	2A	Dec 2054	Feb 2020	£275,000,000
Series 2014-2	Z VFN	Dec 2054	N/A	£480,500,000
Series 2015-1	1A	Dec 2054	Aug 2018	£300,000,000
Series 2015-2	2A	Dec 2054	May 2021	€280,000,000

15.2 Lannraig Buy-to-let Mortgage-Backed Master Trust Note Programme

Description of the Lannraig Programme

On 19 November 2012 Lannraig Issuer, a special purpose vehicle, established the Lannraig Programme. The Lannraig Issuer's primary source of funds to make payments on the notes issued pursuant to the Lannraig Programme are primarily derived from payments pursuant to the Intercompany Loan Agreement entered into between the Lannraig Issuer and Lannraig Funding. Lannraig Funding pays amounts due under the Intercompany Loan Agreement principally from its share of the trust property which primarily comprises a portfolio of first ranking buy-to-let residential mortgage loans originated by Clydesdale Bank (and/or originated by YBHL and subsequently acquired by Clydesdale Bank) and, in each case, secured on properties located in England, Wales and Scotland. The mortgages trustee holds the mortgage portfolio on trust for Clydesdale Bank (in its capacity as seller of the mortgage portfolio) and Lannraig Funding. Neither the Lannraig Issuer nor the noteholders have any direct interest in the trust property, although the Lannraig Issuer will share in the benefit of a security interest created by Lannraig Funding over its share of the trust property. The Lannraig Issuer's primary asset is its rights under the Intercompany Loan Agreement and the related security created by Lannraig Funding.

All notes issued to date by the Lannraig Issuer have been admitted to the Official List and are admitted to trading on the regulated market of the LSE. However, pursuant to the terms of the Lannraig Programme, the Lannraig Issuer may also issue notes listed or traded on other regulated markets and/or unlisted notes. The maximum aggregate principal amount of all notes from time to time outstanding under the Lannraig Programme will not exceed £10 billion (or its equivalent in other currencies), subject to any increase in accordance with the terms of the Lannraig Programme. All notes issued to date by the Lannraig Issuer pursuant to the Lannraig Programme have been retained by Clydesdale Bank and/or NAB since issuance.

The mortgage loans included in the mortgage portfolio consist exclusively of buy-to-let residential mortgage loans but otherwise consist of several different types of buy-to-let mortgage loans with a variety of characteristics relating to, among other things, calculation of interest and terms of repayment of principal.

Other than as set out above, the structure of the Lannraig Programme and the way that the Lannraig Programme operates is substantively and materially the same as the Lanark Programme including with respect to the status of the notes issued pursuant to the Lannraig Programme and recourse to CYBG Group, the ongoing obligations of CYBG Group under the Lannraig Programme, the process for making amendments and modifications to the Lannraig Programme and the transaction documents related thereto and the consequences of transaction parties (including Clydesdale Bank) failing to meet the various minimum rating requirements set out in the transaction documents. See further *Lanark Residential Mortgage Backed Master Trust Note Programme* above.

Notes outstanding

The table below summarises the notes outstanding under the Lannraig Programme, as at the date of this Scheme Booklet:

Series	Tranche	Legal Maturity Date	Step Up/ Call Option Date	Original Balance
Series 2011-1	A	Dec 2061	Nov 2017	£670,000,000
Series 2011-1	Z	Dec 2061	Nov 2017	£159,000,000
Series 2012-1	A	Dec 2061	Nov 2018	£715,000,000
Series 2012-1	Z	Dec 2061	Nov 2018	£55,000,000

15.3 Clydesdale Bank PLC's Regulated Covered Bond Programme

Description of the RCB Programme

On 1 December 2010 Clydesdale Bank, in its capacity as issuer, established the RCB Programme unconditionally and irrevocably guaranteed as to payments of interest and principal by Clydesdale Covered Bonds No.2 LLP (the "**LLP**"). Pursuant to the terms of the RCB Programme, Clydesdale Bank (in its capacity as issuer) is expected to make payments of principal and interest due on the covered bonds issued pursuant to the RCB Programme however, the LLP has guaranteed payments of interest and principal under the covered bonds pursuant to a guarantee which is secured over a residential mortgage loan portfolio and other assets of the LLP. Recourse to the LLP under its guarantee is limited to the mortgage loan portfolio and such other assets of the LLP. The LLP will be required to pay amounts due and payable in respect of the covered bonds under the guarantee following the occurrence of an issuer event of default and the service of an acceleration notice on Clydesdale Bank as issuer. At such time, the covered bonds will only be accelerated against the issuer and will not be accelerated against the LLP. In the event that an issuer event of default occurs and an acceleration notice is served on Clydesdale Bank as issuer in respect of a particular series of covered bonds, then all series of covered bonds then outstanding will cross-default and accelerate at the same time against the issuer, but will be subject to, and have the benefit of, payments made by the LLP under the guarantee. The guarantee granted by the LLP in respect of the covered bonds will, *inter alia*, be backed by the LLP's economic interest in the mortgage loan portfolio. The maximum aggregate principal amount of all covered bonds from time to time outstanding under the RCB Programme will not exceed €10 billion (or its equivalent in other currencies), subject to any increase in accordance with the terms of the RCB Programme. As at the date hereof, all covered bonds issued by Clydesdale Bank pursuant to the RCB Programme have been admitted to the Official List and are admitted to trading on the regulated market of the LSE. However, under the terms of the RCB Programme, Clydesdale Bank may also issue covered bonds listed or traded on other regulated markets and/or unlisted covered bonds including, without limitation, *Namensschuldverschreibung* (or N covered bonds) which are privately placed, German law governed, registered covered bonds.

Underlying assets

The mortgage loan portfolio comprises first ranking residential mortgage loans (including buy-to-let mortgage loans) and their related security originated by Clydesdale Bank (and/or originated by YBHL and subsequently acquired by Clydesdale Bank) and, in each case, secured on residential properties located in England, Wales and Scotland.

Ongoing obligations of CYBG Group under the RCB Programme

In addition to its role as issuer, and consequently primary obligor, under the RCB Programme in respect of the covered bonds, Clydesdale Bank also acts in various capacities as seller, as service provider under the RCB Programme such as servicer of the mortgage loans in the mortgage portfolio, collection account bank, cash manager and an account bank. Clydesdale Bank is therefore subject to certain rights and obligations pursuant to the RCB Programme transaction documentation in each of these capacities. In addition, in respect of a number of these roles, the transaction documentation requires that a minimum credit rating is maintained by Clydesdale Bank and, if such credit rating is not maintained, certain actions may be required to be taken pursuant to the transaction documentation (for example the transfer of such role to a third party counterparty or obtaining a guarantee of such obligations) and/or certain amendments may need to be made to the transaction documentation. Failure to carry out such required actions may result in an issuer event of default occurring. In addition, Clydesdale Bank is a member of the LLP and, in certain circumstances, may also be required to make a capital contribution to the LLP either in cash or in kind to avoid an event of default. See Part 1 of this Annexure G: "*Risk Factors – A downgrade in the credit rating of CYBG PLC or Clydesdale Bank, the UK banking sector or the UK Government may have an adverse effect on CYBG Group's business, results of operations, financial condition or prospects*".

Further, as at the date hereof, NAB also acts as a service provider in respect of the RCB Programme in capacities such as an account bank and swap provider. NAB is therefore also subject to certain rights and obligations pursuant to the RCB Programme transaction documentation in such capacities.

The mortgage loans and their related security are sold on an ongoing basis and from time to time by Clydesdale Bank (as seller) to the LLP in accordance with the terms of the RCB Programme, which requires the satisfaction of certain assignment conditions (including, without limitation, certain eligibility criteria and that Clydesdale Bank, as seller, make certain representations and warranties as to the nature and quality of the relevant mortgage loans). Under certain circumstances, Clydesdale Bank may elect to or shall be obliged to repurchase mortgage loans previously sold to the LLP, for example, in the event that Clydesdale Bank receives a notice from the LLP identifying that a mortgage loan in the mortgage portfolio did not materially comply with the representations and warranties as at the relevant transfer date (subject to the ability to remedy such breach of representation or warranty and certain grace periods) or in connection with a further issue of covered bonds. Further, under certain circumstances, the LLP may be obliged to sell a portion of the mortgage loan portfolio (subject to rights of pre-emption afforded to Clydesdale Bank) selected at random in order to ensure that there are sufficient principal receipts available to repay principal due and payable to covered bondholders. In addition, Clydesdale Bank is obliged to use reasonable efforts to transfer further mortgage loans to the LLP to ensure that the mortgage loan portfolio is in compliance with certain tests relating to the minimum over-collateralisation level of the RCB Programme. Upon the occurrence of certain trigger events including, without limitation, the occurrence of an insolvency event in respect of Clydesdale Bank, Clydesdale Bank ceasing to act as servicer on the RCB Programme and Clydesdale Bank failing to maintain certain minimum corporate ratings, Clydesdale Bank (in its capacity as seller) is required to notify borrowers of the mortgage loans which have been assigned to the LLP of such assignment and execute and complete the transfer of legal title to the LLP of the mortgage loans in the mortgage portfolio and their related security.

Regulatory obligations of Clydesdale Bank as issuer

Clydesdale Bank was admitted to the register of issuers on 1 December 2010 and the RCB Programme and the covered bonds issued under the Programme were admitted to the register of regulated covered bonds under the RCB Regulations. The RCB Regulations implemented a new legislative framework for UK covered bonds intended to meet the requirements set out in the UCITS Directive. The RCB Regulations and the FCA's corresponding implementation provisions, set out in the RCB Sourcebook impose certain ongoing obligations and liabilities on both Clydesdale Bank (as issuer) and the LLP (as owner of the asset pool) in relation to the maintenance and administration of the asset pool. The issuer must make arrangements with the owner to provide that, prior to the insolvency of the issuer: (i) a record is kept of each asset in the pool; (ii) that the asset pool is capable of covering all amounts due on the bond and sums required for the maintenance, administration and winding up of the asset pool; (iii) that there is timely payment of amounts due to the bondholder; and (iv) that the asset pool is of sufficient quality that, in the event of a failure of the issuer, there will be a low risk of default in the timely payment of amounts due to the bondholders. In addition, the RCB Regulations impose fixed minimum over-collateralisation requirements and fixed minimum coverage requirements whereby the total principal amounts outstanding on the mortgage assets constituting eligible property in the asset pool will be required to be more than the total principal amounts outstanding in relation to the regulated covered bonds by at least 8 per cent. and a minimum threshold will apply in respect of interest amounts such that the total amount of interest payable in the period of 12 months following any given date in respect of the eligible property in the asset pool will be required to be not less than the interest which would be payable in relation to the regulated covered bonds in that period. Further, the RCB Regulations and RCB Sourcebook impose various reporting requirements on issuers, for example, they are required to provide loan-level data to investors on a regular basis and notify the FCA of various matters (including any regulated covered bonds it issues, the composition of the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Pursuant to the RCB Regulations and RCB Sourcebook, the FCA will also perform certain tasks and have certain supervisory and enforcement powers in respect of the regulated covered bonds regime, including the authority to take certain actions in respect of the issuer and/or the LLP under the RCB Regulations. Such actions include directing the winding-up of the LLP, removing Clydesdale Bank from the register of issuers, directing the issuer and/or the LLP to take specified steps for the purposes of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the issuer or the LLP. Additionally, the FCA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). To date there is no example and/or clarity as to how the FCA will exercise the discretionary powers that it has been given under the RCB Regulations. Any such enforcement actions by the FCA may restrict Clydesdale Bank's ability to transfer further mortgage loans to the mortgage loan portfolio thereby reducing the amounts available to pay covered bondholders under the RCB Programme. In addition, a winding-up of the LLP, prior to the occurrence of an issuer event of default and service of an acceleration notice on Clydesdale Bank may have an adverse effect on the ability of Clydesdale Bank to make payments under the covered bonds.

Amendments and modifications of the RCB Programme

Amendments and modifications are required to be made to the RCB Programme and the transaction documents from time to time, including for example, to implement changes in law and regulation (including amendments to the RCB Regulations), to comply with changes in relevant rating agency criteria or rating methodology and to implement changes necessary or desirable for the general upkeep of the RCB Programme.

In accordance with the relevant terms and conditions of the notes issued pursuant to the RCB Programme and the transaction documents, amendments and modifications may be made to the RCB Programme and the transaction documents either (i) with the consent of the bond trustee and/or security trustee and without the consent of any covered bondholders of any series or secured creditors under the RCB Programme in certain limited circumstances, including where such modification or amendment is, in the opinion of the bond trustee and/or the security trustee, not materially prejudicial to the interests of any covered bondholders of any series or secured creditors under the RCB Programme or such amendment or modification is to correct a manifest error or is of a formal, minor or technical nature or is made to comply with mandatory provisions of law; or (ii) with the consent and sanction of the covered bondholders.

The transaction documents relating to the RCB Programme contain certain minimum rating requirements in relation to various transaction parties (including Clydesdale Bank) which require certain action to be taken if the ratings of those transaction parties (including Clydesdale Bank) fall below certain minimum levels. If the ratings of Clydesdale Bank were to fall below certain required minimum rating levels in respect of a transaction party, Clydesdale Bank may be replaced in that capacity under the RCB Programme or may be required to take other action predetermined in the transaction documents. Such other action is typically that required by the rating agencies' rating criteria and is designed to mitigate against the perceived risk to the transaction arising out of such failure to maintain the relevant minimum required ratings. Minimum rating requirements under the RCB Programme apply to Clydesdale Bank, inter alia, in its capacities as issuer of the covered bonds, seller of the mortgage loans, servicer of the mortgage loans and collection account bank in respect of amounts received from borrowers under the mortgage loans. There could be a number of adverse consequences arising from the ratings of Clydesdale Bank falling below the relevant minimum required ratings, for example, if Clydesdale Bank's long-term unsecured, unsubordinated and unguaranteed debt obligation rating was to fall below "BBB-" by Fitch or Clydesdale Bank's long term bank deposit rating were to fall below "Baa2" by Moody's, Clydesdale Bank could be required to notify borrowers of the assignment of Clydesdale Bank's interest in their mortgage loans to the LLP for the RCB Programme. Other trigger events include being required to transfer the collection account away from Clydesdale Bank to a third party and advise borrowers to make future payments and repayments under their mortgage loans to the new collection account and appoint a third party back-up servicer and cash manager to the programme.

See Part 1 of this Annexure G: "*CYBG Risk Factors – Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes*" for further information.

Covered bonds outstanding

The table below summarises the covered bonds outstanding under the RCB Programme, as at the date hereof:

Series	Legal Maturity Date	Original Balance
Series 2012-2	June 2026	£700,000,000

16. Related Party Transactions

16.1 Save:

16.1.1 as described in the CYBG Historical Financial Information for the four years ended 30 September 2012, 2013, 2014 and 2015; and

16.1.2 the transactions described in Part 2 of this Annexure G "*Information on CYBG Group – Relationship with NAB*",

there were no related party transactions entered into by CYBG PLC or any member of CYBG Group during the financial years ended 30 September 2012, 2013, 2014 and 2015 and during the period up to the date of this Scheme Booklet.

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Demerger website

www.clydesdaledemerger.com.au

Shareholder Centre website

NAB's website at **www.nabgroup.com/shareholder** has a dedicated section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Contact details

These services are secured to protect your interests. In all communications with the NAB Share Registry, please ensure you quote your security holder reference number ("**SRN**"), or in case of broker sponsored shareholders, your holder identification number ("**HIN**").

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