

Sainsbury's Bank

Sainsbury's Bank plc

(incorporated under the laws of England and Wales with company number 3279730)

£120,000,000 10.50 per cent. Fixed Rate Reset Callable

Subordinated Notes due 2033

Issue price: 100 per cent.

The £120,000,000 10.50 per cent. Fixed Rate Reset Callable Subordinated Notes due 2033 (the "Notes") will be issued by Sainsbury's Bank plc (the "Issuer") on or about 12 September 2022 (the "Issue Date"). The Notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 12 March 2028 (the "Reset Date"), at a rate of 10.50 per cent. per annum and thereafter at the Reset Rate of Interest as provided in Condition 5. Interest will be payable on the Notes in equal instalments semi-annually in arrear on each Interest Payment Date, commencing on 12 March 2023.

The Notes will be issued on the Terms and Conditions set out under "Terms and Conditions of the Notes" (the "Conditions", and references to a numbered "Condition" should be read accordingly). Defined terms used herein and not otherwise defined have the meaning given to them in the Conditions.

Unless previously redeemed or purchased and cancelled in accordance with the Conditions and subject to compliance with the Regulatory Capital Requirements, the Notes will mature on 12 March 2033. Noteholders will have no right to require the Issuer to redeem or purchase the Notes at any time. The Issuer may, in its discretion but subject to the conditions described in Condition 6(b), elect to (a) redeem all (but not some only) of the Notes at their principal amount, together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to (but excluding) the redemption date: (i) at any time from and including 12 September 2027 to and including the Reset Date or (ii) at any time if a Tax Event has occurred or a Capital Disqualification Event (each as defined in Condition 19) has occurred or (b) repurchase the Notes at any time.

The Notes will be direct, unsecured, unguaranteed and subordinated obligations of the Issuer, ranking *pari passu* and without preference amongst themselves, and will, in the event of the winding-up of the Issuer, be subordinated to the claims of all Senior Creditors (as defined in Condition 19) of the Issuer but shall rank at least *pari passu* with all other subordinated obligations of the Issuer which constitute, or would constitute, Tier 2 Capital of the Issuer.

Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin ("Euronext Dublin") for the Notes to be admitted to the Official List (the "Official List") of Euronext Dublin and to trading on the Global Exchange Market (the "GEM") of Euronext Dublin. This Information Memorandum constitutes "Listing Particulars" for the purposes of the admission of the Notes to the Official List and to trading on the GEM of Euronext Dublin and, for such purposes, does not constitute, and has not been approved, as a prospectus for the purposes of Regulation (EU) 2017/1129 or Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended (the "EUWA"). This Information Memorandum has been approved by Euronext Dublin. GEM is not a regulated market for the purposes of Directive 2014/65/EU, as amended ("MiFID II"). This Information Memorandum is available for viewing on the website of Euronext Dublin. References in this Information Memorandum to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on GEM and have been admitted to the Official List of Euronext Dublin.

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

The Notes are expected to be assigned a rating of 'Baa2' by Moody's Investors Services Limited ("Moody's"). Moody's is established in the United Kingdom (the "UK") and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law of the UK by virtue of the EUWA (the "UK CRA Regulation"), and, as at the date of this Information Memorandum, appears on the latest update of the list of registered credit rating agencies on the website of the Financial Conduct Authority (the "FCA") at <https://www.fca.org.uk/markets/credit-rating-agencies/registered-certified-cras>. The rating that Moody's has given to the Notes is expected to be endorsed by Moody's Deutschland GmbH, which is established in the European, Economic, Area (the "EEA") and registered under Regulation (EC) No 1060/2009, as amended (the "EU CRA Regulation") and, as at the date of this Information Memorandum, appears on the list of registered credit rating agencies on the European Securities and Markets Authority ("ESMA") website at <http://www.esma.europa.eu>. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A revision, suspension, reduction or withdrawal of a rating may adversely affect the market price of the Notes.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the section headed "Risk Factors". The Notes will not be rated on issue.

Sole Structuring Agent

HSBC

Joint Lead Managers

HSBC

NatWest Markets

UK MiFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“**COBS**”), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended (the “**EUWA**”) (“**UK MiFIR**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any EA retail investor in the European Economic Area (“**EEA**”). For these purposes, a “retail investor” means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any EA retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “**UK**”). For these purposes, a “retail investor” means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (the “**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Notification under Section 309B(1)(c) of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the “SFA”) - In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Information Memorandum may be used only for the purpose for which it has been published.

IMPORTANT INFORMATION

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

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

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

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

The Joint Lead Managers (as defined in "*Subscription and Sale*") and the Trustee have not separately verified the information contained in this Information Memorandum. Neither the Joint Lead Managers nor the Trustee makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained (or incorporated by reference) in this Information Memorandum or any other information provided by the Issuer in connection with the offering of the Notes. Neither the Joint Lead Managers nor the Trustee accepts any liability in relation to the information contained in this Information Memorandum or any other information provided by the Issuer in connection with the offering of the Notes or their distribution. Neither this Information Memorandum nor any other information supplied in connection with the offering of the Notes is intended to constitute, and should not be considered as, a recommendation by any of the Issuer, the Joint Lead Managers or the Trustee that any recipient of this Information Memorandum or any other information supplied in connection with the offering of the Notes should purchase the Notes. Each potential purchaser should make its own independent investigation of the financial condition and affairs and its own approval of the credit worthiness of the Issuer. Each potential purchaser of Notes should determine for itself the relevance of information contained in this Information Memorandum and its purchase of Notes should be based upon such investigation as it deems necessary. Neither the Joint Lead Managers nor the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Information Memorandum nor to advise any investor or potential investor in the Notes of any information coming to their attention.

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

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may only be offered or sold in accordance with Regulation S under the Securities Act. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons, its territories or possession (see "*Subscription and Sale*" below).

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

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

IN CONNECTION WITH THE OFFERING OF THE NOTES, HSBC BANK PLC AS STABILISATION MANAGER (THE "STABILISATION MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

FORWARD-LOOKING STATEMENTS

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

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

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

Subject to applicable law or regulation, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this Information Memorandum that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Information Memorandum.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical financial information

The audited financial statements of the Issuer and Home Retail Group Card Services Limited (“**HRGCS**”) for the financial years ended 29 February 2020, 28 February 2021 and 28 February 2022 are incorporated by reference in this Information Memorandum (see “*Documents Incorporated by Reference*”).

The financial statements of the Issuer for the financial years ended 28 February 2022 and 28 February 2021 have been prepared in accordance with UK adopted International Accounting Standards (“**UK IAS**”) and have been audited by Ernst & Young LLP. The financial statements of the Issuer for the financial year ended 29 February 2020 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union (“**IFRS-IASB**”, and together with UK IAS, “**IFRS**”) and have been audited by Ernst & Young LLP.

The financial statements of HRGCS have been prepared in accordance with United Kingdom Accounting Standards including FRS 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice) and have been audited by Ernst & Young LLP.

Unless otherwise indicated the historical financial information presented in this Information Memorandum has been extracted from the above mentioned audited financial statements of the Issuer or HRGCS.

The audited financial statements of the Issuer and HRGCS are prepared on an unconsolidated basis in accordance with section 400 of the Companies Act 2006 (the “**Companies Act**”). The impact of this on the financial statements of the Issuer is that the assets, liabilities, results of operations and cash flows of the Issuer’s four subsidiary undertakings, being three subsidiaries including HRGCS, through which the Argos Financial Services (“**AFS**”) business is carried on, and the Drury Lane special purpose entity (as further described in the section of this Information Memorandum entitled “*Description of the Issuer’s Business*”) are not reflected.

This Information Memorandum also includes unaudited consolidated financial information for the consolidated financial position, results of operations and cash flows of the Issuer and its subsidiaries (the “**Group**”) as of and for the financial years ended 28 February 2022, 28 February 2021 and 29 February 2020 prepared in accordance with the recognition and measurement criteria of IFRS. Such unaudited consolidated financial information has been extracted from the books and records of the Issuer. The unaudited consolidated financial information relating to the Group contained in this Information Memorandum does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act and does not include all the disclosures required by IFRS. Accordingly, the unaudited consolidated financial information of the Group contained in this Information Memorandum should be read in conjunction with the above-mentioned audited financial statements of the Issuer and HRGCS.

Non-IFRS Financial Measures

The Issuer presents certain key performance measures that are not defined under IFRS but that it finds useful in analysing its results and that it believes are widely used by investors to monitor the results of banks generally. These measures include underlying profit before tax, net interest margin, bad debt asset ratio, cost income ratio, Common Equity Tier 1 capital ratio and total capital ratio. Some of these measures are defined by, and calculated in compliance with, applicable banking regulations, but these regulations often provide the Issuer with certain discretion in making its calculations.

Because of the discretion that the Issuer and other banks 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 banks. These measures should not be used as a substitute for evaluating the performance of the Issuer based on its audited balance sheet and results of operations.

Non-financial information operating data

The non-financial operating data included in this Information Memorandum has been extracted without material adjustment from the management records of the Issuer and is unaudited.

Currency presentation

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

Unless otherwise indicated, the financial information contained in this Information Memorandum has been expressed in pound sterling.

Roundings

Percentages and certain amounts in this Information Memorandum, including financial, statistical and operating information, have been rounded. As a result, the figures shown as totals may not be the precise sum of the figures that precede them.

Market, economic and industry data

Certain information in this Information Memorandum has been sourced from third parties. The Issuer confirms that all third-party information contained in this Information Memorandum has been accurately reproduced and, so far as the Issuer is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third party information has been used in this Information Memorandum, the source of such information has been identified.

No incorporation of website information

The contents of the Issuer’s website, any website mentioned in this Information Memorandum, or any website directly or indirectly linked to these websites (including the website of J Sainsbury plc) have not been verified and do not form part of this Information Memorandum, and investors should not rely on such information.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be incorporated by reference in, and form part of, this Information Memorandum, save that any documents referred in any of the documents set forth below do not form part of this Information Memorandum:

- (i) the audited, unconsolidated financial statements of the Issuer and the independent auditors' report thereon for the financial year ended 29 February 2020 set out on pages 22 to 76 (inclusive) of the Issuer's Annual Report and Financial Statements for the year ended 29 February 2020;
- (ii) the audited, unconsolidated financial statements of the Issuer and the independent auditors' report thereon for the financial year ended 28 February 2021 set out on pages 24 to 85 (inclusive) of the Issuer's Annual Report and Financial Statements for the year ended 28 February 2021;
- (iii) the audited, unconsolidated financial statements of the Issuer and the independent auditors' report thereon for the financial year ended 28 February 2022 set out on pages 35 to 114 (inclusive) of the Issuer's Annual Report and Financial Statements for the year ended 28 February 2022;
- (iv) the audited, unconsolidated financial statements of HRGCS and the independent auditors' report thereon for the financial year ended 29 February 2020 set out on pages 6 to 27 (inclusive) of HRGCS's Annual Report and Financial Statements for the year ended 29 February 2020;
- (v) the audited, unconsolidated financial statements of HRGCS and the independent auditors' report thereon for the financial year ended 28 February 2021 set out on pages 6 to 27 (inclusive) of HRGCS's Annual Report and Financial Statements for the year ended 28 February 2021; and
- (vi) the audited, unconsolidated financial statements of HRGCS and the independent auditors' report thereon for the financial year ended 28 February 2022 set out on pages 7 to 29 (inclusive) of HRGCS's Annual Report and Financial Statements for the year ended 28 February 2022.

The audited financial statements of the Issuer and HRGCS for the financial years ending 29 February 2020, 28 February 2021 and 28 February 2022 have been filed with Euronext Dublin and are incorporated by reference in this Information Memorandum.

None of the contents of the Issuer's website, any websites referred to in this Information Memorandum nor any website directly or indirectly linked to these websites (including the website of J Sainsbury plc) form part of this Information Memorandum.

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OVERVIEW OF THE PRINCIPAL FEATURES OF THE NOTES

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

Issuer	Sainsbury’s Bank plc
Issuer Legal Entity Identifier	213800VDIFGJM2DF1R46
Trustee	Citicorp Trustee Company Limited
Principal Paying Agent and Transfer Agent	Citibank, N.A., London Branch
Registrar	Citibank Europe plc
Notes	£120,000,000 10.50 per cent. Fixed Rate Reset Callable Subordinated Notes due 2033.
Risk factors	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Notes and the Trust Deed. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. These are set out under “ <i>Risk Factors</i> ”.
Status of the Notes	The Notes will constitute direct, unsecured, unguaranteed and subordinated obligations of the Issuer and will rank <i>pari passu</i> , without any preference, among themselves.
Rights on a Winding-Up	The rights and claims of Noteholders in the event of a Winding-Up of the Issuer are described in Conditions 3 and 4.
Interest	The Notes will bear interest on their principal amount: (a) from (and including) the Issue Date to (but excluding) the Reset Date, at the rate of 10.50 per cent. per annum; and (b) thereafter, at the Reset Rate of Interest (as described in Condition 5(d)), in each case payable, in equal instalments semi-annually in arrear on 12 March and 12 September in each year (each, an “ Interest Payment Date ”), commencing 12 March 2023.
Maturity	Unless previously redeemed or purchased and cancelled, the Notes will mature on 12 March 2033. The Notes may only be redeemed or repurchased by the Issuer in the circumstances described below (as more fully described in Condition 6).
Optional redemption	The Issuer may, in its sole discretion but subject to the conditions set out under “ <i>Conditions to redemption</i> ” below, redeem all (but not some only) of the Notes from and including 12 September 2027 to and including 12 March 2028 (the “ Reset Date ”) at their principal amount together with any interest accrued and unpaid from and including the

immediately preceding Interest Payment Date up to but excluding the date fixed for redemption.

Redemption following a Capital Disqualification Event or a Tax Event

The Issuer may, in its sole discretion but subject to the conditions set out under “*Conditions to redemption, substitution, variation and purchase*” below, redeem all (but not some only) of the Notes at any time following the occurrence of a Capital Disqualification Event or a Tax Event, in each case at their principal amount together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the relevant redemption date, subject to, in the case of a redemption occurring prior to the fifth anniversary of the Reference Date, the Issuer demonstrating to the satisfaction of the Competent Authority that (i) in the case of a Tax Event, the relevant Tax Law Change is material and was not reasonably foreseeable as at the Reference Date or (ii) in the case of a Capital Disqualification Event, the relevant change in regulatory classification was not reasonably foreseeable as at the Reference Date.

Substitution and Variation following a Capital Disqualification Event or a Tax Event

The Issuer may, subject to the conditions set out under “*Conditions to redemption substitution, variation and purchase*” below and upon notice to Noteholders, at any time elect to substitute all (and not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Qualifying Tier 2 Securities if, prior to the giving of the relevant notice to Noteholders, a Tax Event or Capital Disqualification Event has occurred.

Conditions to redemption, substitution, variation and purchase

Any redemption or purchase of the Notes prior to their maturity or any substitution or variation of the Notes will be subject to:

- (i) the Issuer obtaining prior Supervisory Permission therefor;
- (ii) in the case of any redemption or purchase (other than any purchase prior to the fifth anniversary of the Reference Date pursuant to Condition 6(g)), if and to the extent required under prevailing Regulatory Capital Requirements, either: (A) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (B) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds and, as applicable, eligible liabilities of the Issuer would, following such redemption or purchase, exceed its minimum applicable capital requirements (including any applicable buffer requirements) by a margin (calculated in accordance with prevailing Regulatory Capital Requirements) that the Competent Authority considers necessary at such time;

- (iii) in the case of any redemption prior to the fifth anniversary of the Reference Date, if and to the extent then required under prevailing Regulatory Capital Requirements in the case of redemption upon a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the Reference Date;
- (iv) in the case of any redemption prior to the fifth anniversary of the Reference Date upon the occurrence of a Capital Disqualification Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Reference Date; and
- (v) in the case of any purchase prior to the fifth anniversary of the Reference Date pursuant to Condition 6(g), either (A) the Issuer having, before or at the same time as such purchase, replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer, and the Competent Authority having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances or (B) the relevant Notes are being purchased for market-making purposes in accordance with applicable Regulatory Capital Requirements.

Any refusal by the Competent Authority to give its Supervisory Permission as contemplated above shall not constitute a default for any purpose.

Notwithstanding the above conditions, if, at the time of such redemption, substitution, variation or purchase, the prevailing Regulatory Capital Requirements permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-condition(s) to those set out in paragraphs (i) and (v) above, the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s).

Purchase of the Notes

The Issuer may, at its option but subject to the conditions set out under “*Conditions to redemption, substitution, variation and purchase*” above, purchase (or otherwise acquire) any of the outstanding Notes in any manner and at any price. All Notes purchased by or on behalf of the Issuer may be held, reissued, resold or, at the option of the Issuer, cancelled.

Withholding tax and Additional Amounts

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the

Relevant Jurisdiction, unless the withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount), the Issuer will (subject to certain customary exceptions, as described in Condition 9) pay such Additional Amounts as may be necessary in order that the net amounts received by the Noteholders in respect of those payments of interest after the withholding or deduction shall equal the amounts which would have been received by them in respect of payments of interest on the Notes had no such withholding or deduction been required.

In no event will the Issuer be required to pay any Additional Amounts in respect of the Notes for, or on account of, any FATCA Withholding (as defined in Condition 9).

Enforcement

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

The Trustee may, at its discretion and without notice, institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed (other than any payment obligation, including any damages) and in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to the Conditions or the Trust Deed. No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for a winding-up unless the Trustee, having become bound so to do, fails or is unable to do so within a period of 60 days and such failure or inability shall be continuing.

See Condition 8 for further information.

Modification

The Trust Deed will contain provisions for convening meetings of Noteholders (including by way of audio and/or video conference call) to consider any matter affecting their interests, pursuant to which defined majorities of the Noteholders may consent to the modification or abrogation of any of the Conditions or any of the provisions of the Trust Deed, and any such modification or abrogation shall be binding on all Noteholders.

Substitution of the Issuer	The Trustee may, without the consent of the Noteholders but subject to Supervisory Permission, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute of the Issuer) as the principal debtor under the Notes and the Trust Deed of certain other entities subject to the Trustee being satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders and certain other conditions set out in the Trust Deed being complied with.
Form	The Notes will be issued in registered form. The Notes will initially be represented by a Global Certificate and will be registered in the name of a nominee of a common depository for the Clearing Systems.
Denomination	£100,000 and integral multiples of £1,000 in excess thereof.
Clearing systems	Euroclear and Clearstream, Luxembourg.
Rating	The Notes are expected to be assigned a rating of 'Baa2' by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency. A revision, suspension, reduction or withdrawal of a rating may adversely affect the market price of the Notes.
Listing	Application has been made for the Notes to be admitted to the Official List of Euronext Dublin and to trading on the GEM. The GEM is not a regulated market for the purposes of MiFID II.
Governing law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed, will be governed by, and construed in accordance with, English law.
ISIN	XS2494015014
Common Code	249401501

RISK FACTORS

Any investment in the Notes is subject to a number of risks, most of which are contingencies which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

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

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

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

Risks Related to the Issuer's Business

Business Risks

The Issuer could be materially affected by adverse economic conditions in the UK.

The Issuer derives its income from retail banking services and related financial services provided solely within the UK. Adverse changes in UK economic growth, unemployment, inflation, indebtedness, consumer confidence and house prices could reduce the level of demand for the Issuer's products as well as adversely affecting the credit quality of its existing assets. If the UK's economic condition weakens, or if financial markets exhibit uncertainty and/or volatility, the Issuer's impairment losses may increase and its ability to grow its business could be materially adversely impacted. Poor economic conditions in the UK could also create uncertainty in relation to the cash flows of the Issuer's borrowers and in relation to the value of their collateral, including property.

In addition, any natural disasters or widespread health crises or the fear of such crises (such as coronavirus (including the novel coronavirus-19 ("**COVID-19**")) or other epidemic diseases) in a particular region may weaken economic conditions. Any weakening of economic conditions in the UK could have an adverse impact on consumer confidence, spending, household income and demand for credit, which could materially adversely affect the Issuer's business, financial condition, results of operations and prospects. Inflation, more recently, has emerged as the most significant economic issue and is set to continue to rise via higher fuel costs coupled with increases in National Insurance contributions. This is expected to put further strain on household incomes over the coming years.

Such adverse economic conditions could have a material adverse impact on the Issuer's business, financial condition, operational performance and future prospects.

The Issuer faces risks of increased economic volatility arising via geopolitical tensions and/or market conditions being impacted from COVID-19.

The impact of increasing geopolitical tensions, including the ongoing Russia-Ukraine situation, further exacerbates potential adverse economic risks through energy and commodity shortages and sanctions. Whilst the Issuer does not have any direct exposure to Russia, a further escalation in the conflict could result in new trade restrictions and further sanctions, disruption to supply chains and increased energy prices leading to increased inflation. Such elevated instability could potentially adversely impact and/or increase volatility in the financial markets and cause a downturn in the global and UK economies. The conflict in Ukraine could also lead to increased cyber-attacks on the Issuer and/or its third-party suppliers. A successful cyber-attack and/or the costs associated with potential or actual cyber-attacks could have a material adverse impact on the financial condition and prospects of the Issuer.

Whilst public policy interventions were implemented by the UK government to address the financial impacts of COVID-19 over 2020 and 2021, which limited increases in unemployment and helped keep bad debt charges under control, a risk of a further significant outbreak may put further financial pressures on the UK economy. With UK government debt already significantly high, the extent to which support may be available could be lower, thereby having knock-on impacts on higher unemployment coupled with squeezes in disposable income from high inflation, which would likely reduce overall market demand but increase the inherent credit risk profile and customer bad debts across the Issuer's existing portfolios. It is also noted that under these circumstances the extent to which the Issuer would extend credit to customers could be lower, as the Issuer would look to reduce new business lending in order to minimise any further increases in credit risk, which could affect the ability of the Issuer to meet its business targets.

Any adverse effect on UK or global economic conditions could affect the Issuer's ability to fulfil its obligations under the Notes.

The Issuer faces risks associated with the failure to implement or a delay in the implementation of its business strategy.

Implementing the Issuer's business strategy (see "*Description of the Issuer's Business – Strategy*") requires the Directors to make certain judgements, including anticipating customer needs across a range of financial products, anticipating and assessing competitor activity and forecasting the likely direction of a number of macro-economic assumptions regarding the UK economy and the banking sector. The Issuer's ability to implement its strategy successfully and in a timely manner is also subject to execution risks and limitations in its management or operational capacity. These risks may be exacerbated by a number of external factors, including, amongst others, a downturn in the UK or global economy, increased competition in the banking sector, changes in interest rates and/or significant or unexpected changes in regulation of the financial services sector in the UK. The Issuer's business strategy may be updated and amended from time to time, including to take account of such changes to external factors and the business strategy of the JS Group (as defined in this Information Memorandum).

If the Issuer is unable to implement its business strategy in an effective or timely manner it could have a material adverse impact on its business, financial condition, operational performance, reputation, ability to comply with regulations and its future prospects.

The Issuer faces risks due to the competitive environment in which it operates.

The market for financial services in the UK is competitive and the Issuer expects such competition to intensify in response to consumer demand, technological changes, the impact of new market entrants, regulatory actions and other factors. The financial services markets in which the Issuer operates are also mature, such that growth by any bank typically requires taking market share from competitors. However due to the current size of the Issuer, growth in the business is likely to be relatively small in the context of the overall market.

The Issuer faces competition from established providers of financial services, including banks and building societies, many of which have greater scale and financial resources, strong brand recognition, broader product offerings and more extensive distribution networks than the Issuer. The Issuer also faces potential competition from new entrants to the market. These banks and other institutions may engage in enhanced marketing activities which may result in customers switching their savings or refinancing their loans with other providers and may limit the Issuer's ability to attract new customers. This places elevated focus on brand, customer service and competitiveness of the product offering as the key differentiators, each of which carries a cost to the Issuer. If the Issuer is unable to match the service or offering of its competitors, it risks being unable to achieve its strategic growth aspirations. Any failure to manage the competitive dynamics to which the Issuer is exposed could have a material adverse impact on its business, financial condition, operational performance and future prospects.

The Issuer faces risks due to its reliance on the "Sainsbury's" and "Argos" brands and properties.

The Issuer uses the Sainsbury's and Argos brands and trademarks as part of its business activities. The Issuer believes that a loss of its right to use the brands and trademarks is unlikely, however any such loss would mean the Issuer could not take advantage of one of the key differentiating factors over its competitors. An inability to rely on the "Sainsbury's" and "Argos" brands could have a negative impact on the goodwill of the Issuer's customers and deter new customers from approaching the Issuer which could, in turn, have a material adverse effect on the Issuer's business, financial condition, results of operation and prospects.

The Issuer has the right to install and operate ATMs at a number of Sainsbury's retail sites, including the provision of utilities required for the operation of the ATMs. A siting agreement is also in place in relation to the Issuer's Travel Money bureaux in Sainsbury's stores. Some of the Issuer's products are also offered in Argos and Habitat stores and promoted in their catalogues, on electronic browsers and in point of sale marketing material. Formal agreements are under consideration for these operations where relevant.

The Issuer is also indirectly exposed to the risk of the conduct of J Sainsbury plc and/or Argos Limited which could lessen the standing and value of the "Sainsbury's" and "Argos" brands (including but not limited to litigation, misconduct, operational failures, regulatory investigations and press speculation). As a result, the Issuer's brand and levels of customer satisfaction could be damaged, which could have a negative effect on the Issuer's reputation, business, financial condition, operational performance and future prospects.

Credit Risks

The Issuer has exposures to a range of products, counterparties and obligors whose credit quality could have a significant adverse impact on the Issuer's earnings and the value of assets.

The Issuer conducts the majority of its activities with customers who have clean credit histories and who are not over-indebted. Its primary target market is Sainsbury's and/or Argos customers, though its core distribution channels (e.g. online and telephony) also enable it to access a secondary market across the wider UK population if strict lending criteria related to customer indebtedness are met. As part of the ordinary course of its operations, the Issuer estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. The Issuer also uses automated credit decisioning and behavioural scoring to manage retail credit risk within its risk appetite. The Issuer's Retail Credit Risk Committee's role is to ensure that appropriate policies, processes and procedures are in place to manage and monitor the Issuer's exposures.

The Issuer monitors external economic indicators to identify changes to the external and regulatory environment. Application scorecards for loans and credit cards, and account management scorecards for credit cards, are developed using data from the Issuer's own credit portfolios supplemented by data from credit bureaux. The effectiveness of the scorecards and policy rules is regularly monitored and recalibrated

in line with changes to the Issuer's risk appetite. In addition, behavioural scoring is used to assess the conduct of customers' accounts on an on-going basis. Where subjective assessments are undertaken, these are subject to strict controls and monitoring, with manual underwriting (i.e. by an individual as opposed to an automated system) being undertaken by specialist teams.

There is a risk that, despite the Issuer'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 disruptions 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 the Issuer's lending portfolio. Accordingly, any deterioration in customers' credit quality and the consequent increase in impairments could have a material adverse impact on the Issuer's business, financial condition and results of operations.

The Issuer may be impacted by counterparty credit risk associated with the actual or perceived soundness of other financial services institutions.

There is a high level of interdependence between financial institutions as a result of their credit rating, trading, clearing and other relationships. The Issuer routinely executes a large number of transactions with counterparties in the financial services industry, resulting in daily settlement accounts and credit exposure. As a result, the Issuer is and will continue to be subject to the risk of 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, including increases in the cost of liquidity, losses or defaults by other institutions. Even the perceived lack of creditworthiness of, or concerns about, a counterparty may lead to market wide liquidity problems and losses or defaults by the Issuer or by other institutions. This "systemic risk" could have a material adverse effect on the Issuer's ability to raise new funding and on its business, financial conditions, results in operations, liquidity and/or prospects.

The Issuer's assumptions underlying the product development, or changes in market conditions, can be difficult to forecast which could have a negative impact on the Issuer.

Given the dynamic environment in which the Issuer operates and the fact that the risks associated with the introduction and delivery of any new product(s) may be different from those which the Issuer currently has experience of managing, there is a risk that the assumptions used within the Issuer's models and forecasts may differ significantly from the subsequent outcomes. Consequently, decisions made by senior management on the basis of its projections may not yield the results expected. In addition, senior management may be unable to recognise emerging risks for the Issuer quickly enough to take appropriate action in a timely manner. Any failure to do so may materially adversely affect the Issuer's business, financial condition, results of operations and future prospects.

Concentration of risks could increase the Issuer's exposure to significant losses.

Concentrations arise when a number of counterparties, either borrowers or depositors, are engaged in similar business activities, or activities in the geographic region, or have similar economic features that would cause the ability to meet contractual obligations to be affected by changes in economic, political or other conditions. Significant concentrations may lead to increases in relative sensitivity of the Issuer's performance to developments affecting a particular industry or geographical locations.

The Issuer's business is almost entirely conducted with customers in the UK. In the event of a disruption to the UK credit markets or general economic conditions in the UK or macro-economic conditions generally (including increased interest rates and/or unemployment in regions where the Issuer has significant presence), this concentration of credit risk could cause the Issuer to experience significant losses.

In order to avoid excessive concentrations of risk, the Issuer's risk appetite, policies and procedures include specific targets to maintain diversified asset and liability portfolios. Identified concentrations of credit and

liquidity risks are controlled and managed according to client or counterparty (and their respective credit qualities). Consideration is also given to geographical sector and, in the case of wholesale credit risk, the credit strength of the counterparty.

There can be no assurance that such monitoring and efforts to divest, diversify or manage the Issuer's credit portfolio to mitigate concentration risks will be successful, and, if not, this could have a material adverse impact on its business, financial condition, operational performance and future prospects.

Operational Risks

The Issuer is dependent on third-party providers in the execution of its business activities.

Under its standalone operating model, the Issuer retains overall responsibility for its business strategy and day-to-day management. It 'insources' key customer-facing and business operational processes to its direct control but remains predominantly 'outsourced' for its banking IT platforms and certain business process operations such as savings, ATMs, loans and cards, mortgages and insurance. The Issuer also receives certain non-banking, group-wide business support services from J Sainsbury plc (e.g. HR & Payroll, IT infrastructure & support and facilities management).

There is a risk that third-party providers could fail to supply services that they have agreed to provide, either adequately or at all. If third-party providers fail to provide or procure the services that they have contracted to provide, or to provide them in a timely manner or to agreed levels, or the arrangements with those providers are terminated for whatever reason, such a failure on termination could have a material adverse effect on the Issuer's ability to conduct its business, financial condition, operational performance and prospects.

The Issuer's risk management systems, processes, guidelines and policies may prove inadequate for the risks faced by its business.

The Issuer is exposed to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Issuer identifies, evaluates and monitors operational risks against its defined risk appetite through a number of core processes such as operational risk profiling, loss event reporting, the use of key risk indicators and control self-assessment. Regular reports are provided to key governance bodies to ensure regular, effective review of operational risks both within the Issuer and its extensive supplier base.

There can be no complete assurance that the Issuer will be able successfully to identify and manage its operational risks and any failure to do so may have a material adverse effect on its business, financial condition, results of operations and prospects.

The Issuer's business continuity plans may be insufficient.

The Issuer defines its business resilience as the capacity to anticipate, respond and adapt to incidents, threats and vulnerabilities. Controls are applied across the IT, business, property, change, colleague and supplier lifecycle to ensure the Issuer operates in a resilient manner within its risk appetite. The underlying principle of resilience is to reduce business disruption and prevent incidents occurring in the first place. However, the Issuer also has business recovery plans in place to manage threats, vulnerabilities and incidents that are beyond its direct control. These plans are reviewed at least annually.

The Issuer's outsourced model also requires it to have effective controls to manage the resilience capability of its suppliers. Based on a supplier criticality definition, agreed business resilience controls form part of its supplier management framework and are reviewed at least annually.

There can be no complete assurance that the Issuer's resilience plans and controls will prevent prolonged operational failure over its defined acceptable timescales. Any prolonged operational failure may have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer's operations are highly dependent on the proper functioning of IT and communications systems.

The Issuer relies heavily on its operational processes and on its IT and related communication systems to conduct its business. These systems are a fundamental enabler for originating and servicing business, including product pricing and product sales, assessing acceptable levels of risk exposure, setting required levels of provisions and capital, providing and maintaining customer service and meeting regulatory requirements, for example through accurate record keeping.

The Issuer has relevant policies and procedures in place to manage the risk that its systems may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by increases in usage, human error, unauthorised access, natural hazards or disasters, or similarly disruptive events. Nevertheless, a material IT failure could lead to significant costs and disruptions that could adversely affect its business, financial condition, operational performance and future prospects, as well as harm the Issuer's reputation and/or attract increased regulatory scrutiny.

The Issuer may be subject to breaches of its IT security.

A material breach in security of the Issuer's IT systems could disrupt its business, result in the disclosure of confidential information and/or create significant financial and/or legal exposure and the possibility of damage to the Issuer's reputation and/or brand which, in turn, could adversely affect its financial condition, operational performance and future prospects.

The Issuer may be subject to privacy or data protection failures.

The Issuer is subject to regulations regarding the use of personal customer data, including the EU-wide General Data Protection Regulations (the "GDPR"). The Issuer processes personal customer data (including name, address and bank details) as part of its business, some of which may be sensitive personal data, and therefore must comply with strict data protection and privacy laws and regulations. Such laws restrict the Issuer's ability to collect and use personal information relating to customers and potential customers including the use of that information for marketing purposes. The Issuer ensures that procedures are in place to achieve compliance with the relevant data protection regulations by its employees and any third-party service providers, and also implements information security measures.

Notwithstanding such efforts, the Issuer is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations. If the Issuer (or any of the third-party service providers on which it relies) fails to store or transmit customer information in a secure manner, or if any loss of personal customer data were otherwise to occur, the Issuer could be subject to investigative or enforcement action by relevant authorities and could face liability under data protection and privacy laws and regulations. In particular, the GDPR imposes fines and penalties for a breach of data privacy requirements, including fines for serious breaches of up to the higher of 4 per cent. of annual worldwide turnover or €20 million and fines of up to the higher of 2 per cent. of annual worldwide turnover or €10 million (whichever is highest) for other specified infringements.

Any of these events could also result in the loss of the goodwill of its customers and deter new customers which could, in turn, have a material adverse effect on the Issuer's business, financial condition, results of operation and prospects.

The Issuer may suffer a financial and reputational loss as a result of fraudulent activity by internal and/or external parties.

The Issuer uses preventative and detective measures to counter the threat of fraudulent activity. The Issuer also shares data with fraud agencies, investigates fraudulent events and reports instances of fraud to police and/or institutes civil proceedings where financial losses are incurred.

Internal fraud occurs when a member of staff dishonestly makes a false representation, wrongly fails to disclose information, abuses a position of trust for personal gain or causes loss to others. The Issuer takes

steps to prevent internal fraud by ensuring effective checks and controls are in place in its employee onboarding and operational processes.

External fraud occurs when fraud is committed by an external party, either via a customer application for a loan with no intention of repaying, or fraud committed via a non-customer such as a third party taking control of a customer's account, the counterfeiting of account cards, identity theft and phishing. The Issuer uses various systems, checks and policies to counteract such fraudulent activities.

There can be no complete assurance that the Issuer can successfully counteract all such fraudulent activities or avoid losses as a result. Fraudulent events could require customers to be directly compensated, result in a loss of goodwill and could deter new customers from approaching the Issuer. This could, in turn, have a material adverse effect on the Issuer's reputation, business, financial condition, operational performance and future prospects.

Liquidity and Funding risks

The Issuer's business is subject to inherent risks concerning liquidity, particularly if the availability of its key sources of funding, such as retail deposits, or its access to wholesale funding markets becomes limited and/or more expensive.

The Issuer is subject to liquidity risk as an inherent part of its business. Liquidity risk is the risk that an institution may not have sufficient funds at any point in time to make full payment in respect of liabilities falling due, or can only do so at excessive cost. This may result in an inability to operate in the ordinary course and/or a failure to meet liquidity or regulatory requirements, which in turn may adversely impact the Issuer's business and/or implementation of its strategy.

The Issuer raises the majority of its funds from UK savings deposits, with funds also being raised via the wholesale funding markets, whose availability may be impacted by increased competition from other deposit takers or factors that constrain the volume of liquidity in the market. In addition, the Issuer's ability to gain access to retail funding sources on satisfactory economic terms is subject to a variety of factors, a number of which are outside its control. Factors which apply generally include general market conditions (including interest rates), market volatility, market dislocation, confidence in the UK banking system and the economy generally and the financial services industry specifically, as well as regulatory requirements. The Issuer also seeks to diversify its liability structure through the use of wholesale funding up to an agreed risk appetite limit. If access to wholesale funding markets was fully or partially closed, the Issuer's cost of funding could increase and it may prove difficult to obtain funding on commercially attractive terms.

The Issuer has established processes to manage its liquidity risk and maintain sufficient liquidity to meet its liabilities when they are expected to fall due. This includes holding sufficient liquidity to meet its asset funding needs and the Issuer's operational requirements, i.e. "Business-As-Usual" cash flow requirements. The Issuer also holds a minimum level of liquidity in the form of high quality liquid assets which can be readily sold to meet unexpected outflows to the Issuer's depositors and other creditors. This portfolio of assets is managed on a daily basis in compliance with applicable regulatory requirements. In addition, the Issuer has access to the Bank of England's ("BoE") Term Funding Scheme with additional incentive for SME ("TFSME"), and its Sterling Monetary Framework facilities, which includes the Discount Window Facility allowing the Issuer to utilise its pre-positioned assets at the BoE in the event of a liquidity stress.

There can, however, be no complete assurance that the sources of funding and liquidity described above will be adequate at all times and any failure to maintain sufficient liquidity would have a material adverse effect on the Issuer's business, financial condition and future prospects.

Certain of the Issuer's assets are encumbered.

The Issuer has granted security interests over certain of the assets on its balance sheet up to an agreed asset encumbrance limit within its risk appetite. The assets are encumbered as part of securitisation transactions which the Issuer has undertaken as part of its routine funding programme or as part of its

participation in the BoE's TFSME. Such assets may not be available to meet other liabilities of the Issuer, including the Notes and may not be readily realisable. Accordingly, such assets may offer the Issuer little or no liquidity in a stress scenario. Any failure by the Issuer to maintain sufficient liquidity could have a material adverse effect on the Issuer's business, financial condition and prospects.

Market risks

The value of the Issuer's assets, liabilities, income or costs may fluctuate as a result of adverse changes to relevant market rates.

The Issuer risks losses as a result of the value of its financial assets or liabilities (including off balance sheet) being adversely affected by movements in market rates or prices. The Issuer's Treasury function also creates market risk through investments within its liquid asset portfolio, though the Issuer does not maintain a trading book. The key source of market risk is interest rate risk in its banking book which arises from differences in rate resets for assets and liabilities arising from different re-pricing, repayment and redemption behaviours and maturity characteristics or the impact of using different indices when resetting contracted financial obligations (basis risk). See further "- *The Issuer's business is sensitive to changes in interest rates*" below.

Non-trading book positions are managed and monitored using risk measures including stress tests and sensitivity analysis to minimise market value sensitivity and earnings volatility, taking into account current and expected future business flows. There can however be no assurance that such actions will completely mitigate market risk which, in turn, could adversely affect the financial condition, operational performance and future prospects of the Issuer.

The Issuer is involved in buying and selling foreign currencies through its Travel Money business and could incur losses if there are disruptions to the foreign exchange market or unexpected movements in FX rates. The Issuer's FX position is hedged and the residual risk is considered to be minimal, however such disruption or unexpected movements could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer's business is sensitive to changes in interest rates.

Fluctuations in interest rates are influenced by factors outside the Issuer's control (such as the fiscal and monetary policies of governments and central banks and UK and international political and economic conditions). The main sources of interest rate risk faced by the Issuer are:

- Re-pricing risk: the risk arising from timing differences in the repricing and maturity of the Issuer's assets and liabilities (for example, fixed rate personal loans and instant access savings accounts);
- Directional risk: sensitivity to the overall direction of interest rate movements;
- Yield curve risk: the risk arising from changes in the slope and shape of the yield curve;
- Basis risk: risk arising from imperfect correlation between rates earned and paid on instruments with similar repricing characteristics (for example, administered savings products and treasury assets linked to the London Interbank Offered Rate);
- Prepayment risk: the risk arising from the timing of customer prepayments which differ from the Issuer's planning and hedging assumptions;
- Pipeline risk: the risk of a customer drawing down, or not, a product at a rate which is unfavourable for the Issuer; and
- Behavioural risk: the risk of changes in customer behaviour which are not in line with the Issuer's original hedging assumptions including arrears and defaults.

The Issuer sets interest rate risk limits within its risk appetite, based on the impact of changes in interest rates on the market value of the Issuer's assets and liabilities and on the Issuer's earnings, and implements hedging strategies to ensure it remains within these limits. The Issuer also uses market recognised software, provided through a third-party vendor, to assist in the measurement and monitoring of interest rate risk. There can be no assurance that the Issuer will be able completely to manage interest rate risk and fluctuations in interest rates are outside the Issuer's control and could materially adversely affect the Issuer's business, financial condition, results of operations and prospects.

The Issuer is exposed to the risk of a reduction in its credit ratings.

Credit ratings affect the cost and other terms upon which the Issuer is able to obtain funding and are an important reference for market participants in evaluating the Issuer and its products, services and securities. Rating agencies regularly evaluate the Issuer. Their ratings are based on a number of factors, including the financial strength of the Issuer as well as market-wide phenomena (like the impact of COVID-19) and any other conditions affecting the financial services industry generally, such as the general political and economic conditions in the UK. There can be no assurance that the rating agencies will maintain the Issuer's current ratings or outlook, especially in light of the difficulties in the financial services industry and the financial markets in recent years. A credit downgrade, suspension or withdrawal could increase the cost of the Issuer's funding, limit access to capital markets and require additional collateral to be placed and, consequently, adversely affect the Issuer's interest margins and/or affect its liquidity position and weaken the Issuer's competitive position in certain markets.

Reputational Risks

Damage to the Issuer's reputation could cause harm to its prospects.

The Issuer's business prospects could be adversely affected to the extent it fails to address, or appears to fail to address, various issues that could give rise to reputational risk. Reputational issues could result from a number of factors, including, but not limited to:

- failing to address appropriately potential conflicts of interest;
- breaching or facing allegations of having breached legal and regulatory requirements (including money laundering and anti-terrorism financing requirements and capital adequacy requirements);
- acting or facing allegations of having acted unethically or unsustainably (including having adopted inappropriate sales and trading practices);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record keeping;
- technology failures that impact customer services and accounts;
- failure of third party suppliers to seek agreement from the Issuer before disclosing facts or information pertaining to the Issuer's relationship with any third party;
- negative reporting and wide dissemination of issues relating to the Issuer by the media, including social media; and
- failure to honour contractual obligations, including fulfilling lending offers, request from depositors, and failure to meet liabilities when they are due.

A failure to address adequately these or any other relevant issues could make customers, depositors and investors unwilling to do business with the Issuer, which could adversely affect its business, financial condition, operational performance and future prospects and could damage its relationships with its regulators.

Other risks related to the Issuer's business

Climate change potentially exposes the Issuer to direct and indirect financial risks.

In line with Prudential Regulation Authority (the "PRA") guidance (SS3/19) all banks are required to develop a strategy to identify, assess and manage exposure across the key areas of governance, risk management, scenario analysis and disclosure. Central to which are the financial risk impacts from climate change, which includes considering the impact of extreme weather events on the ability to serve customers as well as the economic volatility that may arise as markets transition to lower carbon emissions. Whilst governmental and societal responses to climate change risks are still developing banks must ensure that there is sufficiently robust framework in place to continually monitor the outlook and amend responses and risk appetite accordingly.

If the Issuer does not adequately embed climate risk into its risk framework to appropriately measure, manage and disclose the various financial, transition and physical risks it faces associated with climate change, or fails to adapt its business model to the changing regulatory requirements and market expectations on a timely basis, it may have a material and adverse impact on the Issuer's level of business growth, its competitiveness, profitability, prudential capital requirements, credit ratings, cost of funding, reputation, results of operation and financial condition.

The Issuer could fail to attract or retain senior management or other key colleagues.

The Issuer's success depends on the continued service and performance of its key colleagues, particularly its senior management, and its ability to attract, retain and develop high calibre talent. The Issuer may not succeed in attracting and retaining key personnel if they do not identify or engage with the Issuer's brand and values. The Issuer may also lose key colleagues due to natural attrition and other reasons. In addition, external factors, such as macro-economic conditions, the state of the labour market, the developing and increasingly rigorous regulatory environment and/or negative media attention on the financial services industry, could adversely impact colleague retention, sentiment and engagement. Each of these factors could have an adverse effect on the Issuer's ability to recruit and/or retain key colleagues, which could, in turn, materially affect the Issuer's business, financial condition, operational performance and future prospects.

The Issuer could face constraints on its operational capability from its strategic change and growth plans.

The Issuer is exposed to the risk that its management, capabilities and resources are over-stretched as it seeks to deliver its strategic plans. The Issuer has a dedicated business change function that provides project management skills and guidance across its activities, and aims to ensure that realistic goals and timetables are set, appropriate resources are allocated and monitoring and mitigation plans are in place. Notwithstanding these functions, if the Issuer's management, capabilities and resources became over-stretched, there could be a material adverse effect on the Issuer's business, financial condition, operational performance and future prospects.

The Issuer's insurance coverage may not be adequate to cover all possible losses that it could suffer and its insurance costs may increase.

The Issuer seeks to maintain comprehensive insurance coverage at commercially reasonable rates, either through holding its own insurance policies or through the benefit of policies held at a group level by J Sainsbury plc. Although the Issuer carries business interruption, building and contents, director and officer and employer's insurance to cover certain risks, its insurance policies do not cover all types of losses and liabilities and are subject to limits and excesses. There can be no complete assurance that the Issuer's insurance will be sufficient to cover the full extent of all losses or liabilities for which it is insured and there can be no assurance that the Issuer will be able to renew its current insurance policies on favourable terms, or at all.

Legal and Regulatory Risks

The Issuer must comply with a wide range of laws and regulations.

As a financial services firm, the Issuer is subject to extensive and comprehensive regulation. The Issuer must comply with numerous laws and regulations which significantly affect the way it does business. Consequently, the Issuer is exposed to many forms of risk in connection with compliance with such laws and regulations, including:

- breaching general organisational requirements, such as the requirement to have robust governance arrangements (which include a clear organisational structure with well defined, transparent and consistent lines of responsibility), effective processes to identify, manage, monitor and report the risks the Issuer is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems;
- continued high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians; the FCA in particular continues to focus on retail conduct risk issues, as well as conduct of business activities through its supervision activity;
- a potential failure of processes, systems or security may expose the Issuer to heightened financial crime and/or fraud risk as the PRA, BoE and FCA continue to focus on the operational resilience of firms and financial markets infrastructures;
- certain aspects of the Issuer's business may be determined by the relevant authorities, the Financial Ombudsman Service (the "FOS") or the courts not to have been conducted in accordance with applicable laws or regulations or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;
- the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to an employee of the Issuer, including as a result of having sales practices, complaints procedures and/or reward structures in place that are determined to have been inappropriate;
- breaching laws and requirements relating to the detection and prevention of money laundering, terrorist financing, bribery and corruption and other financial crime; and
- non-compliance with legislation relating to unfair or required contractual terms or disclosures.

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

- substantial monetary damages or fines, other penalties and injunctive relief, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks;
- regulatory investigations, reviews, proceedings and enforcement actions;
- being required to amend sales processes, product and service terms and disclosures, withdraw products or provide redress or compensation to affected customers;
- the Issuer either not being able to enforce contractual terms as intended or having contractual terms enforced against the Issuer in an adverse way;
- civil or private litigation (brought by individuals or groups of individuals/claimants) in the UK and other jurisdictions (which may arise out of regulatory investigations and enforcement actions or customer complaints);

- criminal enforcement proceedings; and
- regulatory restrictions on the Issuer's business,

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

In addition to the above, failure to comply with the wide range of laws and regulations could result in the FCA and the PRA cancelling or restricting the Issuer's regulatory authorisations altogether, thereby preventing it from carrying on its business.

The Issuer's business is subject to substantial and changing prudential regulation.

The Issuer 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 Pillar 2 requirements, buffer requirements and capital ratios and liquidity requirements at all times. The Issuer's borrowing costs, regulatory capital and liquidity requirements could be affected by these prudential regulatory developments, which include (i) the legislative package comprising the amended Capital Requirements Directive (2013/36/EU) (the "**CRD**") and Capital Requirements Regulation (575/2013) (the "**CRR**") (collectively, the "**CRD IV**"), each as implemented in the UK and as they form part of domestic law by virtue of the EUWA, implementing the proposals of the Basel Committee on Banking Supervision (known as Basel III) and other regulatory developments impacting capital and liquidity positions and (ii) the Bank Recovery and Resolution Directive 2014/59/EU (the "**BRRD**"), as implemented in the UK and as it forms part of domestic law by virtue of the EUWA, which established an EU wide framework for the recovery and resolution of credit institutions and investment firms. The CRD requirements were implemented in the UK before the UK's exit from the EU, and the UK framework was then amended to reflect the UK's exit from the EU. The CRR has been onshored in the UK by the Capital Requirements (Amendment) (EU Exit) Regulations 2018 (as amended) ("**UK CRR**"). The implementation of various banking reform initiatives and any future unfavourable regulatory developments could have a material adverse effect on the Issuer's business, results of operations and financial condition.

Capital requirements under CRD IV

CRD IV introduced significant changes in the prudential regulatory regime applicable to banks with many of the measures taking 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. Following its implementation, CRD IV has been further amended. CRD IV requirements adopted in the United Kingdom may change, including as a result of regulatory technical standards developed by the European Banking Authority (the "**EBA**") notwithstanding that they do not form part of UK law, as well as changes to the way in which the PRA continues to interpret and apply these requirements to UK banks (including as regards individual model approvals or otherwise). Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the Issuer's capital, liquidity and funding ratios or alter the way such ratios are calculated.

A market perception or actual shortage of capital issued by the Issuer could result in governmental actions, including requiring the Issuer to issue additional Common Equity Tier 1 securities, requiring the Issuer to retain earnings or suspend dividends or issuing a public censure or the imposition of sanctions. This may affect the Issuer's capacity to continue its business operations, generate a return on capital, pay future

dividends or pursue other strategic opportunities, impacting future growth potential. If the Issuer is unable to raise this capital, this could affect the Issuer's ability to fulfil its obligations under the Notes.

MREL requirements under the BRRD

In addition to the capital requirements under CRD IV, the BRRD requires that all institutions must meet an individual minimum requirement for own funds and eligible liabilities ("**MREL**") set by the relevant resolution authorities on a case-by-case basis. Items eligible for inclusion in MREL will include an institution's own funds, along with "eligible liabilities". Although the provisions of the BRRD transposed into UK law relating to MREL took effect from 1 January 2016, the BoE is able to determine an appropriate transitional period for an institution to reach its end-state MREL. The BoE's Statement of Policy entitled "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" published in June 2018, as updated in December 2021, sets out the BoE's policy for exercising its power to direct institutions to maintain a minimum requirement for MREL under section 3A(4) and (4B) of the Banking Act (as defined below). Given the BoE's preferred resolution strategy for the Issuer is a modified bank insolvency process, the Issuer does not, and does not expect to have an MREL requirement set above its going concern capital requirements unless the applicable resolution strategy is changed. The BoE reviews the MREL set for all relevant firms on an annual basis. Any change to the Issuer's MREL requirement could increase the Issuer's costs and could adversely impact its capital structure, business, financial condition and prospects. MREL will also have an impact across the market including potentially affecting the credit rating of the securities issued by the Issuer (including the Notes) and its competitors and there is a risk that the relative impact may give rise to a reduction in competitiveness of the Issuer.

The Issuer is subject to the risk of having insufficient capital resources and/or not meeting liquidity requirements

If the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory capital, liquidity or MREL requirements (including in connection with any stress tests performed by the BoE or other authorities), then it may be subject to regulatory interventions and sanctions. Any actual or perceived failure to meet regulatory requirements or actual or perceived weakness in financial position compared to other institutions could give rise to a loss of confidence from customers, counterparties and investors. Consequently, customers may withdraw deposits and counterparties and investors may not wish to transact with the Issuer or may only be willing to do so on less favourable terms meaning the sources of capital and funding could become more expensive, unavailable, or constrained. This may impact the Issuer's business operations, strategic opportunities and, in turn, future growth potential.

The Issuer is subject to substantial and changing conduct regulations

The Issuer is exposed to many forms of conduct risk, which may arise in a number of ways, including but not limited to:

- certain aspects of the Issuer's business may be determined by its regulators, including the FCA, the PRA, the Payment Services Regulator, HM Treasury, the FOS, the Competition and Markets Authority (the "**CMA**"), the UK Information Commissioner or the courts, as not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;
- the Issuer may be subject to allegations of mis-selling financial products, including as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate and/or failures in customer servicing or causing customer harm, which may result in disciplinary action (including significant fines) or requirements to amend sales or servicing processes, withdraw products or provide restitution to affected customers;
- the continued focus on the operational resilience of firms. In both December 2020 and February 2021, the PRA published 'Dear CEO' letters noting that operational risk remains a key priority

for the PRA and firms should continue to prepare for operational disruptions and ensure that risk and control frameworks are operating effectively. In March 2021, the PRA published a Statement of Policy clarifying how its operational resilience policy affects its approach to the following key areas of the regulatory framework: (i) governance, (ii) operational risk management, (iii) business continuity planning and (iv) the management of outsourced relationships;

- the other priority areas of FCA supervision of retail banks as set out in the February 2021 FCA 'Dear CEO' letter including ensuring fair treatment of borrowers (including those in financial difficulties), ensuring good governance and oversight of customer treatment and outcomes during business change, and minimising fraud and other forms of financial crime;
- the proposals set out in the consultation papers published by the FCA in May 2021, which introduced a new "consumer duty" which would set higher expectations for the standard of care that firms provide to retail clients, requiring relevant firms to ask themselves what good outcomes consumers should be able to expect from their products and services, act to enable rather than hinder those outcomes and assess the effectiveness of their actions. A second consultation paper was published in December 2021 and the FCA currently expects to make any new rules by 31 July 2022; and
- the Issuer may be liable for damages to third parties harmed by the manner in which the Issuer has conducted one or more aspects of its business and the Issuer's own business or reputation could be impacted where it has engaged a third party and there is a failure in the processes, security or systems of such third party.

For example, the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians may continue and the FCA may continue to focus on retail conduct risk issues as well as conduct of business activities through its supervision activity which could result in higher expectations, or a different interpretation, of what is required to demonstrate compliance with conduct of business standards in certain markets.

Failure to manage these risks adequately could lead to significant liabilities or reputational damage and damage to the Issuer's brand, which could have a material adverse effect on its business, financial condition, results of operations and relations with customers. This in turn could affect the Issuer's ability to fulfil its obligations under the Notes.

The Issuer must comply with anti-money laundering, anti-bribery and sanctions regulations

The Issuer is subject to laws and regulations that are in place to prevent financial crime, including money laundering, the financing of terrorism, the facilitation of bribery and tax evasion, as well as the circumvention of applicable sanctions regimes. Compliance with anti-money laundering, anti-bribery rules and sanctions legislation and regulations creates a significant financial burden on banks and other financial institutions and requires significant technical capabilities to manage these risks. In recent years, enforcement of these laws and regulations has become more aggressive, resulting in several landmark financial penalties against UK financial institutions, and more recently the first criminal conviction of a bank in the UK for failing to prevent money laundering.

In addition, the Issuer cannot predict the nature, scope or effect of future legislative or regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted in the future. Unforeseen and quick changes to legislative or regulatory requirements could make compliance by the Issuer more challenging and/or costly.

The Issuer is subject to the potential impacts of banking reform initiatives

In recent years, the relevant regulatory authorities in the UK have proposed (and in some cases have commenced implementation of) dramatic reforms to many aspects of the banking sector, including, among others, institutional structure, resolution procedures and deposit guarantees. While the impact of these regulatory developments remains uncertain, the Issuer expects that the evolution of these and future initiatives could have an impact on its business. This in turn could affect the Issuer's ability to fulfil its obligations under the Notes.

The Issuer is responsible for contributing to compensation schemes such as the UK Financial Services Compensation Scheme (the "FSCS") in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. 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 effect on the Issuer's business, results of operations and financial condition.

The Deposit Guarantee Schemes Regulations 2015, as amended by the Deposit Guarantee Scheme and Miscellaneous Provisions (Amendment) (EU Exit) Regulations 2018, ensure that all deposits up to £85,000 per eligible person per firm are protected through the FSCS deposit guarantee scheme (the "FCS DGS"). The FCS DGS is funded through regular contributions before the event (*ex ante*). In the case of insufficient *ex ante* funds, the FCS DGS will collect immediately after the event (*ex post*) contributions from the banking sector and as a last resort it will have access to alternative funding arrangements such as loans from public or private third parties.

Amongst other compensation, the FSCS provides for a qualifying temporary high balance deposit protection, up to £1 million, for up to six months from when the amount was first deposited for certain limited types of deposits. It is possible that future FSCS levies on the Issuer may differ from those at present, and such reforms could result in the Issuer incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

In mortgages, the FCA published the outcome of its Mortgage Market Study in March 2019 and as a result of its findings, announced changes to its responsible lending rules and guidance, aimed at removing barriers to consumers switching to a more affordable mortgage. The FCA also introduced measures in October 2020 to help some mortgage customers to have more options to switch, in particular to make it easier for customers of a closed book firm ('mortgage prisoners') to switch to a new mortgage deal with a firm that sits within the same group as the current lender. The FCA presented a review on 'mortgage prisoner' to the UK Parliament in November 2021. Further reforms in this area could result in the Issuer incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

CRD V and CRR II

In November 2016, the European Commission ("EC") published a package of proposed amendments to CRD IV / CRR (CRD V and CRR II, respectively). Following the EC's proposals, CRD V and CRR II entered into force on 27 June 2019. CRD V applied from 29 June 2020 and CRR II largely came into effect from 28 June 2021 in the EU. The UK implemented most of the CRR II reforms via the PRA rulebook on 1 January 2022. In February 2022, the PRA published a consultation paper setting out its proposed approach to transferring the UK Technical Standards for own funds requirements for institutions into PRA rules, with amendments to reflect revisions to the UK CRR and proposed updates to PRA Supervisory Statement (SS) 7/13 'Definition of capital (CRR firms)' to clarify the PRA's expectations of UK CRR firms regarding capital issuances and reductions. The consultation closed on 2 May 2022 and the PRA proposes that the implementation date for the changes resulting from the consultation would be September 2022.

The amendments seek to implement some of the remaining aspects of Basel III and reforms which reflect EC findings on the impact of CRD IV on bank financing of the EU and UK economies. Certain of the

proposed changes such as new market risk rules, standardised approach to counterparty risk, details on the leverage ratio and net stable funding requirements and the tightening of the large exposures limit will particularly impact capital requirements.

The final capital framework to be established in the European Union and the United Kingdom under CRD V / CRR II differs from Basel III in certain areas. In December 2017, the Basel Committee finalised further changes to the Basel III framework which include amendments to the standardised approaches to credit risk and operational risk and the introduction of a capital floor. In January 2019, the Basel Committee published revised final standards on minimum capital requirements for market risk.

The arrangements were originally to take effect from 1 January 2022, with some standards subject to five-year phase-in arrangements, but this was extended in June 2020 to apply from 1 January 2023 as part of the European Union's response to the COVID-19 pandemic. The UK has indicated that it is committed to implementing international standards and will adjust the UK implementation timetable to reflect the delay. Obligations relating to those Basel III reforms which make up the UK equivalent to the outstanding elements of the CRR included in CRR II came into force on 1 January 2022.

The changes may have an impact on incentives to hold the Notes for investors that are subject to CRD V and CRR II and, as a result, they may affect the liquidity and/or value of the Notes.

Bank Resolution Powers apply to the Issuer.

The Issuer is subject to the Banking Act 2009 (the “**Banking Act**”) which gives wide powers in respect of UK banks and their parent and other group companies to HM Treasury, the BoE, PRA and the FCA (each an “**Authority**” and together, the “**Authorities**”) in circumstances where a UK bank has encountered or is likely to encounter financial difficulties. The Banking Act implements the provisions of the BRRD. These powers include powers to: (a) transfer all or some of the securities issued by a UK bank or its parent, or all or some of the property, rights and liabilities of a UK bank or its parent, to a commercial purchaser or, in the case of securities, to HM Treasury or an HM Treasury nominee, or, in the case of property, rights or liabilities, to an entity owned by the BoE; (b) override any default provisions, contracts, or other agreements, including provisions that would otherwise allow a party to terminate a contract or accelerate the payment of an obligation; (c) commence certain insolvency procedures in relation to a UK bank; and (d) override, vary or impose contractual obligations, for reasonable consideration, between a UK bank or its parent and its group undertakings (including undertakings which have ceased to be members of the group), in order to enable any transferee or successor bank of the UK bank to operate effectively. The Banking Act also gives power to HM Treasury to make further amendments to the law for the purpose of enabling it to use the special resolution regime powers effectively, potentially with retrospective effect.

The write-down and conversion of capital instruments (such as the Notes) power may be used where an Authority has determined that the institution concerned has reached the point of non-viability or where the conditions to resolution are met. Any write-down effected using this power must reflect the insolvency priority of the written-down claims – thus common equity shall generally be written off in full before subordinated debt is affected. The write-down and conversion of capital instruments power is not subject to the “no creditor worse off” safeguard (unless the mandatory write-down tool were to be used alongside a bail-in).

The bail-in power gives an Authority the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which could include the Notes) of a failing financial institution or its holding company, and/or to convert certain debt claims (which could be amounts payable under the Notes) into another security, including ordinary shares of the surviving entity, if any. The Banking Act requires an Authority to apply the “bail-in” power in accordance with a specified preference order which differs from the ordinary insolvency order. In particular, an Authority must write-down or convert debts in the following order: (i) additional tier 1, (ii) tier 2 (which would include the Notes), (iii) other subordinated claims and (iv) eligible senior claims.

As well as a “write-down and conversion of capital instruments” power and a “bail-in” power, the powers of an Authority under the Banking Act include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply, (ii) transfer all or part of the business of the relevant financial institution to a “bridge institution” (an entity created for such purpose that is wholly or partially in public control) and (iii) separate assets by transferring impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only). Any exercise of these powers may limit the capacity of the Issuer to meet its obligations under the Notes. In addition, the Banking Act gives an Authority power to amend the maturity date and/or any interest payment date of debt instruments or other eligible liabilities of the relevant financial institution and/or impose a temporary suspension of payments and/or discontinue the listing and admission to trading of debt instruments (in each case, such as the Notes).

The Issuer’s business is subject to changing laws and regulation and regulatory focus and approach.

In addition to the substantial and changing prudential regulation described in the risk factors entitled “*The Issuer’s business is subject to substantial and changing prudential regulation.*”, “*The Issuer’s business is subject to substantial and changing conduct regulations*” and “*The Issuer is subject to the potential impacts of banking reform initiatives*” above, the Issuer faces risks associated with an uncertain and changing legal and regulatory environment. Existing laws and regulations may be amended, or new laws and regulations may be introduced, which could affect the Issuer by, for example:

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

any or all of which could ultimately have an adverse impact on the Issuer’s business, financial condition, results of operations and prospects.

In addition, changes to the regulatory authorities’ approaches and expectations may result in increased scrutiny of the Issuer’s compliance with existing laws and regulation. This may result in the Issuer needing to change its internal operations, at increased cost.

The Issuer’s business 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 EU and overseas have, in recent years, become substantially more proactive 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 adversely affect the Issuer.

Areas where regulatory changes could have an adverse effect on the Issuer’s business include, but are not limited to:

- general changes in UK Government, central bank or regulatory policy, or changes in regulatory regimes, including changes that apply retroactively, that may influence customer decisions in particular markets in which the Issuer 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 in a manner that is different to how the Issuer applies or interprets them;

- one or more of the Issuer's regulators intervening to mandate the pricing of certain of the Issuer's products as a consumer protection measure;
- one or more of the Issuer'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;
- further requirements relating to financial reporting, corporate governance and conduct of business and employee compensation;
- changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing;
- 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;
- influencing business strategy, particularly the rate of growth of the business; and
- imposing conditions on the sales and servicing of products, which has the effect of making such products unprofitable or unattractive to sell.

The financial services industry continues to be a focus of significant regulatory change and scrutiny. This has led to a more intensive approach to supervision and oversight, increased expectations of authorised firms and their senior management and enhanced regulatory requirements. For example, the FCA business plan for 2021/2022 indicates the FCA's intention to become a forward-looking, proactive regulator and commits to being more innovative, assertive and adaptive. As a result, regulatory risk will continue to require the attention of senior management who are increasingly accountable to the regulators and will 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 coordination, may ultimately adversely affect the Issuer's business, capital and risk management strategies and/or may result in the Issuer 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 Issuer 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 the Issuer and its stakeholders. The Issuer regularly assesses the legal and regulatory developments which could have an effect on it and will participate in relevant consultation and calibration processes undertaken by various regulatory and other bodies. Implementation of regulatory developments could result in additional costs or limit or restrict the way in which the Issuer conducts business.

The Issuer is exposed to changes in tax legislation and its interpretation and to increased rates of taxation.

The Issuer's activities are conducted in the UK and the Issuer is, therefore, subject to a range of UK taxes at various rates. Future actions by the UK Government to increase tax rates or to impose additional taxes and levies or limit deductions could negatively impact the Issuer's profitability. Revisions to tax legislation or to its interpretation could also affect the Issuer's financial condition in the future. In addition, the Issuer is subject to periodic tax audits which could result in additional tax assessments relating to past periods of up to six years being made. Any such assessments could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer is exposed to the risk of financial and reputational costs and the threat of regulatory enforcement action if it fails to deliver fair outcomes for customers.

Conduct risk is the risk that the Issuer's actions or decisions could result in an unfair outcome for its customers arising, for example, from poor product design, ineffective complaints handling or a failure to meet the needs of customers in financial difficulty. Issues associated with poor conduct have been a significant source of cost and reputational damage to the financial services industry in recent years and have attracted increased scrutiny from regulators.

The Issuer is committed to managing its business in a way that puts good customer outcomes at the heart of its culture, values and behaviours, and is embedded through its policies, processes and incentive structures.

There can, however, be no complete assurance that aspects of the Issuer's current or historic activities would not be deemed by the FCA or other regulatory authorities to be inconsistent with the delivery of fair outcomes for customers. Any failure successfully to monitor and manage conduct risk could result in regulatory censure and harm to the Issuer's reputation and standing with customers and others which, in turn, could adversely affect its financial condition, operational performance and future prospects.

Risks Related to the Notes

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

The Notes constitute unsecured and subordinated obligations of the Issuer.

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

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

Although the Notes may pay a higher rate of interest than securities which are not subordinated, there is a substantial risk that investors in the Notes will lose all or some of the value of their investment should the Issuer become insolvent or subject to any of the resolution, write-down or conversion powers in the Banking Act.

As at 28 February 2022, the Issuer had senior indebtedness of £179 million and £175 million in principal amount of the Issuer's £175,000,000,000 6.0 per cent. Fixed Rate Reset Callable Subordinated Notes due 2027 (the "**2027 Notes**"). Other than the ordinary shares of the Issuer, all current liabilities of the Issuer will be senior to (or, in the case of the 2027 Notes, rank at least *pari passu* with) the Notes.

Noteholders are also subject to the provisions of the Banking Act relating to, *inter alia*, the write down of capital instruments and the bail-in of liabilities as described under "*Mandatory write-down and conversion of capital instruments may affect the Notes.*"

The remedies available to Noteholders under the Notes are limited.

Noteholders may not at any time demand repayment or redemption of their Notes, although in a Winding-Up, the Noteholders will have a claim for an amount equal to the principal amount of the Notes plus any accrued interest.

The sole remedy in the event of any non-payment of principal or interest under the Notes, subject to certain conditions as described in Condition 8, is that the Trustee, on behalf of the Noteholders may, at its discretion, or shall at the direction of the holders of at least 25 per cent. of the aggregate principal amount of the outstanding Notes subject to applicable laws, institute proceedings for the winding-up of the Issuer and/or prove for any payment obligations of the Issuer arising under the Notes in any winding-up or other insolvency proceedings in respect of such non-payment.

The remedies under the Notes are more limited than those typically available to the Issuer's unsubordinated creditors. For further details regarding the limited remedies of the Trustee and the Noteholders, see Condition 8.

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

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

The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of any Notes.

Under the Banking Act, substantial powers are granted to the Authorities as part of a special resolution regime (the "SRR"). These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits (including the Issuer) and their parent entities (including J Sainsbury plc) if they are failing or are likely to fail to satisfy certain threshold conditions. The stabilisation options which may be commenced by the Authorities are: (i) the private sector transfer of all or part of the business or the shares of the relevant entity to a private sector purchaser; (ii) the transfer of all or part of the business of the relevant entity to a "bridge bank" established and wholly owned by the BoE; (iii) the transfer of all or part of the relevant entity or "bridge bank" to an asset management vehicle; (iv) temporary public ownership (nationalisation) of the relevant entity; and (v) the making of one or more resolution instruments by the BoE. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. Certain ancillary powers include the power to modify contractual arrangements in certain circumstances.

Under the Banking Act, powers are granted to Authorities which include, but are not limited to: (i) a "write-down and conversion power" relating to Tier 1 capital instruments, Tier 2 capital instruments (such as the Notes) and (ii) a "bail-in" tool relating to the majority of unsecured liabilities. Such loss absorption powers give resolution authorities the ability to write-down or write-off all or a portion of the claims of certain unsecured creditors of a failing institution or group and/or to convert certain debt claims into another security, including ordinary shares of the surviving group entity, if any. Such resulting ordinary shares may be subject to severe dilution, transfer for no consideration, write-down or write-off. The Banking Act specifies the order in which the bail-in tool should be applied, reflecting the hierarchy of capital instruments under Regulation (EU) No 575/2013 (as amended) as it forms part of domestic law by virtue of the EUWA and related legislation, with certain amendments (the "Capital Requirements Regulation") and otherwise respecting the hierarchy of claims in an ordinary insolvency. Moreover, the Banking Act and secondary legislation made thereunder provides certain limited safeguards for creditors in specific circumstances. For example, a holder of debt securities issued by the Issuer should not suffer a worse outcome than it would in insolvency proceedings. However, this "no creditor worse off" safeguard may not apply in relation to an application of the write-down and conversion power in circumstances where a stabilisation power is not

also used; holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation. The exercise of mandatory write-down and conversion power under the Banking Act or any suggestion of such exercise could, therefore, materially adversely affect the rights of the holders of equity and debt securities and the price or value of their investment and/or the ability of the Issuer to satisfy its obligations under such debt securities.

The Authorities also have wide powers under the Banking Act to modify contractual arrangements in certain circumstances (for example, varying the maturity of a debt instrument) and to override events of default or termination rights that might be invoked as a result of the exercise of the resolution powers, which could have a material adverse effect on the rights of holders of the equity and debt securities issued by the Issuer (including Noteholders), including through a material adverse effect on the price of such securities (such as the Notes). The Banking Act also gives the BoE the power to override, vary or impose contractual obligations between a UK bank, its holding company and its group undertakings for reasonable consideration, in order to enable any transferee or successor bank to operate effectively. There is also power for HM Treasury to disapply or modify laws (with possible retrospective effect), excluding provisions made by or under the Banking Act, to enable the powers under the Banking Act to be used effectively.

The determination that securities and other obligations issued by the Issuer (including the Notes) will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. This determination will also be made by the relevant Authority and there may be many factors, including factors not directly related to the Issuer or the Issuer, which could result in such a determination. Because of this inherent uncertainty and given that the relevant provisions of the Banking Act remain largely untested in practice, it will be difficult to predict when, if at all, the exercise of a loss absorption power may occur which would result in a principal write-off or conversion to other securities, including the ordinary shares of the Issuer. Moreover, as the criteria that the relevant Authority will be obliged to consider in exercising any loss absorption power provide it with considerable discretion, holders of the securities issued by the Issuer (including Noteholders) may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such power and consequently its potential effect on the Issuer and the securities issued by the Issuer (including the Notes).

The Authorities may implement their powers prior to insolvency of the Issuer.

The purpose of the stabilisation options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may be exercised if (i) the relevant Authority is satisfied that a relevant entity (such as the Issuer) is failing, or is likely to fail (including where the relevant entity is failing or likely to fail to meet the threshold conditions specified in FSMA), (ii) following consultation with the other Authorities, the relevant Authority determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those conditions, (iii) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors) and (iv) the relevant Authority considers that the specific resolution objectives would not be met to the same extent by the winding up of the relevant entity. It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

Although the Banking Act provides for conditions to the exercise of any resolution powers and EBA guidelines set out the objective elements for determining whether an institution is failing or likely to fail, it is uncertain how the Authorities would assess such conditions in any particular situation. The relevant Authorities are also not required to provide any advance notice to Noteholders of their decision to exercise any resolution power. Therefore, Noteholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer or the Notes.

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

If the Issuer were made subject to the SRR, HM Treasury or the BoE may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities) subject to certain protections in respect of the Issuer. Exercise of these powers could involve taking various actions in relation to any securities issued by the Issuer (including the Notes) without the consent of the Noteholders, including (among other things):

- transferring the Notes out of the hands of the holders;
- delisting the Notes;
- writing down (which may be to nil) the Notes or converting the Notes into another form or class of securities; and/or
- modifying or disapplying certain terms of the Notes.

The relevant Authorities may exercise the bail-in tool under the Banking Act to recapitalise a relevant entity in resolution by allocating losses to its shareholders and unsecured creditors (which include Noteholders) in a manner that (i) ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the "no creditor worse off" safeguard). In addition, even in circumstances where a claim for compensation is established under the "no creditor worse off" safeguard in accordance with a valuation performed after the resolution action has been taken, it is unlikely that such compensation would be equivalent to the full losses incurred by the Noteholders in the resolution and there can be no assurance that Noteholders would recover such compensation promptly.

The bail-in tool includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the relevant entity under resolution and the power to convert a liability from one form or class to another. The exercise of such powers may result in the cancellation of all, or a portion, of the principal amount of, interest on, or any other amounts payable on, the Notes and/or the conversion of all or a portion of the principal amount of, interest on, or any other amounts payable on, the Notes into shares or other securities or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes.

The taking of any such actions could materially adversely affect the rights of Noteholders, and such actions (or the perception that the taking of such actions may be imminent) could materially adversely affect the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

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

In addition, the Banking Act requires that the relevant Authorities permanently write-down, or convert into equity, Tier 1 capital instruments and Tier 2 capital instruments (such as the Notes) at the point of non-viability of the relevant entity and before or together with the exercise of any stabilisation power.

For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which the relevant Authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or that the relevant entity or the group will no longer be viable unless the relevant capital instruments are written-down or converted or the relevant entity requires extraordinary public support without which, the relevant Authority determines that, the relevant entity would no longer be viable.

Noteholders may be subject to write-down or conversion into equity on application of such powers (without requiring the consent of such Noteholders), which may result in such Noteholders losing some or all of their investment. The "no creditor worse off" safeguard would not apply in relation to an application of such powers in circumstances where resolution powers are not also exercised. The exercise of such mandatory write-down and conversion power under the Banking Act could, therefore, materially adversely affect the rights of holders of Notes, and such exercise (or the perception that such exercise may be imminent) could material adversely affect the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

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

If the Issuer were made subject to the SRR and, notwithstanding the BoE's current preferred resolution strategy for the Issuer which is a modified bank insolvency process, a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Notes) may result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the risk that it may be unable to meet its obligations in respect of the Notes and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

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

The FSCS established under the Financial Services and Markets Act 2000 is the statutory fund of last resort for customers of authorised financial services firms paying compensation to customers if the firm is unable, or likely to be unable, to pay certain claims (including in respect of deposits and insurance policies) made against it (together "Protected Liabilities").

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

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

The Notes mature on 12 March 2033. The Issuer is under no obligation to redeem the Notes at any time prior thereto and the Noteholders have no right to require the Issuer to redeem or purchase any Notes at any time. Any redemption of the Notes and any purchase of any Notes by the Issuer will be subject always to the prior approval of the Competent Authority and to compliance with prevailing Regulatory Capital Requirements, and the Noteholders may not be able to sell their Notes in the secondary market (if at all) at a price equal to or higher than the price at which they purchased their Notes. Accordingly, investors in the Notes should be prepared to hold their Notes for a significant period of time.

The Notes are subject to early redemption at the option of the Issuer during a specified period ending on the Reset Date and also upon the occurrence of certain tax and regulatory events.

Subject to the prior approval of the Competent Authority and to compliance with prevailing Regulatory Capital Requirements, the Issuer may, at its option, redeem all (but not some only) of the Notes at their principal amount plus interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the relevant redemption date from and including 12 September 2027 to and including the Reset Date or upon the occurrence of a Tax Event or a Capital Disqualification Event.

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

likelihood, or perceived increased likelihood, that the Notes will be redeemed early, the market value of the Notes may be adversely affected.

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

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

The Issuer may not be liable to pay certain taxes.

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction (as at the date of this Information Memorandum, being the United Kingdom or any political subdivision or any authority thereof or therein having power to tax), unless the withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount), the Issuer will (subject to certain customary exceptions) pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders in respect of payments of interest after the withholding or deduction shall equal the amounts which would have been receivable in respect of interest on the Notes in the absence of such withholding or deduction.

Potential investors should be aware that neither the Issuer nor any other person will be liable for or otherwise obliged to pay, and the relevant Noteholders will be liable for and/or pay, any tax, duty, charge, withholding or other payment whatsoever which may arise as a result of, or in connection with, the ownership, any transfer and/or any payment in respect of the Notes, except as provided for in Condition 9.

In particular, the Notes do not provide for payments of principal to be grossed up in the event withholding tax of the Relevant Jurisdiction is imposed on repayments of principal. As such, the Issuer would not be required to pay any Additional Amounts under the terms of the Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, Noteholders may receive less than the full amount due under the Notes and the market value of the Notes may be adversely affected.

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

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

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

At any time, the Trustee may (subject to the approval of the Competent Authority) agree to the substitution in place of the Issuer as the principal debtor under the Notes of certain entities, in each case subject to the

Trustee being satisfied that such substitution is not materially prejudicial to the interests of the Noteholders and to certain other conditions set out in the Trust Deed being complied with.

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

In the event of certain specified events relating to taxation or following the occurrence of a Capital Disqualification Event, the Issuer may (subject to certain conditions) at any time substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Qualifying Tier 2 Securities, without the consent of the Noteholders.

Qualifying Tier 2 Securities must have terms not materially less favourable to holders than the terms of the Notes, as reasonably determined by the Issuer in consultation with an independent investment bank or financial advisor of international standing. However, there can be no assurance that, due to the particular circumstances of a holder of Notes, such Qualifying Tier 2 Securities will be as favourable to each investor in all respects or that, if it were entitled to do so, a particular investor would make the same determination as the Issuer as to whether the terms of the Qualifying Tier 2 Securities are not materially less favourable to holders than the terms of the Notes.

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

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

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

Integral multiples of less than £100,000.

The denomination of the Notes will be £100,000 and integral multiples of £1,000 in excess thereof. Accordingly, it is possible that the Notes may be traded in the clearing systems in amounts in excess of £100,000 that are not integral multiples of £100,000. Should Certificates be required to be issued, they will be issued in principal amounts of £100,000 and higher integral multiples of £1,000 but will in no circumstances be issued to Noteholders who hold Notes in the Relevant Clearing System (as defined in this Information Memorandum) in amounts that are less than £100,000. Accordingly, any Noteholder who holds an amount which is less than £100,000 in principal amount of the Notes in his account with the Relevant Clearing System at the relevant time may not receive a Certificate (should Certificates be printed) in respect of such holding. Such a Noteholder would need to purchase a principal amount of Notes such that its holding amounts to £100,000 in order to receive a Certificate.

If Certificates are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

Meetings of Noteholders and modification.

The Conditions of the Notes will contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders

including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

In addition, the Trustee may agree, without the consent of the Noteholders, to make any modification to any of the Conditions or any of the provisions of the Trust Deed or the Agency Agreement that: (i) in the opinion of the Trustee, subject to the provisions of the Trust Deed, is not materially prejudicial to the interests of the Noteholders; or (ii) in its opinion, is of a formal, minor or technical nature or to correct a manifest error. Any such modification shall be binding on the Noteholders.

Change of law.

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

Legal investment considerations may restrict certain investments.

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

Credit rating may not reflect all risks.

Moody's, an independent credit rating agency, is expected to assign a rating of 'Baa2' to the Notes. A rating does not reflect the potential impact of all risks relating to structure, market, additional factors discussed in this section and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the assigning rating agency at any time.

Moody's is established in the UK and registered under the UK CRA Regulation, and, as at the date of this Information Memorandum, appears on the latest update of the list of registered credit rating agencies on the website of the FCA at <https://www.fca.org.uk/markets/credit-rating-agencies/registered-certified-cras>. The rating that Moody's has given to the Notes is expected to be endorsed by Moody's Deutschland GmbH, which is established in the EEA and registered under the EU CRA Regulation and, as at the date of this Information Memorandum, appears on the list of registered credit rating agencies on the ESMA website at <http://www.esma.europa.eu>.

Rating agencies other than Moody's could seek to rate the Notes, whether or not on a basis solicited by the Issuer. Any unsolicited ratings would be based on publicly available information only, and assigned without the benefit of the support and insight of the Issuer. If any further or alternative ratings are assigned to the Notes in future, and if any such rating is lower than the rating assigned by Moody's, this could have an adverse effect on the market value of the Notes.

Any rating assigned to the Notes may be withdrawn entirely by a credit rating agency, may be suspended or may be lowered, if, in that credit rating agency's judgment, the credit quality of the Notes has declined or is in question. In addition, at any time a credit rating agency may revise its relevant rating methodology with the result that, among other things, any rating assigned to the Notes may be lowered. If any rating assigned to the Notes is lowered or withdrawn, the market value of the Notes may be reduced. Furthermore, any rating may not reflect the potential impact of all risks relating to the Notes, and other factors that may affect the value of the Notes. Accordingly, a credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Risks Related to the Market Generally

The secondary market generally.

The Notes represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes.

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

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

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

Moreover, although the Issuer and any subsidiary of the Issuer can (subject to Supervisory Permission and compliance with prevailing Regulatory Capital Requirements) purchase Notes at any time, they have no obligation to do so. Purchases made by the Issuer could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

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

Although an application has been made for the Notes to be admitted to trading on the GEM, there is no assurance that such application will be accepted or that an active trading market will develop.

Exchange rate risks and exchange controls.

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

Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

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

Interest rate risks.

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

TERMS AND CONDITIONS OF THE NOTES

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

The issue of the £120,000,000 10.50 per cent. Fixed Rate Reset Callable Subordinated Notes due 2033 (the “**Notes**”) of Sainsbury’s Bank plc (the “**Issuer**”) was authorised by a resolution of the Board of Directors of the Issuer passed on 23 June 2022 and a resolution of a sub-committee of the Board of Directors of the Issuer passed on 27 June 2022. The Notes are constituted by a trust deed (the “**Trust Deed**”) dated 12 September 2022 between the Issuer and Citicorp Trustee Company Limited (the person or persons for the time being the trustee or trustees under the Trust Deed, the “**Trustee**”) as trustee for the Holders (as defined below) of the Notes. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes. Copies of the Trust Deed and of the agency agreement (the “**Agency Agreement**”) dated 12 September 2022 relating to the Notes between the Issuer, Citibank, N.A., London Branch as the initial principal paying agent (the person for the time being the principal paying agent, the “**Principal Paying Agent**”) and the initial transfer agents named therein (the person(s) for the time being the transfer agent(s), the “**Transfer Agent(s)**”), Citibank Europe plc as the initial registrar (the person for the time being the registrar, the “**Registrar**”), and the Trustee, (i) are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB) and at the specified offices of the Principal Paying Agent, the Registrar and each of the Transfer Agents or (ii) may be provided by email to a Noteholder following their prior written request to the Trustee and the Principal Paying Agent and provision of proof of holding and identity (in a form satisfactory to the Trustee and the Principal Paying Agent). The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement and the Reset Rate Agency Agreement (if any).

1 Form, Denomination and Title

(a) Form and Denomination

The Notes are serially numbered in the denominations of £100,000 and integral multiples of £1,000 in excess thereof.

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

(b) Title

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

In these Conditions, “**Noteholder**” or “**Holder**” means the person in whose name a Note is registered.

2 Transfers of Notes

(a) Transfer

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

(b) Delivery of New Certificates

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

(c) Transfer Free of Charge

Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) Closed Periods

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Note, (ii) during the period of 15 days prior to (and including) any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(c), (iii) after the Notes have been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date.

3 Status

The Notes constitute direct and unsecured and unguaranteed obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of Holders in respect of, or arising

under, their Notes (including any damages awarded for breach of obligations in respect thereof) are subordinated as described in Condition 4.

4 Subordination

(a) Winding-Up

If a Winding-Up occurs, the rights and claims of the Holders (and of the Trustee on their behalf) against the Issuer in respect of, or arising under, each Note shall be for (in lieu of any other payment by the Issuer) an amount equal to the principal amount of the relevant Note, together with, to the extent not otherwise included within the foregoing, any other amounts attributable to such Note, including any accrued and unpaid interest thereon and any damages awarded for breach of any obligations in respect thereof, provided however that such rights and claims shall be subordinated as provided in this Condition 4(a) and in the Trust Deed to the claims of all Senior Creditors but shall rank (i) at least *pari passu* with the claims of holders of all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital (including the Issuer's sterling denominated 6.0 per cent. Fixed Rate Reset Callable Subordinated Notes due 2027 (XS1721760624)) and (ii) in priority to the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith and to the claims of holders of all classes of share capital of the Issuer.

(b) Set-off

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

5 Interest Payments

(a) Interest Rate

The Notes bear interest at the applicable Interest Rate from (and including) the Issue Date in accordance with the provisions of this Condition 5.

Interest shall be payable on the Notes in equal instalments semi-annually in arrear on each Interest Payment Date as provided in this Condition 5.

Where it is necessary to compute an amount of interest in respect of any Note for a period which is less than a full Interest Period, the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (1) the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Interest Periods normally ending in any year.

(b) Interest Accrual

The Notes will cease to bear interest from (and including) the due date for redemption thereof pursuant to Condition 6(a), (c), (d) or (e) or the date of substitution thereof pursuant to Condition 6(f), as the case may be, unless, upon surrender of the Certificate representing any Note, payment of all amounts due in respect of such Note is not properly and duly made, in which event interest shall continue to accrue on the Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Interest in respect of any Note shall be calculated per Calculation Amount and the amount of interest per Calculation Amount shall be equal to the product of the Calculation Amount, the relevant Interest Rate and the day-count fraction as described in Condition 5(a) for the relevant period, rounding the resultant figure to the nearest penny (half a penny being rounded upwards). The amount of interest payable in respect of each Note, is the aggregate of the amounts (calculated as aforesaid) for each Calculation Amount comprising the denomination of the Note.

(c) Initial Fixed Interest Rate

For the Initial Fixed Rate Interest Period, the Notes bear interest at the rate of 10.50 per cent. per annum (the “**Initial Fixed Interest Rate**”).

(d) Reset Rate of Interest

The Interest Rate will be reset (the “**Reset Rate of Interest**”) in accordance with this Condition 5 on the Reset Date. The Reset Rate of Interest will be determined by the Agent Bank on the Reset Determination Date as the sum of the Reset Reference Rate and the Margin.

(e) Determination of Reset Rate of Interest

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on the Reset Determination Date, subject to receipt from the Issuer or the Reset Reference Banks of the Gilt Yield Quotations as provided by the Reset Reference Banks (if any), determine the Reset Rate of Interest in respect of the Reset Period. The determination of the Reset Rate of Interest by the Agent Bank shall (in the absence of manifest error) be final and binding upon all parties.

(f) Publication of Reset Rate of Interest

The Agent Bank shall cause notice of the Reset Rate of Interest determined in accordance with this Condition 5 in respect of the Reset Period to be given to the Trustee, the Principal Paying Agent, the Registrar, each of the Transfer Agents, any stock exchange on which the Notes are for the time being listed or admitted to trading and, in accordance with Condition 14, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

If the Notes become due and payable pursuant to Condition 8(a), the accrued interest per Calculation Amount and the Reset Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously by the Agent Bank in accordance with this Condition 5 but no publication of the Reset Rate of Interest need be made unless the Trustee otherwise requires.

(g) Agent Bank and Reset Reference Bank

Whenever a function expressed in these Conditions to be performed by the Agent Bank and the Reset Reference Banks falls to be performed, the Issuer will maintain an Agent Bank and the number of Reset Reference Banks provided below.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank or any Reset Reference Bank with another leading investment, merchant or commercial bank or financial institution in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Reset Rate of Interest in respect of the Reset Period as provided in Condition 5(d), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(h) Determinations of Agent Bank Binding

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

6 Redemption, Substitution, Variation and Purchase

(a) Final Redemption

Unless previously redeemed, purchased and cancelled or (pursuant to Condition 6(f)) substituted, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest on 12 March 2033 (the “**Maturity Date**”). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) Conditions to Redemption, Substitution, Variation and Purchase

Any redemption or purchase of the Notes or substitution or variation of the terms of the Notes, in each case in accordance with Conditions 6(c), (d), (e), (f) or (g) is subject to:

- (i) the Issuer obtaining prior Supervisory Permission therefor;
- (ii) in the case of any redemption or purchase (other than any purchase prior to the fifth anniversary of the Reference Date pursuant to Condition 6(g)), if and to the extent then required under prevailing Regulatory Capital Requirements, either: (A) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (B) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds and, as applicable, eligible liabilities of the Issuer would, following such redemption or purchase, exceed its minimum applicable capital requirements (including any applicable buffer requirements) by a margin (calculated in accordance with prevailing Regulatory Capital Requirements) that the Competent Authority considers necessary at such time;
- (iii) in the case of any redemption prior to the fifth anniversary of the Reference Date, if and to the extent then required under prevailing Regulatory Capital Requirements in the case of redemption upon a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the Reference Date;
- (iv) in the case of any redemption prior to the fifth anniversary of the Reference Date upon the occurrence of a Capital Disqualification Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Reference Date; and

- (v) in the case of any purchase prior to the fifth anniversary of the Reference Date pursuant to Condition 6(g), either (A) the Issuer having, before or at the same time as such purchase, replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer, and the Competent Authority having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances or (B) the relevant Notes are being purchased for market-making purposes in accordance with applicable Regulatory Capital Requirements.

Any refusal by the Competent Authority to give its Supervisory Permission as contemplated above shall not constitute a default for any purpose.

Notwithstanding the above conditions, if, at the time of any redemption, substitution, variation or purchase, the prevailing Regulatory Capital Requirements permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 6(b), the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s).

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 6 (other than redemption pursuant to Condition 6(c)), the Issuer shall deliver to the Trustee (i) a certificate signed by two Authorised Signatories stating that the relevant requirements or circumstances giving rise to the right to redeem, substitute or, as appropriate, vary are satisfied and, in the case of a substitution or variation, that the terms of the relevant Qualifying Tier 2 Securities comply with the definition thereof in Condition 19 and (ii) in the case of a redemption pursuant to Condition 6(d) only, an opinion from a nationally recognised law firm or other tax adviser in the United Kingdom experienced in such matters to the effect that the relevant requirement or circumstance referred to in any of paragraphs (i) to (iv) (inclusive) of the definition of "Tax Event" applies (but, for the avoidance of doubt, such opinion shall not be required to comment on the ability of the Issuer to avoid such circumstance by taking measures reasonably available to it) and the Trustee may accept (and if so treated and accepted by the Trustee, shall be so treated and accepted by the Holders) such certificate and, where applicable, opinion as sufficient evidence of the satisfaction of the relevant conditions precedent in which event it shall be conclusive and binding on the Trustee and the Holders.

(c) Issuer's Call Option

Subject to Condition 6(b), the Issuer may, by giving not less than 15 nor more than 60 days' notice to the Holders in accordance with Condition 14, the Trustee, the Registrar and the Principal Paying Agent (which notice shall be irrevocable), elect to redeem all, but not some only, of the Notes at any time from and including 12 September 2027 to and including the Reset Date at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(d) Redemption Due to Taxation

If, prior to the giving of the notice referred to in this Condition 6(d), a Tax Event has occurred, then the Issuer may, subject to Condition 6(b) and having given not less than 15 nor more than 60 days' notice to the Holders in accordance with Condition 14, the Trustee, the Registrar, the Principal Paying Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(e) Redemption for Regulatory Purposes

If, prior to the giving of the notice referred to in this Condition 6(e), a Capital Disqualification Event has occurred, then the Issuer may, subject to Condition 6(b) and having given not less than 15 nor more than 60 days' notice to the Holders in accordance with Condition 14 the Trustee, the Registrar and the Principal Paying Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(f) Substitution or Variation

If a Tax Event or a Capital Disqualification Event has occurred, then the Issuer may, subject to Condition 6(b) and having given not less than 15 nor more than 60 days' notice to the Holders in accordance with Condition 14, the Trustee, the Registrar and the Principal Paying Agent (which notice shall be irrevocable and shall specify the date for substitution or variation, as the case may be, of the Notes) but without any requirement for the consent or approval of the Holders, at any time (whether before or following the Reset Date) either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities, and the Trustee shall (subject to the following provisions of this Condition 6(f) and subject to the receipt by it of the certificates of the Authorised Signatories referred to in Condition 6(b) above and in the definition of Qualifying Tier 2 Securities) agree to such substitution or variation. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 6(f), as the case may be. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution of the Notes for, or the variation of the terms of the Notes so that they remain, or as appropriate, become, Qualifying Tier 2 Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed alternative Qualifying Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it or expose it to any liabilities against which it has not been indemnified and/or secured and/or prefunded to its satisfaction. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided above, redeem the Notes as provided in, as appropriate, Condition 6(d) or (e).

In connection with any substitution or variation in accordance with this Condition 6(f), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(g) Purchases

The Issuer may, subject to Condition 6(b), at any time purchase (or otherwise acquire), or procure others to purchase (or otherwise acquire) beneficially for its account, Notes in any manner and at any price. The Notes so purchased (or acquired), while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meetings of the Noteholders and shall be deemed not to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 8(c).

(h) Cancellation

All Notes redeemed or substituted by the Issuer pursuant to this Condition 6 will forthwith be cancelled. All Notes purchased by or on behalf of the Issuer may, at the option of the Issuer and subject to obtaining any Supervisory Permission therefor, be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation to the Registrar. Notes so surrendered, shall be cancelled

forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(i) Trustee Not Obligated to Monitor

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

7 Payments

(a) Method of Payment

- (i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in like manner as provided for payments of interest in paragraph (ii) below.
- (ii) Interest on each Note shall be paid to the person shown in the Register at the close of business on the business day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Note shall be made in pounds sterling by transfer to a pounds sterling account maintained by the payee with a bank in London.

(b) Payments Subject to Laws

Save as provided in Condition 9, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

(c) Payments on Business Days

Payment is to be made by transfer to an account in pounds sterling, and payment instructions (for value the due date, or if that date is not a Business Day, for value the first following day which is a Business Day) will be initiated on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) Delay in Payment

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Business Day or if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(e) Non-Business Days

If any date for payment in respect of any Note is not a Business Day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, “**Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located.

8 Default

(a) Default

If the Issuer shall not make payment in respect of the Notes (in the case of payment of principal) for a period of seven days or more or (in the case of any interest payment or any other amount in respect of the Notes) for a period of 14 days or more, in each case after the date on which such payment is due, the Issuer shall be deemed to be in default (a “**Default**”) under the Trust Deed and the Notes and the Trustee in its discretion may, or (subject to Condition 8(c)) if so requested by an Extraordinary Resolution of the Holders or in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding shall, notwithstanding the provisions of Condition 8(b), institute proceedings for the winding-up of the Issuer.

In the event of a Winding-Up of the Issuer (whether or not instituted by the Trustee pursuant to the foregoing), the Trustee in its discretion may, or (subject to Condition 8(c)) if so requested by an Extraordinary Resolution of the Holders or in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding shall, prove and/or claim in such Winding-Up of the Issuer, such claim being as contemplated in Condition 4(a).

(b) Enforcement

Without prejudice to Condition 8(a), the Trustee may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions and the Trust Deed. Nothing in this Condition 8(b) shall, however, prevent the Trustee instituting proceedings for the winding-up of the Issuer and/or proving and/or claiming in any Winding-Up of the Issuer in respect of any payment obligations of the Issuer arising from the Notes or the Trust Deed (including any damages awarded for breach of any obligations) in the circumstances provided in Conditions 4(a) and 8(a).

(c) Entitlement of Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 8(a) or (b) above against the Issuer to enforce the terms of the Trust Deed or the Notes or any other action under or pursuant to the Trust Deed unless (i) it shall have been so requested by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders or in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) Right of Holders

No Holder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or prove or claim in any Winding-Up of the Issuer unless the Trustee, having become so bound to proceed or being able to prove or claim in such Winding-Up, fails or is unable to do so within a period of 60 days and such failure or inability shall be continuing, in which case the Holder shall, with respect to the Notes held by it, have only such rights against the Issuer as those which the Trustee is entitled to exercise in respect of such Notes as set out in this Condition 8.

(e) Extent of Holders' Remedy

No remedy against the Issuer, other than as referred to in this Condition 8, shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

9 Taxation

All payments of principal, interest and any other amounts by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount), the Issuer will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Noteholders in respect of those payments of interest after the withholding or deduction shall equal the amounts which would have been received by them in respect of payments of interest on the Notes had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

- (a) held by or on behalf of a Holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Note by reason of having some connection with the Relevant Jurisdiction otherwise than merely by holding the Note or by the receipt of amounts in respect of the Note; or
- (b) held by or on behalf of a Holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (c) in respect of which the certificate representing such Note is presented for payment more than 30 days after the Relevant Date except to the extent that the Holder would have been entitled to such Additional Amounts on presenting the Note for payment on the last day of such period of 30 days.

References in these Conditions to interest shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

10 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 Meetings of Holders, Modification, Waiver and Substitution

(a) Meetings of Holders

The Trust Deed contains provisions for convening meetings of Holders (including by way of audio and/or video conference call) to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Conditions 3 and 4, the terms concerning currency and due dates for payment of principal or interest payments in respect of the Notes and reducing or cancelling the principal amount of, or interest on, any Notes or varying the method of calculating the Interest Rate) and certain other provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding. The agreement or approval of the Holders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Condition 6(f) in connection with the variation of the terms of the Notes so that they become, alternative Qualifying Tier 2 Securities, and to which the Trustee has agreed pursuant to the relevant provisions of Condition 6(f).

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting.

The Trust Deed provides that (i) a resolution passed, at a meeting duly convened and held, by a majority of at least 75 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes for the time being outstanding or (iii) consent given by way of electronic consents through the Relevant Clearing System(s) (in a form satisfactory to the Trustee) by or on behalf of the holder(s) of not less than 75 per cent. in principal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Holders. Any resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

(b) Modification of the Trust Deed

The Trustee may agree, without the consent of the Holders, to (i) any modification of these Conditions or of any other provisions of the Trust Deed or the Agency Agreement which in its opinion is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of these Conditions or of the provisions of the Trust Deed or the Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders. The Trustee may, without the consent of the Holders, determine that any Default should not be treated as such, provided that in the opinion of the Trustee, the interests of Holders are not materially prejudiced thereby.

Any such modification, authorisation, waiver or determination shall be binding on the Holders and, if the Trustee so requires, such modification shall be notified to the Holders as soon as practicable.

No modification to these Conditions or any other provisions of the Trust Deed shall become effective unless (if and to the extent required at the relevant time by the Competent Authority) the Issuer shall have given at least 30 days' prior written notice thereof to, and received Supervisory Permission therefor from, the Competent Authority (or such other period of notice as the Competent Authority may from time to time require or accept and, in any event, provided that there is a requirement to give such notice and obtain such Supervisory Permission).

(c) Substitution

The Trust Deed contains provisions permitting the Trustee, subject to the Issuer giving at least 30 days' prior written notice thereof to, and receiving Supervisory Permission therefor from, the Competent Authority (or such other period of notice as the Competent Authority may from time to time require or accept and, in any event, provided that there is a requirement to give such notice and obtain such Supervisory Permission) to agree, subject to the Trustee being satisfied that the interests of the Holders will not be materially prejudiced by the substitution but without the consent of the Holders, to the substitution on a subordinated basis equivalent to that referred to in Conditions 3 and 4 of certain other entities (any such entity, a "**Substitute Obligor**") in place of the Issuer (or any previous Substitute Obligor under this Condition) as a new principal debtor under the Trust Deed and the Notes. Any such substitution shall be binding on all Holders shall be notified to the Holders in accordance with Condition 14 as soon as practicable thereafter.

(d) Entitlement of the Trustee

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, substitution or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

12 Replacement of the Notes

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and, regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13 Rights of the Trustee

The Trust Deed contains provisions for the indemnification of, and/or the provision of security for and/or prefunding, the Trustee and for its relief from responsibility.

The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Holders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise.

Conditions 3 and 4 apply only to amounts payable in respect of the Notes and nothing in Conditions 3, 4 or 8 shall affect or prejudice the payment of the costs (including legal fees), charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall not be liable for any consequences of any application of UK Statutory Loss Absorption Powers (as provided in Condition 17(c) below) in respect of the Issuer or any of its affiliates or any Notes and shall not be required to take any action in connection therewith that would, in the Trustee's opinion, expose the Trustee to any liability or expense unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction; provided that nothing in this paragraph shall prevent any application of UK Statutory Loss Absorption Powers in respect of the Issuer or any of its affiliates or any Notes from taking effect, and each Holder by its acquisition of any Notes, authorises and instructs the Trustee to take such steps as may be necessary or expedient in order to give effect to any such application of UK Statutory Loss Absorption Powers.

14 Notices

Notices required to be given to the Holders pursuant to the Conditions shall be mailed to them at their respective addresses in the Register and deemed to have been given on the first weekday (being a day other than a Saturday or Sunday) after the date of mailing. The Issuer shall also ensure that all such notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders, but subject to any Supervisory Permission required, create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the Notes then outstanding shall be constituted by the Trust Deed or a deed supplemental to it.

16 Agents

The initial Principal Paying Agent, the Registrar and the Transfer Agents and their initial specified offices are listed below. They act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, the Registrar and the Transfer Agents and to appoint additional or other Transfer Agents, provided that it will at all times maintain a Principal Paying Agent, a Registrar and a Transfer Agent.

The Issuer undertakes, whenever a function expressed in these Conditions to be performed by the Agent Bank falls to be performed, to appoint and (for so long as such function is required to be performed) maintain an Agent Bank.

Notice of any such termination or appointment and of any change in the specified offices of the Agents will be given to the Holders in accordance with Condition 14. If any of the Agent Bank, Registrar or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank, Registrar or the Principal Paying Agent in relation to the Notes shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Agent Bank, the Registrar, the Principal Paying Agent and the Holders.

17 Governing Law and Jurisdiction

(a) Governing Law

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

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed or the Notes and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or any Notes (including any legal action or proceedings relating to non-contractual obligations arising out of or in connection with them) ("**Proceedings**") may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England in respect of any such Proceedings.

(c) Acknowledgement of UK Statutory Loss Absorption Powers

Notwithstanding and to the exclusion of any other term of the Notes or any other agreements, arrangements or understanding between the Issuer and any Holder (which, for the purposes of this Condition 17(c), includes each holder of a beneficial interest in the Notes), by its acquisition of the Notes, each Holder acknowledges and accepts that any liability arising under the Notes may be subject to the exercise of UK Statutory Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

- (i) the effect of the exercise of any UK Statutory Loss Absorption Powers by the Relevant Resolution Authority, which exercise (without limitation) may include and result in any of the following, or a combination thereof:
 - (A) the reduction of all, or a portion, of the Relevant Amounts in respect of the Notes;
 - (B) the conversion of all, or a portion, of the Relevant Amounts in respect of the Notes into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on the Holder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Notes;
 - (C) the cancellation of the Notes or the Relevant Amounts in respect of the Notes; and
 - (D) the amendment or alteration of the Maturity Date of the Notes or amendment of the amount of interest payable on the Notes, or the date on which interest becomes payable, including by suspending payment for a temporary period; and
- (ii) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any UK Statutory Loss Absorption Powers by the Relevant Resolution Authority.

No repayment or payment of Relevant Amounts in respect of the Notes will become due and payable or be paid after the exercise of any UK Statutory Loss Absorption Powers by the Relevant Resolution Authority if and to the extent such amounts have been reduced, converted, cancelled, amended or altered as a result of such exercise.

Neither a reduction or cancellation, in part or in full, of the Relevant Amounts, the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the UK Statutory Loss Absorption Powers by the Relevant Resolution Authority with respect to the Issuer, nor the exercise of the UK Statutory Loss Absorption Powers by the Relevant Resolution Authority with respect to the Notes will be an event of default.

Upon the exercise of the UK Statutory Loss Absorption Powers by the Relevant Resolution Authority with respect to the Notes, the Issuer will provide a written notice to the Holders in accordance with Condition 14 as soon as practicable regarding such exercise of the UK Statutory Loss Absorption Powers. The Issuer will also deliver a copy of such notice to the Trustee for information purposes.

18 Contracts (Rights of Third Parties) Act 1999

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

19 Definitions

In these Conditions:

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

“**Agency Agreement**” has the meaning given to it in the preamble to these Conditions;

“**Agent Bank**” means an independent financial institution with appropriate expertise appointed by the Issuer in accordance with the Reset Rate Agency Agreement;

“**Authorised Signatories**” means any two authorised signatories of the Issuer in accordance with the Trust Deed;

“**Business Day**” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London;

“**Calculation Amount**” means £1,000 in principal amount;

“**Capital Disqualification Event**” is deemed to have occurred if there is a change (which has occurred or which the Competent Authority considers to be sufficiently certain) in the regulatory classification of the Notes which becomes effective after the Reference Date and that results, or would be likely to result, in some of or the entire principal amount of the Notes ceasing to be included in the Tier 2 Capital of the Issuer on, as applicable at the relevant time, an individual consolidated basis (as referred to in Article 9 of the CRR or any equivalent or successor provision) and/or a consolidated basis (as referred to in Article 11 of the CRR or any equivalent or successor provision) and for the avoidance of doubt, any amortisation of the Notes pursuant to Article 64 of the CRR (or any equivalent or successor provision) shall not comprise a Capital Disqualification Event;

“**Competent Authority**” means the Prudential Regulation Authority or such other authority having primary supervisory authority with respect to prudential matters concerning the Issuer;

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

“**CRR**” means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No.

648/2012 as amended and as it forms part of domestic law by virtue of the EUWA and as amended or replaced from time to time;

“**Directors**” means the directors of the Issuer;

“**Euronext Dublin**” means the Irish Stock Exchange plc, trading as Euronext Dublin;

“**EUWA**” means the European Union (Withdrawal) Act 2018;

“**FATCA Withholding**” has the meaning given to it in Condition 9;

“**Holder**” has the meaning given to it in Condition 1;

“**Initial Fixed Interest Rate**” has the meaning given to it in Condition 5(c);

“**Initial Fixed Rate Interest Period**” means the period from (and including) the Issue Date to (but excluding) the Reset Date;

“**Interest Payment Date**” means 12 March and 12 September in each year, starting on (and including) 12 March 2023;

“**Interest Period**” means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“**Interest Rate**” means the Initial Fixed Interest Rate and/or the Reset Rate of Interest, as the case may be;

“**Issue Date**” means 12 September 2022, being the date of the initial issue of the Notes;

“**London Stock Exchange**” means the London Stock Exchange plc;

“**Margin**” means 7.625 per cent.;

“**Market**” means Euronext Dublin’s Global Exchange Market;

“**Maturity Date**” has the meaning given to it in Condition 6(a);

“**Noteholder**” has the meaning given to it in Condition 1;

“**Notes**” has the meaning given to it in the preamble to these Conditions;

“**Official List**” means the official list of Euronext Dublin;

“**pounds sterling**” or “**pence**” means the lawful currency of the United Kingdom;

“**Principal Paying Agent**” has the meaning given to it in the preamble to these Conditions;

“**Qualifying Tier 2 Securities**” means securities issued directly by the Issuer or issued indirectly by the Issuer and guaranteed by the Issuer (on a subordinated basis equivalent to the subordination set out in Conditions 3 and 4 and in the Trust Deed) that:

- (a) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer), and provided that a certification to such effect (including as to such consultation) of two Authorised Signatories shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without further enquiry and without liability to any person) prior to the issue or, as appropriate, variation of the relevant securities), and, subject thereto, which (1) contain terms which comply with the then current requirements of the Competent Authority in relation to Tier 2 Capital; (2) include terms which provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Notes and do not provide

for interest cancellation or deferral; (3) rank *pari passu* with the ranking of the Notes; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; (5) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; (6) do not contain terms which provide for interest cancellation or deferral (provided that this paragraph (6) shall not preclude the inclusion of any provision analogous to Condition 17(c)); and (7) do not contain terms providing for loss absorption through principal write-down or conversion to ordinary shares (provided that this paragraph (6) shall not preclude the inclusion of any provision analogous to Condition 17(c));

- (b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld or delayed; and
- (c) where the Notes had a published rating from a Rating Agency immediately prior to their substitution or variation and such rating was solicited by or on behalf of the Issuer, each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published rating to the relevant Qualifying Tier 2 Securities;

“Rating Agency” means Moody’s Investors Services Limited or its successors or affiliates.

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

“Record Date” has the meaning given to it in Condition 7(a)(ii);

“Reference Date” means the later of (i) the Issue Date and (ii) the latest date (if any) on which any further securities consolidated and forming a single series with the Notes have been issued pursuant to Condition 15;

“Register” has the meaning given to it in Condition 1(b);

“Registrar” has the meaning given to it in the preamble to these Conditions;

“Regulatory Capital Requirements” means, at any time, any requirement contained in the law, regulations, requirements, guidelines and policies of the Competent Authority relating to capital adequacy and prudential (including resolution) supervision and applicable to the Issuer;

“Relevant Amounts” means the outstanding principal amount of the Notes, together with any accrued but unpaid interest and Additional Amounts due on the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any UK Statutory Loss Absorption Powers by the Relevant Resolution Authority;

“Relevant Date” means (i) in respect of any payment other than a sum to be paid by the Issuer in a Winding-Up of the Issuer, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender, and (ii) in respect of a sum to be paid by the Issuer in a Winding-Up of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

“Relevant Jurisdiction” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or

therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes;

“Relevant Resolution Authority” means the resolution authority with the ability to exercise any UK Statutory Loss Absorption Powers in relation to the Issuer;

“Reset Date” means 12 March 2028;

“Reset Determination Date” means the day falling two Business Days prior to the Reset Date;

“Reset Period” means the period from and including the Reset Date to but excluding the Maturity Date;

“Reset Rate Agency Agreement” means an agreement to be entered into between the Issuer and the Agent Bank in respect of the appointment of the Agent Bank to perform the functions expressed to be performed by the Agent Bank under these Conditions;

“Reset Rate of Interest” has the meaning given to it in Condition 5(d);

“Reset Reference Banks” means five brokers of gilts and/or gilt-edged market makers selected by the Issuer;

“Reset Reference Rate” means in respect of the Reset Period, the percentage rate (rounded (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) determined by the Agent Bank on the basis of the Gilt Yield Quotations provided (upon request by or on behalf of the Issuer) by the Reset Reference Banks to the Issuer and the Agent Bank at approximately 11.00 a.m. (London time) on the Reset Determination Date in respect of the Reset Period. If at least four quotations are provided, the Reset Reference Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Rate will be the quotation provided. If no quotations are provided, the Reset Reference Rate will be the Initial Fixed Interest Rate (less the Margin), where:

“Benchmark Gilt” means, in respect of the Reset Period, such United Kingdom government security customarily used in the pricing of new securities and having an actual or interpolated maturity date on or about the last day of the Reset Period as the Issuer, on the advice of an investment bank of international repute, may determine to be appropriate following any then-current guidance published by the International Capital Market Association at the relevant time; and

“Gilt Yield Quotations” means, with respect to a Reset Reference Bank and the Reset Period, the arithmetic mean (rounded (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered yields (on a semi-annual compounding basis) for the Benchmark Gilt in respect of the Reset Period, expressed as a percentage, as quoted by such Reset Reference Bank.

“Senior Creditors” means (i) creditors of the Issuer who are unsubordinated creditors of the Issuer; and (ii) creditors of the Issuer whose claims are or are expressed to be subordinated to the claims of other creditors of the Issuer (other than those whose claims are in respect of obligations which constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or Tier 2 Capital or whose claims rank or are expressed to rank *pari passu* with, or junior to, the claims of Holders in respect of the Notes);

“Substitute Obligor” has the meaning given to it in Condition 11(c);

“Supervisory Permission” means, in relation to any action, such supervisory permission (or, as appropriate, waiver) as is required therefor under prevailing Regulatory Capital Requirements (if any);

“Tax Event” is deemed to have occurred if, as a result of a Tax Law Change:

- (i) in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts;
- (ii) the Issuer is no longer entitled to claim a deduction in respect of any payments in respect of the Notes in computing its taxation liabilities or the amount of such deduction is materially reduced;
- (iii) the Notes are prevented from being treated as loan relationships for United Kingdom tax purposes; or
- (iv) the Issuer is not able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the Notes or any similar system or systems having like effect as may from time to time exist),

and, in any such case, the Issuer cannot avoid the foregoing by taking measures reasonably available to it;

“Tax Law Change” means a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application of such laws by a decision of any court or tribunal that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes effective on or after the Reference Date or in the case of a change in law, if such change is enacted by a UK Act of Parliament or by Statutory Instrument, on or after the Reference Date;

“Tier 1 Capital” has the meaning given to it from time to time by the Competent Authority or the applicable prudential rules;

“Tier 2 Capital” has the meaning given to it from time to time by the Competent Authority or the applicable prudential rules;

“Transfer Agents” has the meaning given to it in the preamble to these Conditions;

“Trust Deed” has the meaning given to it in the preamble to these Conditions;

“Trustee” has the meaning given to it in the preamble to these Conditions;

“UK Statutory Loss Absorption Powers” means any write-down, conversion, transfer, modification, suspension or similar or related power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in the United Kingdom, relating to (i) Part 1 of the United Kingdom Banking Act 2009 and any other law or regulation applicable in the United Kingdom relating to the resolution of unsound or failing banks or other financial institutions, as amended or replaced from time to time and (ii) the instruments, rules and standards created thereunder, pursuant to which any obligation of the Issuer (or any affiliate of the Issuer) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Issuer or any other person (or suspended for a temporary period);

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

“Winding-Up” means:

- (i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which reorganisation, reconstruction or amalgamation have previously

been approved in writing by the Trustee or an Extraordinary Resolution and do not provide that the Notes thereby become redeemable or repayable in accordance with these Conditions);

- (ii) following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend; or
- (iii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) or (ii) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL CERTIFICATE

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

Initial Issue of Certificates

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

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

Accountholders

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Certificate (an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or such other Alternative Clearing System (as the case may be) as to the outstanding principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the term “**Noteholders**” and references to “**holding of Notes**” and to “**holder of Notes**” shall be construed accordingly) for all purposes other than with respect to payments on such Notes, for which purpose the Registered Holder shall be deemed to be the holder of such aggregate principal amount of the Notes in accordance with and subject to the terms of the Global Certificate and the Trust Deed.

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

Exchange of the Global Certificate

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

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

- (i) if the Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and the Issuer has been notified that any such clearing system is closed for business for a continuous period of 14 days (other than by reason of

holidays, statutory or otherwise) or has announced an intention permanently to cease business or does in fact do so and no successor clearing system is available;

- (ii) upon or following any failure to pay principal in respect of any Notes when it is due and payable; or
- (iii) with the consent of the Issuer,

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

Transfers

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear and/or, Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg and their respective direct and indirect participants.

Calculation of Interest

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

Payments

For so long as the Registered Holder is shown in the Register as the holder of the Notes evidenced by a Global Certificate, the Registered Holder shall (subject as set out above under "Accountholders") in all respects be entitled to the benefit of such Notes and shall be entitled to the benefit of the Agency Agreement. Payments of all amounts payable under the Conditions in respect of the Notes as evidenced by a Global Certificate will be made to the Registered Holder pursuant to the Conditions.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Upon any payment of any amount payable under the Conditions the amount so paid shall be entered by the Registrar on the Register, which entry shall constitute prima facie evidence that the payment has been made.

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which (notwithstanding Condition 7) shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the Global Certificate.

Notices

For so long as the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, notices may be given to the Noteholders by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to their respective accountholders in substitution for publication as required by the Conditions provided that, for so long as the Notes are listed on the Official List of Euronext Dublin or on any other stock exchange, notices will also be given in accordance with any applicable requirements of such stock exchange. Any such notices delivered to Euronext Dublin will also be published on the website of Euronext Dublin for so long as its rules so require. Any notice shall be deemed to have been given on the date of delivery or publication which, in the case of communication through Euroclear and Clearstream, Luxembourg, shall mean the date on which the notice is delivered to Euroclear and Clearstream, Luxembourg.

Prescription

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

Meetings

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

Trustee's Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

Written Resolution and Electronic Consent

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

- (i) where the terms of the proposed resolution have been notified to the Noteholder through the Relevant Clearing System(s), each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the Relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding ("**Electronic Consent**"). None of the Issuer or the Trustee shall be liable or responsible to anyone for such reliance; and
- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a written resolution has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a)

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

Euroclear and Clearstream, Luxembourg

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

USE OF PROCEEDS

The Notes are being issued to optimise, strengthen and diversify the Issuer's sources of capital, including to fund the outcome of the tender offer by the Issuer with regard to the 2027 Notes announced on 30 August 2022 and for general corporate purposes.

DESCRIPTION OF THE ISSUER'S BUSINESS

Overview

Sainsbury's Bank plc (the "**Issuer**") is a public company limited by shares and is a wholly-owned subsidiary of J Sainsbury plc, with its own board of directors (the "**Board**") and executive committee independent from J Sainsbury plc. The Issuer is registered in England & Wales (number: 3279730) and its registered office is 33 Holborn, London EC1N 2HT, telephone number +44 20 7695 6000.

The Issuer provides a range of retail banking services and related financial services wholly within the UK.

All of the Issuer's core business lines are contained within the Sainsbury's Bank plc legal entity with the exception of Argos Financial Services ("**AFS**") products, which are funded by the Issuer and serviced by its subsidiaries, HRGCS and Home Retail Group Insurance Services Limited.

As a bank authorised by the Prudential Regulation Authority (the "**PRA**"), together with the FCA, the Issuer is required to raise and hold specified minimum levels of capital as well as liquid assets in order to meet its financial commitments as they are expected to fall due.

History and development

The Issuer was incorporated on 12 November 1996 and became a joint venture between J Sainsbury plc and Bank of Scotland, later to become a subsidiary of Lloyds Banking Group ("**LBG**"). The Issuer was the first bank to be opened by a major British supermarket. The joint venture model initially enabled the Issuer to leverage off the banking capability and systems of LBG, combined with additional sales channels and brand awareness through J Sainsbury plc.

J Sainsbury plc established the Issuer as a distinct, wholly-owned subsidiary of J Sainsbury plc on 31 January 2014, following its purchase of the 50 per cent. shareholding previously held by LBG. The Issuer then undertook a major transition programme to migrate its systems and platforms to a standalone operating model away from LBG, which fully completed in 2021 following the migration of back book loans.

In September 2016, the Issuer acquired three subsidiary undertakings, collectively representing the AFS business, from Home Retail Group (UK) Limited (a fellow subsidiary within the J Sainsbury plc group (the "**JS Group**")) as part of the wider acquisition of Home Retail Group by J Sainsbury plc. As a result, the Issuer provides funding to HRGCS via an intercompany loan and that undertaking forms part of a regulatory group with the Issuer for reporting to the PRA under the CRR. The three AFS entities are all wholly owned direct subsidiaries of the Issuer.

Principal activities, products and operating model

The Issuer aims to drive value for the JS Group by being an agile, capital and cost-efficient provider of simple, mobile led financial services for Sainsbury's and Argos customers.

Overview of principal activities and products

Saving and lending

The Issuer raises funds, principally from UK savings deposits, and lends those funds to UK retail customers through its range of lending products, with the resulting interest margin representing income to the Issuer or held as liquid assets. For the financial year ended 28 February 2022, the Issuer's net interest margin was 3.2 per cent. on an unconsolidated basis and 4.5 per cent. on a consolidated basis.

The Issuer provides a variety of savings products to UK customers including easy-access, fixed interest rates and tax-free products. Current lending products principally consist of unsecured personal loans,

credit cards, Argos store cards and the Argos monthly payment plan (“MPP”) (launched in March 2022). The Issuer ceased originating new mortgages in September 2019.

The Issuer’s savings, funding and lending balances (net of provisions) as at the last three financial year-ends were as follows:

	<u>29 Feb 2020</u>	28 Feb 2021	28 Feb 2022
		(£m)	
Secured lending – Bank (Mortgages)	1,862	1,243	779
Unsecured lending – Bank (Loans and Credit Cards) ..	4,622	3,333	3,532
Unsecured lending – AFS (store cards).....	894	809	772
Total lending balances (amortised cost)	7,378	5,385	5,083
Customer deposits	6,312	5,128	4,235
Wholesale funding	1,961	1,340	1,203

Net interest income earned by the Issuer on consolidated (secured and unsecured) lending as at the last three financial year-ends were as follows:

	<u>29 Feb 2020</u>	28 Feb 2021	28 Feb 2022
		(£m)	
Bank.....	170	144	161
AFS	120	119	118
Total net interest income.....	290	263	279

Customer deposits represented 78 per cent. of the Issuer’s overall funding sources as at 28 February 2022 and 90 per cent. of these deposits are considered to be “sticky” (meaning they are less likely to be withdrawn, including under conditions of stress).

The Issuer’s unsecured lending balances decreased significantly during the financial year ended 28 February 2021 as a result of the impact that COVID-19 had on the economic environment and on customers’ borrowing appetite and the Issuer’s risk appetite. The decrease in the Issuer’s secured lending balances during that year reflected the run-off of the book following the cessation of new mortgage origination in September 2019. In response to the contraction in overall lending balances, which drove a 9 per cent. decline in net interest income compared to the prior year, the Issuer re-priced its variable rate savings products in order to manage the book size down and optimise liquidity. Customer deposits as at 28 February 2021 were 19 per cent. lower than the previous year-end. As at 28 February 2022, customer deposits were 17 per cent. lower than the previous year-end.

The run-down of the Issuer’s mortgage book continued during the financial year ended 28 February 2022, which drove a further decline in customer deposits as the Issuer re-priced its savings book further. However unsecured lending in loans and credit cards increased by 6 per cent. compared to the prior year, reflecting the improved economic environment and actions taken by the Issuer’s management. Argos store card balances at 28 February 2022 were 5 per cent. lower than the previous year-end as customers continued to pay down greater proportions of their balances compared to before the COVID-19 pandemic.

Lending book quality

The Issuer focuses on prime lending and mainly originates lending to high quality customers, most of whom are also Nectar card holders. Nectar is the UK's largest multi-partner loyalty programme and is owned and managed by J Sainsbury plc. Across all lending products, the Issuer originates lower volumes in the high-risk segments compared to the market average, which has resulted in better credit performance compared to industry averages. For the two financial years ended 28 February 2022, the Issuer's average bad debt asset ratio was 1.5 per cent. This compares to the UK industry average charge-off rates of 3.3 per cent. for prime business (source: Gracechurch and Penarth securitisation investor reports) and 8.7 per cent. for near-prime (source: NewDay Funding and NewDay Partnership securitisation investor reports).

The Issuer has observed strong credit performance in its lending portfolio throughout the COVID-19 pandemic. The Issuer has supported approximately 72,000 customers with payment holidays and buy-now, pay-later ("**BNPL**") extensions, representing only 1.8 per cent. of its total portfolio (3.9 million customers). These peaked in June 2020, with the majority of customers subsequently resuming payment and remaining up-to-date with repayments. The Issuer had prepared for a downturn by making proactive changes to its credit strategy since around 2017, such as removing some higher-risk loan lending, reducing the length of credit card balance transfers, strengthening affordability assessments, focussing on the lending to Nectar card holders (who have higher acceptance rates and generally demonstrate better arrears performance than non-card holders) and building downturn headroom into its risk appetite. Following the initial outbreak of COVID-19, the Issuer took prompt action to tighten credit strategy for new originations as well as supporting existing customers where prudent to do so. From July 2020 the Issuer shifted focus to a measured, safe return to lending through a gradual reversing of COVID-19 tightening measures, which continued throughout 2021 and 2022 to date, as economic outlook gradually improved. The Issuer has strong levels of provisioning in place for its lending portfolios, which have been determined considering a range of plausible forward-looking economic conditions that could arise in relation to the ongoing impacts of the recovery from COVID-19. Provisions coverage for lending in Stage 3 (i.e. credit impaired) as at 28 February 2022 was 73.3 per cent. for unsecured lending (loans, credit cards and store cards) and 23.6 per cent. for secured lending (mortgages).

Loans

The Issuer offers unsecured personal loans from £1,000 to £40,000, with the typical originated loan size being from £10,000 to £20,000. Approximately 75 per cent. of the Issuer's loans are taken for the purpose of home improvement or car purchase, and its portfolio is highly diversified from a UK geographic perspective.

As at 28 February 2022, the Issuer had approximately 304,000 active personal loans customers, 83 per cent. of whom have a Nectar card and 46 per cent. of whom are regular shoppers at Sainsbury's. The Issuer's loans portfolio is weighted towards higher credit quality borrowers.

Loans balances as at 28 February 2022 were 3 per cent. higher than at the prior year-end. New business lending during the financial year ended 28 February 2022 was up 130 per cent. from the prior year, reaching over £1.2 billion, as the Issuer started to see a return in demand. This increase was also supported by the Issuer's investment to enhance the customer journey and through targeted digital marketing. Streamlining the application process during the year has resulted in the vast majority of customers now receiving their funds on the same day, with some in under 10 minutes. The Issuer also enhanced its risk-based pricing capability during the financial year ended 28 February 2022 and made changes to its credit policy to enable it to support more customers.

Credit cards

The Issuer provides credit cards, primarily targeted at Nectar card holders, which aim to be the preferred payment method in Sainsbury's stores and for customers' other expenditure. Customers are incentivised to spend using the Issuer's credit cards through the award of Nectar points and 0 per cent. interest for a

set introductory period. The Issuer also rewards its credit card customers by offering bonus Nectar points when opening an account and transferring a balance, on top of the reward points awarded for spending.

As at 28 February 2022, the Issuer had approximately 884,000 active credit card holders, 83 per cent. of whom also have a Nectar card and 56 per cent. of whom are regular shoppers at Sainsbury's. As for loans, the credit card portfolio is weighted towards higher credit quality borrowers and there is a balanced distribution of customers across income categories.

Demand for credit cards increased during the financial year ended 28 February 2022, with new accounts up 32 per cent. and retail spend through the Issuer's credit cards up by 22 per cent. compared to the prior year. However, this is still below pre-COVID-19 levels and customers continue to pay down debt at a greater rate than pre-COVID-19 levels.

The Issuer continued to support the growth of Sainsbury's core food business and general merchandising during the financial year ended 28 February 2022, with 15 per cent. of credit card customers' total card spending being within the JS Group, amounting to £593 million of retail sales.

Following the re-launch of the Issuer's credit card app in 2020, the number of active customers using it increased by 35 per cent. to 465,000 during the financial year ended 28 February 2022, with the app becoming the Issuer's primary credit card payment channel. A new alert system was launched which means that customers can now receive an SMS when their credit card is used, giving customers confidence that possible suspicious activity on their card can be spotted immediately. In addition, a new detection tool was added to help monitor potential fraud and to block cards from being used on fraudulent devices. It is also now possible for customers to view Nectar points within the credit card app, as well as the number of points earned on credit card spend. Further app functionality includes the ability for customers to freeze and unfreeze their accounts when their cards have been misplaced, lost or stolen.

Argos store cards

The Issuer's strategy for store cards is to provide affordable credit to customers, supporting incremental Argos retail sales, whilst making an appropriate return on capital. The store card allows customers to purchase products in Argos stores in a similar way to a credit card and is typically used to purchase mid-range products on BNPL plans with deferral periods of 3, 6, 9 and 12 months. The store card can also be used as a revolving credit facility for purchases with Argos and Sainsbury's. The headline annual percentage rate ("APR") on the store card is 34.9 per cent. with an additional risk-based price tier of 39.9 per cent.

On BNPL plans, customers are not charged interest if credit balances are repaid by the end of the deferral period. If credit balances are not repaid, interest is charged on the principal amount outstanding on each day throughout the period of payment deferral. For BNPL plans taken out post-November 2019, interest is charged on the principal amount outstanding at the end of the deferral period.

During the financial year ended 28 February 2022, there were 2.1 million active store card holders with £1.1 billion of spend in Argos being via the store card, representing a sales credit penetration of 22 per cent. (up from 20 per cent. in the previous year). The average spend per customer in the financial year ended 28 February 2022 was £620 and the average credit limit was £1,500. The Issuer's store card portfolio is weighted towards higher credit quality customers, 57 per cent. of whom have personal income of less than £20,000 and 65 per cent. of whom have household income of less than £40,000. Customer digital participation is 90 per cent., with 79 per cent. of payments being made via the app or website.

Due to the COVID-19 pandemic, there was a change in customer behaviour during the year ended 28 February 2021, as customers paid down greater proportions of their balances. Whilst the trend partly reversed in the financial year ended 28 February 2022, the closing store card lending position (net of provisions) decreased by £36 million to £773 million as compared with the previous year.

Argos Monthly Payment Plan

Launched in March 2022, the Argos Monthly Payment Plan (the “MPP”) provides Argos customers with an alternative to the BNPL store card plan which allows them to purchase certain products on credit which is repaid by fixed amounts per month over a fixed term of 12 to 48 months, with an APR of 19.9 per cent. with an additional risk-based price tier of 39.9 per cent. The MPP was launched initially only on the digital sales channel for collection in store only but is expected to extend to home delivery channels in 2023. The MPP is initially available on products worth £150 or more but there are plans to offer the product for lower amounts and on retail ‘baskets’ that are £150+ but comprised of multiple items.

Mortgages

The Issuer has a historical closed book of mortgages originated prior to 2004 and recommenced mortgage origination in 2017. The Issuer quickly built up its mortgage lending book to £1.9 billion by September 2019 when it ceased originating new mortgage loans in line with its refined strategy to reshape its balance sheet and focus on products with the most connectivity to Sainsbury’s shoppers.

Since that time, the Issuer has been managing down the mortgage book as customers come to the end of fixed term-rate deals. Whilst the Issuer does offer renewal products for such customers, these are not actively marketed but are offered to treat customers fairly.

The mortgage portfolio is focussed on prime customers and more than 75 per cent. of the loans are below 80 per cent. in loan-to-value as at 28 February 2022. Approximately 93 per cent. of the Issuer’s mortgage portfolio consists of owner-occupied residential mortgages, with the remaining approximately 7 per cent. being buy-to-let loans. Approximately 94 per cent. of the Issuer’s mortgage portfolio comprises repayment loans with approximately 6 per cent. on interest-only basis. The portfolio is well-diversified from a UK geographic perspective, with London and the South East region of the UK making up the greatest proportion.

As at 28 February 2022, the Issuer’s mortgage lending book had run down to £778 million, a decrease of £465 million from the prior year-end.

Insurance

The Issuer’s aim is to be the insurance provider of choice for Sainsbury’s shoppers. General insurance products are offered to customers on a “white label” basis, with the products branded as “Sainsbury’s Bank” and “Argos” but produced and underwritten by third-party insurance partners. Income is received through commission arrangements as follows:

- car and home insurance through the Issuer (operating as an insurance broker) is provided by a panel of insurers;
- pet insurance through AFS and Sainsbury’s Bank is provided by Cardif Pinnacle;
- travel insurance is underwritten by Hood Group; and
- life insurance is provided by Legal & General.

The Issuer had approximately 440,000 active insurance customer accounts during the financial year ended 28 February 2022.

In 2017, the Issuer amended its operating model for car and home insurance, moving from a single-partner model to a panel-based, multi-partner approach. As a result, the Issuer assumed control of a number of support functions previously provided by insurance partners. The panel of specially selected insurance partners enables the Issuer to offer competitive pricing to a greater number of customers, and with the introduction of the Issuer’s “General Insurance Pricing Practices Regulation”, new and existing customers receive the same pricing. The Issuer is also able to make use of data derived from the Nectar programme to drive even better pricing for its customers. The car and home insurance business remained resilient

under competitive market conditions during the financial year ended 28 February 2022, with a 20 per cent. and 15 per cent. increase in new business sales, respectively.

The pet insurance business reported a 35 per cent. increase in new business sales during the financial year ended 28 February 2022, supported by incentives offered to Nectar card holders at tills within Sainsbury's stores. Renewals also increased by 27 per cent. from the previous year.

Argos Care

Argos Care is an insurance product which protects customers' purchases from Argos against accidental damage and breakdowns after the manufacturer's guarantee ends. Argos Care is offered on approximately 30 per cent. of the products sold by Argos including large and small electrical items, mobile phones, furniture, jewellery and watches, and can be bought for a fixed term or on a monthly basis in the case of higher value electrical items.

Argos Care is sold by the Issuer's subsidiary, HRGCS, on behalf of third-party warranty providers, for which HRGCS receives commission income. Argos Care is sold at the point of sale instore or online, as well as post-point of sale as the customer collects their goods and via digital or/telephony marketing. Argos Care has a 98 per cent. claims acceptance rate with claims made and completed either instore or through the warranty provider.

ATMs

The Issuer has one of the busiest ATM networks in the UK, with 1,370 ATMs in operation as at March 2022, representing 2.6 per cent. of all ATMs located in the UK. The Issuer's ATMs are located almost entirely on Sainsbury's estate, typically processing almost three times as many cash transactions as the average UK ATM. The Issuer has a market share of approximately 9 per cent. of all cash withdrawals in the UK, which amounted to approximately £8.3 billion of cash withdrawals and approximately 129 million transactions during the financial year ended 28 February 2022. The Issuer's ATMs accounted for £1 of every £10 dispensed via LINK ATMs in the UK.

99.9 per cent. of the Issuer's ATM transactions are by customers using cards from other banks. Customers are not charged for transactions, however the Issuer receives a fixed interchange fee per transaction from the customer's bank.

The ATMs and the cash in them are owned by the Issuer and carried on its balance sheet. The ATM network requires approximately £300 million of cash to be funded on an ongoing basis.

The impact of the COVID-19 pandemic drove a 47 per cent. reduction in ATM transactions during the financial year ended 28 February 2021 compared to the previous year and, in response, the Issuer took action to reduce the size of its ATM estate to reflect the new lower levels of demand for cash. Despite this, transaction volumes were up 10 per cent. in the financial year ended 28 February 2022 compared to the previous year due to increased footfall, following the lifting of COVID-19 restrictions in the UK.

Travel Money

The Issuer provides foreign exchange, money transfer and prepaid credit card services via foreign exchange bureaux in Sainsbury's stores as well as online and telephone channels. The Issuer has direct management control of the "Travel Money business, including ownership and pricing of the traded currency and direct employment of staff. Travelex supplies the Issuer with foreign currency at a wholesale rate which is sold to customers at a retail rate, the resulting margin representing the income stream to the Issuer alongside fees generated on money transfers and prepaid cards. Travelex also currently supplies the IT infrastructure for the Travel Money business. Over 50 currencies are available to customers and the Issuer also offers beneficial pricing to Nectar card holders.

The Issuer has 226 foreign exchange bureaux in Sainsbury's stores, with a 9 per cent. market share of transactions, amounting to approximately £1.1 billion for the year ended 28 February 2022. All of the

Issuer's bureaux were closed at the end of March 2020 in response to the COVID-19 outbreak, with over 1,000 colleagues being redeployed to support Sainsbury's supermarket operations. Most of the Travel Money bureaux reopened in May and June 2021, which drove a 239 per cent. increase in turnover for the Travel Money business for the financial year ended 28 February 2022 compared to the previous year. However, most bureaux subsequently closed again in October 2021 due to the weak demand for travel and continued restrictions on travel corridors. 192 of the Issuer's bureaux had reopened again by May 2022 as customer demand returned for Spring and Summer holidays, with the remaining 34 reopening by July 2022.

Operating model

The Issuer's principal operational office is 3 Lochside Avenue, Edinburgh EH12 9DJ and some of its employees operate out of J Sainsbury plc's offices in Holborn and Milton Keynes. Additionally, the Issuer has customer contact centres in Rosyth and Widnes, as well as employees based in Travel Money bureaux across the J Sainsbury plc store network. The Issuer does not operate any standalone or store-based branches, however Argos store card customers are serviced in Argos stores. The Issuer has taken steps to rationalise its office space in response to the COVID-19 pandemic and has vacated a customer contact centre in Bolton and made part of its Lochside head office available for sub-lease.

The Issuer has direct control of key customer-facing and business operational processes and overall responsibility for its business strategy and day-to-day management. However, it is predominantly outsourced for IT platforms and certain business process operations.

As part of the transition programme to migrate away from LBG (which fully completed in 2021) the Issuer developed new IT platforms and capabilities in conjunction with key suppliers that offer flexibility, scalability and customer support, including:

- Fidelity Information Services, for savings, loans and the MPP;
- Total System Services, for credit cards and store cards;
- Computershare Loan Services, for mortgages;
- Diebold Nixdorf, for ATMs;
- CDL, for insurance; and
- Travelex, for travel money.

Collections and recovery operations for the Issuer's lending products are currently outsourced to Wescot Credit Services. However, the Issuer commenced migration to a new supplier, Intrum UK in May 2022, starting with the new MPP product. Migration of the Issuer's remaining lending products is expected to complete by Q4 2022.

Additionally, the Issuer outsources certain business process operations to fellow subsidiaries of J Sainsbury plc which are subject to formal intercompany agreements, including:

- Human resources;
- Information technology and security;
- General ledger;
- Accounts payable; and
- Procurement.

Strategy

The Issuer is aligned to the JS Group's strategic priority to focus on brands that deliver whilst supporting the core Sainsbury's food business. The Issuer aims to drive value for the JS Group by being an agile, capital and cost-efficient provider of simple, mobile-led financial services for Sainsbury's and Argos customers and promoting customer loyalty and expenditure in Sainsbury's and Argos stores through the Issuer's products.

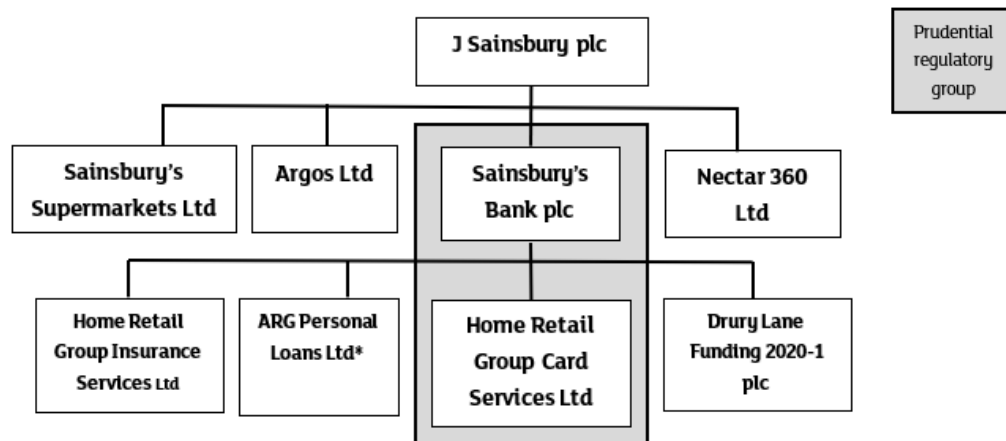
In September 2019, the Issuer announced its five-year strategy, outlining its key objectives and priorities, namely to reshape its balance sheet, strengthen its business and simplify the organisation. Since the announcement, the market has changed considerably due to the impacts of COVID-19 and the Issuer's balance sheet has reduced as a result of weaker credit demand. However, the Issuer's focus continues to be implementing its key objectives and priorities.

The following table sets out the Issuer's strategic vision and its objectives and priorities:

VISION	To be the provider of Financial Services for loyal JS Group customers			
OBJECTIVE	An agile, capital and cost-efficient provider of simple, mobile-led financial services			
PRIORITIES	Reshape the balance sheet	Strengthen the business		Simplify the organisation
	<ul style="list-style-type: none"> • Improve margins • Develop Argos Financial Services proposition • Improve card and insurance momentum • New Financial Services model with Nectar at the core • Run off mortgage book 	<p>Focus on:</p> <ul style="list-style-type: none"> • Operational resilience • Conduct • Capital efficiency 	<p>Build core competency in:</p> <ul style="list-style-type: none"> • Customer experience • Digital • Data and analytics • Credit/operational risk • Partnerships 	<ul style="list-style-type: none"> • Right size the cost base • Rationalise product offering • Review vendor/supplier arrangements • Optimise cross-Group synergies

Ownership and Group Structure

The Issuer is a wholly owned subsidiary of J Sainsbury plc, which is the ultimate controlling parent of the Issuer. The following diagram shows a summarised view of the Issuer's position within the JS Group and its four subsidiary undertakings:



NB Only significant and relevant subsidiaries of J Sainsbury plc are shown. All subsidiaries of the Issuer are shown.

* Dormant

A statement of delegated authority has been established to ensure that the governance of the Issuer is appropriate in the context of a parent entity that is not regulated by the PRA. Under the statement, authority for the day-to-day management of the Issuer is delegated from J Sainsbury plc to the Issuer's Board of Directors and Executive Committee, excluding any issues defined as shareholder reserved matters.

The Issuer has not historically prepared consolidated financial statements for itself and its subsidiaries for external reporting purposes, applying the exemption under section 400 of the Companies Act. Financial statements were prepared on a solo basis for each entity and, together, these make up the financial services segment in the consolidated financial statements of J Sainsbury plc. From the financial year ending 28 February 2023 and for as long as the Notes remain outstanding, the Issuer and HRGCS's financial statements will be prepared on a consolidated basis.

The Issuer has a securitisation programme, launched in November 2020, which involves the sale of personal loan assets into a UK-incorporated special purpose entity, Drury Lane Funding 2020-1 plc ("**Drury Lane**"). Although the Issuer has no equity invested in Drury Lane, this entity is classified as a subsidiary of the Issuer as its sole purpose is to provide funding to the Issuer by way of contractual agreement and the Issuer is exposed to and can affect the variable returns of the entity.

Argos Financial Services

The AFS business consists of the following entities:

- HRGCS, the provider of Argos store card and MPPs;
- Home Retail Group Insurance Services Limited, the insurance intermediary offering Argos-branded pet insurance products; and
- ARG Personal Loans Limited, which is no longer trading following a transfer of activities to HRGCS.

As shown in the structure chart above, the Issuer's prudential scope of regulation consists of itself and HRGCS, and the Issuer's capital adequacy is determined based on the consolidated position of these two entities. HRGCS is funded by the Issuer through equity capital and an intercompany loan, and there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities between the Issuer and HRGCS.

The AFS business has a transfer policy arrangement with Argos Limited that governs the relationship between two parties and ensures a fixed return on assets for AFS.

Capital

As a bank regulated by the PRA, the Issuer is required to hold own funds (capital resources) in accordance with the CRR, which sets out the quantity and quality of own funds necessary to meet requirements (“**Pillar 1**”). The Issuer is also subject to additional capital requirements reflecting risks not captured by Pillar 1 which is set by the PRA (“**Pillar 2**”). In implementing current capital requirements, the PRA requires the Issuer to maintain a prescribed level of capital with reference to risk-weighted exposure amounts and the perceived risk management framework. From a prudential perspective, the Issuer is monitored and supervised on a consolidated basis with its subsidiary, HRGCS. The Issuer has obtained an individual consolidation waiver from the PRA, which allows the Issuer to monitor its capital position on a consolidated basis only.

The table below summaries the Issuer’s regulatory capital position on a consolidated basis at the end of each of the last three financial years:

	<u>29 Feb 2020</u>	<u>28 Feb 2021</u>	<u>28 Feb 2022</u>
		<i>£m</i>	
Common Equity Tier 1 (CET1) capital:			
Ordinary share capital.....	901	901	701
Allowable reserves.....	93	(44)	176
Foreseeable dividend.....	—	—	(50)
CET1 capital before regulatory adjustments.....	<u>994</u>	<u>857</u>	<u>827</u>
Regulatory adjustments to CET1 capital:			
Intangible assets.....	(237)	(130)	(180)
Transitional adjustment.....	66	65	38
Additional value adjustments.....	(1)	(1)	—
Total regulatory adjustments to CET1 capital.....	<u>(172)</u>	<u>(66)</u>	<u>(142)</u>
CET1 capital.....	822	791	685
Tier 2 capital.....	167	120	109
Total capital.....	<u>989</u>	<u>911</u>	<u>794</u>
Risk weighted assets (RWA).....	5,816	4,503	4,392
CET1 capital ratio.....	14.1%	17.6%	15.6%
Total capital ratio.....	17.0%	20.2%	18.1%
Leverage ratio.....	8.1%	9.5%	9.7%

The Issuer’s regulatory capital currently consists of Common Equity Tier 1 (“**CET1**”) capital, representing ordinary share capital and reserves with regulatory deductions, and Tier 2 capital representing subordinated debt. On 27 November 2017, the Issuer issued the 2027 Notes of which £109 million was eligible as Tier 2 capital as at 28 February 2022 (2021: £120 million). The Issuer has no Additional Tier 1 capital.

On 23 March 2021, the High Court of Justice (Business and Property Courts of England And Wales Companies Court) approved a reduction of the ordinary share capital of the Issuer from £900,750,000 to £700,750,172.25, having previously been resolved on and effected by a special resolution passed at a general meeting of the Issuer held on 23 February 2021. The reduction became effective on 1 April 2021 upon registration of the court order with Companies House and resulted in an equal and opposite increase to retained earnings, and therefore this had no impact on the Issuer's CET1 capital.

At a meeting on 19 April 2022, the Issuer's Board approved the payment of a special interim dividend of £50 million to J Sainsbury plc. The dividend was paid on 25 April 2022 and was recorded as a reduction in retained earnings at that date. Although this is a non-adjusting post-balance sheet event for the purposes of the Issuer's balance sheet as at 28 February 2022, the dividend payment had been provisionally approved by Board and formed part of the Issuer's financial plans as at 28 February 2022 and accordingly was treated as foreseeable and was recognised as an adjustment to capital resources at the balance sheet date and therefore reflected in the CET1 capital figures shown in the table above for 28 February 2022.

The Issuer's capital resources comfortably exceeded minimum requirements in each of the last three financial years. The Issuer calculates its Pillar 1 capital requirement for credit and operational risk under the standardised approach. The minimum capital requirement is calculated as 8 per cent. of risk weighted exposures. The Issuer's Total Capital Requirement ("TCR") is the aggregate of its Pillar 1 capital requirements of £351 million (2021: £360 million) and current Pillar 2A capital requirements of £87 million (2021: £119 million). Accordingly, the Issuer's TCR as at 28 February 2022 was 9.97 per cent. (2021: 10.6 per cent.).

The leverage ratio is defined as the ratio of Tier 1 capital to adjusted assets, which is measured on a regulatory consolidated basis. The denominator represents the total non-risk weighted assets of the regulatory group adjusted for certain off-balance sheet exposures assets and regulatory deductions, and provides a non-risk-weighted 'backstop' capital measure. The leverage ratio is calculated as at 28 February 2022 and allows central bank assets to be excluded from the leverage exposures. The Issuer's leverage ratio of 9.7 per cent. (2021: 9.5 per cent.) comfortably exceeded the minimum Basel leverage ratio of 3 per cent.

The Issuer monitors developments in the prudential regulatory environment and where appropriate includes known changes within its business and capital planning activities.

Directors

The following table presents information about the Issuer's Directors and lists other directorships held as at the date of this Information Memorandum. The business address for all Directors is 33 Holborn, London EC1N 2HT.

Name	Position	Other directorships
Lesley Jones	Chair (Independent Non-Executive)	Moneysupermarket.com Group plc; Close Brothers Ltd; Close Brothers Group plc
Michael Ross	Independent Non-Executive	N Brown Group plc; Maths & Magic Ltd*; Domestic & General Ltd (Jersey);
Carole Butler	Independent Non-Executive	Weatherbys Bank Ltd; London Clearing House Group
Guy Thomas	Independent Non-Executive	The Housing Finance Corporation Limited; Penhurst Properties Ltd
Clodagh Moriarty	Non-Executive	Sainsbury's SL Ltd*; Sainsbury's Supermarkets Ltd*; Taylor Wimpey plc

Rosanne Mary Murison	Non-Executive	Openwork Holdings Limited*; Highway Insurance Company Limited; Liverpool Victoria General Insurance Group Limited; Liverpool Victoria Insurance Company Limited; Allianz Insurance plc; Allianz (UK) Limited; Allianz Holdings plc
James Brown	Chief Executive Officer	Sainsbury's Supermarkets Ltd*; Home Retail Group Card Services Ltd*; Home Retail Group Insurance Services Ltd*; ARG Personal Loans Ltd*
Michael Larkin	Chief Financial Officer	Home Retail Group Card Services Ltd*; Home Retail Group Insurance Services Ltd*; ARG Personal Loans Ltd*

With the exception of those directorships marked with an asterisk (*), all of the above directorships are non-executive.

As required by the Issuer's Articles of Association and the Companies Act, each of the directors has declared his/her interests and none of the Directors of the Issuer has any actual or potential conflict between their duties to the Issuer and their private interests or other duties listed above.

The Board delegates the appropriate responsibility, authority and accountability to the Chief Executive Officer ("CEO") to deliver the Issuer's strategy through the appropriate governance committees and the Executive Committee. The CEO chairs the Executive Committee and is supported by a number of other executive-level committees to provide the appropriate checks, balances and transparency on decision-making. Each committee has a documented Terms of Reference, with delegated authority to the chair of such committee who is the appropriate identified accountable individual in line with their Statement of Responsibilities under FCA and PRA rules (Senior Manager Regime).

Liquidity and Funding

Liquidity is managed by the Issuer's Treasury function within the risk appetite and limits set by the Board, with forecast cash-flow requirements and liquidity managed accordingly.

The Issuer has established processes to manage its liquidity risk including maintaining sufficient liquidity to meet its liabilities when they are expected to fall due. This includes holding sufficient liquidity to meet its asset funding needs and the Issuer's operational requirements, i.e. "Business-As-Usual" cash flow requirements. The Issuer also holds a minimum level of liquidity in the form of high quality liquid assets which can be readily sold to meet unexpected outflows to the Issuer's depositors and other creditors. This portfolio of assets is managed on a daily basis in compliance with applicable regulatory requirements.

Early warning indicators are reviewed on a daily basis by senior management and an escalation process is in place should these fall below internal limits, which are generally above regulatory guidance thresholds.

The Issuer's participation in the BoE's TFSME and Indexed Long-Term Repo lending has provided an additional source of liquidity, allowing the Issuer to diversify its funding source from being retail deposit-dependent. The Issuer has developed a range of funding including unsecured funding of £63.2 million and a securitisation programme (Drury Lane). As part of the securitisation the Issuer retained £500 million of AAA-rates notes. It provides the Issuer with a stable, reliable and cost-effective source of contingent funding. As at 28 February 2022, the Issuer had outstanding wholesale funding of £1.2 billion.

The Issuer's liquid assets, as at 28 February 2022, totalled £661 million and comprised cash and balances with central banks (33 per cent.), covered bonds (26 per cent.), supranational investment securities (8 per cent.), government backed investment securities (10 per cent.), asset backed securities (4 per cent.), gilts (15 per cent.) and loans and advances to banks (4 per cent.).

The Issuer is currently rated 'Baa1' (stable) by Moody's.

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

SUMMARY HISTORICAL FINANCIAL INFORMATION AND DATA

The following tables present the summary unaudited historical consolidated financial information and operating data of the Group. The summary unaudited historical consolidated financial information in the tables below is derived from the books and records of the Issuer and is prepared in accordance with the recognition and measurement criteria of IFRS. The information presented below is not necessarily indicative of the results of future operations.

The summary consolidated financial information presented below includes certain non-IFRS financial and other measures that the Issuer uses to evaluate its economic and financial performance. These measures are not identified as accounting measures under IFRS and therefore should not be considered a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are prepared in accordance with IFRS. See “*Presentation of Financial and Other Information—Non-IFRS Financial Measures*”.

The following tables should be read in conjunction with the audited financial statements included elsewhere in this Information Memorandum and with the information set forth under “*Presentation of Financial and Other Information*”.

Unaudited consolidated financial information of Sainsbury's Bank plc and its subsidiaries

Financial year ended 28 February 2022

	Per audited solo financial statements*				Consolidated Group
	Sainsbury's Bank plc	Home Retail Group Card Services Ltd	Other subsidiaries of the Issuer**	Consolidation adjustments***	
	£m	£m	£m	£m	£m
INCOME STATEMENT					
Interest income	216	118	8	(20)	322
Interest expense	(43)	(12)	(7)	19	(43)
Net interest income	173	106	1	(1)	279
Fees and commissions income	82	18	3	0	103
Fees and commissions expense	(14)	(13)	(2)	0	(29)
Net fees and commissions income	68	5	1	0	74
Other operating income	6	0	0	0	6
Total income	247	111	2	(1)	359
Administrative expenses	(206)	(49)	(2)	1	(256)
Impairment of property, plant and equipment	(1)	0	0	0	(1)
Impairment of intangible assets	0	0	0	0	0
Depreciation and amortisation - property, plant and equipment	(2)	0	0	0	(2)
Depreciation and amortisation - intangible assets	(20)	(1)	0	0	(21)
Operating expenses	(229)	(50)	(2)	1	(280)
Impairment losses on financial assets	(14)	(48)	0	0	(62)
Realised gains on financial assets	2	0	0	0	2
Fair value losses on financial instruments	2	0	16	(16)	2
(Loss)/profit before taxation	8	13	16	(16)	21
Analysed as:					
Underlying (loss)/profit before taxation	24	13	16	(16)	37
Non-underlying items	(16)	0	0	0	(16)
	8	13	16	(16)	21
Taxation	(2)	(1)	0	0	(3)
(Loss)/profit for the year attributable to the owners of the Bank	6	12	16	(16)	18
BALANCE SHEET					
Assets					
Cash, balances with central banks and other demand deposits	346	6	35	0	387
Loans and advances to banks	121	0	0	0	121
Derivative financial instruments	19	0	16	0	35
Investment securities	443	0	0	0	443
Loans and advances to customers	4,311	772	0	(16)	5,067
Investments in subsidiaries	325	0	0	(325)	0
Intangible assets	162	29	0	0	191
Property, plant and equipment	9	0	0	0	9
Other assets	700	34	481	(932)	283
Total assets	6,436	841	532	(1,273)	6,536
Liabilities					
Customer accounts	(4,235)	0	0	0	(4,235)
Other deposits	(1,024)	0	0	0	(1,024)
Other borrowed funds	0	0	(506)	506	(0)
Subordinated liabilities	(179)	0	0	0	(179)
Derivative financial instruments	(19)	0	0	0	(19)
Other liabilities	(113)	(485)	(1)	426	(173)
Provisions for liabilities and charges	(9)	(11)	(8)	0	(28)
Total liabilities	(5,579)	(496)	(515)	932	(5,658)
Equity					
Called up share capital	(701)	0	(26)	26	(701)
Retained earnings	(155)	(345)	9	315	(176)
Other reserves	(1)	0	0	0	(1)
Total equity	(857)	(345)	(17)	341	(878)
Total equity and liabilities	(6,436)	(841)	(532)	1,273	(6,536)

Unaudited consolidated financial information of Sainsbury's Bank plc and its subsidiaries

Financial year ended 28 February 2021

	Per audited solo financial statements*				Consolidated Group £m
	Sainsbury's Bank plc £m	Home Retail Group Card Services Ltd £m	Other subsidiaries of the Issuer** £m	Consolidation adjustments*** £m	
INCOME STATEMENT					
Interest income	241	119	4	(20)	344
Interest expense	(81)	(16)	(3)	19	(81)
Net interest income	160	103	1	(1)	263
Fees and commissions income	68	17	2	0	87
Fees and commissions expense	(9)	0	(1)	0	(10)
Net fees and commissions income	59	17	1	0	77
Other operating income	2	0	0	0	2
Total income	221	120	2	(1)	342
Administrative expenses	(198)	(51)	(2)	0	(251)
Impairment of property, plant and equipment	(23)	0	0	0	(23)
Impairment of intangible assets	(82)	0	0	0	(82)
Depreciation and amortisation - property, plant and equipment	(3)	0	0	0	(3)
Depreciation and amortisation - intangible assets	(20)	0	0	0	(20)
Operating expenses	(326)	(51)	(2)	0	(379)
Impairment losses on financial assets	(58)	(54)	0	0	(112)
Realised gains on financial assets	1	0	0	0	1
Fair value losses on financial instruments	0	0	1	(1)	0
(Loss)/profit before taxation	(162)	15	1	(2)	(148)
Analysed as:					
Underlying (loss)/profit before taxation	(36)	15	1	(2)	(22)
Non-underlying items	(126)	0	0	0	(126)
	(162)	15	1	(2)	(148)
Taxation	6	(1)	0	0	5
(Loss)/profit for the year attributable to the owners of the Bank	(156)	14	1	(2)	(143)
BALANCE SHEET					
Assets					
Cash, balances with central banks and other demand deposits	968	5	32	0	1,005
Loans and advances to banks	37	0	0	0	37
Derivative financial instruments	2	0	1	0	3
Investment securities	587	0	0	0	587
Loans and advances to customers	4,599	809	0	(1)	5,407
Investments in subsidiaries	325	0	0	(325)	0
Intangible assets	155	6	0	0	161
Property, plant and equipment	11	0	0	0	11
Other assets	754	38	488	(962)	318
Total assets	7,438	858	521	(1,288)	7,529
Liabilities					
Customer accounts	(5,128)	0	0	0	(5,128)
Other deposits	(1,161)	0	0	0	(1,161)
Other borrowed funds	0	0	(506)	506	(0)
Subordinated liabilities	(179)	0	0	0	(179)
Derivative financial instruments	(29)	0	0	0	(29)
Other liabilities	(84)	(513)	(4)	456	(145)
Provisions for liabilities and charges	(8)	(12)	(9)	0	(29)
Total liabilities	(6,589)	(525)	(519)	962	(6,671)
Equity					
Called up share capital	(901)	0	(26)	26	(901)
Retained earnings	55	(333)	24	300	46
Other reserves	(3)	0	0	0	(3)
Total equity	(849)	(333)	(2)	326	(858)
Total equity and liabilities	(7,438)	(858)	(521)	1,288	(7,529)

Unaudited consolidated financial information of Sainsbury's Bank plc and its subsidiaries

Financial year ended 28 February 2020

	Per audited solo financial statements*				Consolidated Group
	Sainsbury's Bank plc	Home Retail Group Card Services Ltd	Other subsidiaries of the *	Consolidation adjustments**	
	£m	£m	£m	£m	£m
INCOME STATEMENT					
Interest income	304	120	6	(25)	405
Interest expense	(115)	(19)	(5)	24	(115)
Net interest income	189	101	1	(1)	290
Fees and commissions income	104	16	4	0	124
Fees and commissions expense	(10)	(12)	(3)	0	(25)
Net fees and commissions income	94	4	1	0	99
Other operating income	40	0	0	0	40
Total income	323	105	2	(1)	429
Administrative expenses	(237)	(56)	(2)	0	(295)
Impairment of property, plant and equipment	0	0	0	0	0
Impairment of intangible assets	0	0	0	0	0
Depreciation and amortisation - property, plant and equipment	(8)	0	0	0	(8)
Depreciation and amortisation - intangible assets	(23)	0	0	0	(23)
Operating expenses	(268)	(56)	(2)	0	(326)
Impairment losses on financial assets	(48)	(35)	0	0	(83)
Realised gains on financial assets	1	0	0	(1)	0
Fair value losses on financial instruments	(3)	0	(1)	1	(3)
(Loss)/profit before taxation	5	14	(1)	(1)	17
Analysed as:					
Underlying (loss)/profit before taxation	33	14	(1)	1	47
Non-underlying items	(28)	0	0	0	(28)
	5	14	(1)	1	19
Taxation	2	(1)	0	0	1
(Loss)/profit for the year attributable to the owners of the Bank	7	13	(1)	(1)	18
BALANCE SHEET					
Assets					
Cash, balances with central banks and other demand deposits	500	6	0	0	506
Loans and advances to banks	0	0	0	0	0
Derivative financial instruments	6	0	0	0	6
Investment securities	853	0	0	0	853
Loans and advances to customers	6,511	894	0	0	7,405
Investments in subsidiaries	325	0	0	(325)	0
Intangible assets	234	3	0	0	237
Property, plant and equipment	38	0	0	0	38
Other assets	935	39	206	(758)	422
Total assets	9,402	942	206	(1,083)	9,467
Liabilities					
Customer accounts	(6,312)	0	0	0	(6,312)
Other deposits	(1,680)	0	0	0	(1,680)
Other borrowed funds	(101)	0	(180)	180	(101)
Subordinated liabilities	(180)	0	0	0	(180)
Derivative financial instruments	(35)	0	0	0	(35)
Other liabilities	(86)	(605)	(13)	578	(126)
Provisions for liabilities and charges	(8)	(18)	(12)	0	(38)
Total liabilities	(8,402)	(623)	(205)	758	(8,472)
Equity					
Called up share capital	(901)	0	(26)	26	(901)
Retained earnings	(98)	(319)	25	299	(93)
Other reserves	(1)	0	0	0	(1)
Total equity	(1,000)	(319)	(1)	325	(995)
Total equity and liabilities	(9,402)	(942)	(206)	1,083	(9,467)

* The financial statements of the Issuer's subsidiaries have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) as applicable to companies using FRS 101. Otherwise, they have applied the the recognition, measurement and disclosure requirements of IFRS in conformity with the requirements of the Companies Act 2006. For the purposes of consolidation, the financial statements of the Issuer's subsidiaries have been represented in line with the format of those of the Issuer, which apply the full IFRS disclosures requirements applicable to a regulated bank.

** Consisting of the following entities:
- Home Retail Group Insurance Services Ltd
- ARG Personal Loans Ltd
- Drury Lane Funding 2020-1 plc

*** Representing the elimination of intercompany transactions and positions between the Issuer and its subsidiaries.

TAXATION

United Kingdom

The comments below are of a general nature and are not intended to be exhaustive. They assume that there will be no substitution of the Issuer or further issues of securities that will form a single series with the Notes, and do not address the consequences of any such substitution or further issue (notwithstanding that such substitution or further issue may be permitted by the Terms and Conditions of the Notes). The following is a summary of the Issuer's understanding of current United Kingdom law and HM Revenue and Customs ("HMRC") practice (which may not be binding on HMRC) relating only to United Kingdom withholding tax as payments of interest (as such term is understood for the purposes of UK tax law) and to United Kingdom stamp duty and stamp duty reserve tax, in each case as at the latest practicable date before the date of this Information Memorandum and in each case relating to the Notes. It does not necessarily apply where the income is deemed for tax purposes to be the income of any other person. It applies only to persons who are the absolute beneficial owners of Notes and who hold those Notes as investments (regardless of whether the holder also carries on a trade, profession or vocation through a permanent establishment, branch or agency to which the Notes are attributable). This summary does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice. Certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer may be subject to special rules and this summary does not apply to such Noteholders.

Interest on the Notes

Payments of interest on the Notes may be made by the Issuer without deduction of or withholding on account of United Kingdom income tax while the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. Euronext Dublin is a recognised stock exchange for these purposes. The Notes will satisfy this requirement if they are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on Euronext Dublin.

In all other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20%), subject to any other available exemptions and the availability of other reliefs under domestic law or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Stamp duty and stamp duty reserve tax ("SDRT")

No United Kingdom stamp duty or SDRT is payable on the issue, transfer or redemption of the Notes.

United States

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "FATCA", a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with

the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of FATCA to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change.

Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining “foreign passthru payments” are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Moreover, Notes that are not treated as equity for U.S. federal income tax purposes and that have a defined term that are not issued more than six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding in respect of foreign passthru payments unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes (as described under “Terms and Conditions of the Notes—Further Issues”) that are not distinguishable from outstanding Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including outstanding Notes issued during the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay Additional Amounts as a result of the withholding.

SUBSCRIPTION AND SALE

HSBC Bank plc and NatWest Markets Plc (the “**Joint Lead Managers**”) have, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 9 September 2022, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of their principal amount less a combined management and underwriting commission, subject to the provisions of the Subscription Agreement. The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

Selling restrictions

United States

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

The Joint Lead Managers have each represented, warranted and agreed that, except as permitted by the Subscription Agreement, they will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and they will have sent to each dealer to which they sell Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

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

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

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

Prohibition of Sales to UK Retail Investors

Each Joint Lead Manager has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the United Kingdom. For the purposes of this provision, the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
- (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Singapore

This Information Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented, warranted, agreed and undertaken that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase, and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Information Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than:

- (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001, as modified or amended from time to time (the “**SFA**”)) pursuant to Section 274 of the SFA;
- (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or
- (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;

- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Notification under Section 309B(1)(c) of the SFA - In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

General

No action has been taken by the Issuer or the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Joint Lead Managers have undertaken that they will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms. This document does not constitute an offer and may not be used for the purposes of any offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

None of the Issuer or the Joint Lead Managers represents that the Notes may at any time lawfully be sold in or from any jurisdiction in compliance with any applicable registration requirements or pursuant to an exemption available thereunder or assumes any responsibility for facilitating such sales.

GENERAL INFORMATION

Authorisation

The issue of the Notes was duly authorised by resolutions of the Board passed on 23 June 2022, on 21 July 2022 and on 5 September 2022 and by a resolution of a sub-committee of the Board passed on 27 June 2022.

Listing

It is expected that listing of the Notes on the Official List of Euronext Dublin and admission of the Notes to trading on the GEM will be granted on or around 12 September 2022, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading however, dealings will be permitted by Euronext Dublin in accordance with its rules. Transactions will normally be effected for delivery on the second working day after the day of the transaction.

Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of Euronext Dublin or to trading on the GEM.

Indication of Yield

Based upon a re-offer price of 100 per cent. of the principal amount of the Notes, the yield of the Notes for the period from (and including) the Issue Date to (but excluding) the Reset Date, is 10.50 per cent. per annum, payable on a semi-annual basis. The yield is calculated at the Issue Date and is not an indication of future yield.

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS2494015014 and the Common Code is 249401501. The CFI and FISN codes may be obtained from the website of the Association of National Numbering Agencies or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.

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

No significant / material adverse change

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries, taken as a whole (the “**Issuer Group**”) and no material adverse change in the financial position or prospects of the Issuer Group since 28 February 2022.

Litigation

The Issuer Group is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Information Memorandum which may have or have in such period had a significant effect on the financial position or profitability of the Issuer Group.

Material contracts outside ordinary course of business

There are no material contracts entered into other than in the ordinary course of the Issuer Group's business which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders under the Notes.

Independent Auditors

The financial statements of the Issuer for the financial years ended 29 February 2020, 28 February 2021 and 28 February 2022 have been audited in accordance with International Standards on Auditing (UK) and have been reported on without qualification by Ernst & Young LLP.

The financial statements of HRGCS for the financial years ended 29 February 2020, 28 February 2021 and 28 February 2022 have been audited in accordance with International Standards on Auditing (UK) and have been reported on without qualification by Ernst & Young LLP.

Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Documents available

For so long as the Notes are listed on the Official List of Euronext Dublin and admitted to trading on the GEM, electronic copies of the following documents will be available from the date hereof at the office of Issuer during normal business hours on any weekday (Saturdays and public holidays excepted):

- (a) the Agency Agreement and the Trust Deed (which includes the form of the Global Certificate);
- (b) the Memorandum and Articles of Association of the Issuer;
- (c) the published annual report and audited accounts of the Issuer for the three financial periods ended 29 February 2020, 28 February 2021 and 28 February 2022;
- (d) the published annual report and audited accounts of HRGCS for the three financial periods ended 29 February 2020, 28 February 2021 and 28 February 2022; and
- (e) a copy of this Information Memorandum together with any supplement to this Information Memorandum or further Information Memorandum.

This Information Memorandum will be published on the website of Euronext Dublin (<https://live.euronext.com/>).

For so long as the Notes are admitted to listing on the Official List of Euronext Dublin and to trading on the GEM, any notices to Noteholders will be published on the website of Euronext Dublin at: <https://direct.euronext.com/#/rispublication>.

Incorporation of Issuer

The Issuer is a public limited company originally incorporated as a private limited company on 12 November 1996 under the Companies Act 1985. On 10 February 1997, the Issuer was re-registered as a public limited company under the Companies Act and changed its name from Aitken Limited to Sainsbury's Bank plc.

Conflicts of Interest

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

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