3 June 2015

UPDATE ON ENHANCED CAPITAL NOTES (ECNs)

Further to the RNS dated 31 March 2015 and the announcement released by the Group earlier today, the Chancery Division of the High Court has now handed down its judgment and found that a Capital Disqualification Event (CDE) in connection with the ECNs has not occurred.

The terms of the ECNs provide the Issuers of the securities with the right to redeem any Series of ECNs at par or (in relation to certain series) a make-whole price in the event that the ECNs cease to be taken into account for the purposes of any stress test applied by the Prudential Regulation Authority (PRA) in respect of core capital (a CDE).

The ECNs were originally structured with a conversion trigger in excess of the then minimum regulatory requirements. However, given changes in the definition of core capital, the conversion trigger for the ECNs is now equivalent to approximately 1% CET1, substantially below today's minimum thresholds. As a result of the change in definition of core capital and the regulatory requirement to hold more capital, the ECNs did not provide any core capital benefit in the 2014 PRA stress test and the Group believes that this constituted a CDE.

In his judgement, the Judge agreed with the Group's view that it is correct to interpret the definition of core capital for the purposes of the CDE clause based on current regulatory standards. However the Judge concluded that despite the fact that the ECNs were not taken into account for the most recent stress test applied by the PRA, the ECNs may still be taken into account for future stress tests and therefore a CDE had not yet occurred.

The Group is disappointed with the decision and has sought permission to appeal to the Court of Appeal.

In the event that the Group is unsuccessful in the appeal the opportunity to refinance these high coupon securities, with an associated benefit of c.£200 million per annum for the next five years, would be foregone.

Regardless of the outcome of the appeal, the Group remains confident that its Net Interest Margin for 2015 will exceed c.2.55%, in line with current guidance. In the longer term the Group also continues to expect its Return on Required Equity to be 13.5%-15.0% by the end of 2017.

The Group will provide further updates in due course and will request that the temporary suspension of the ECNs from the Official List is lifted by the Financial Conduct Authority.

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