

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the Offer or the contents of this document or what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser in the relevant jurisdiction.**

This document should be read in conjunction with the accompanying Form of Acceptance.

If you sell, have sold or otherwise transferred all of your Church House Trust Shares (other than pursuant to this Offer), you should send this document and reply-paid envelope (for use within the UK only), but not the accompanying personalised Form of Acceptance, at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee. If you have sold or otherwise transferred part only of your holding of Church House Trust Shares, you should retain these documents and contact the bank, stockbroker or other agent through whom the sale or transfer was effected. The Offer referred to in this document is not being made, and will not be made, directly or indirectly, in, into or from any Restricted Jurisdiction and will not be capable of acceptance from within any such jurisdiction. **Accordingly, such documents should not be forwarded or transmitted in, into or from any Restricted Jurisdiction or into any other jurisdiction where to do so would constitute a violation of the relevant laws in such jurisdiction.**

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## **Recommended Offer**

**by**

**Virgin Money Holdings (UK) Limited**

**for**

**Church House Trust Plc**

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**Your attention is drawn to the letter from the Chairman of Church House Trust, which contains the unanimous recommendation of the Church House Trust Board to accept the Offer, which is set out in Part 1 of this document.**

**Capitalised words and phrases used in this document shall have the meanings given to them in Appendix 7 of this document.**

**The procedure for acceptance of the Offer is set out in Part 2 and Appendix 1 of this document and in the Form of Acceptance. To accept the Offer, you must complete the accompanying Form of Acceptance in accordance with the instructions printed thereon. The completed Form of Acceptance, together with your valid share certificate(s) and/or other document(s) of title should be returned as soon as possible and, in any event, so as to be received by the Receiving Agent, Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 1.00 p.m. on 29 January 2010. A reply-paid envelope for use within the UK only is enclosed for your convenience.**

Quayle Munro, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser exclusively for Virgin Money and for no one else in connection with the Offer and will not be responsible to anyone other than Virgin Money for providing the protections afforded to clients of Quayle Munro nor for giving advice in relation to the Offer or any matter or arrangement referred to in this document.

Europa Partners, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser exclusively for Church House Trust and for no one else in connection with the Offer and will not be responsible to anyone other than Church House Trust for providing the protections afforded to clients of Europa Partners or for giving advice in relation to the Offer or any matter or arrangement referred to in this document.

The Offer is not being, and will not be, made, directly or indirectly, in or into or by the use of the mails of, or by any other means or instrumentality (including, without limitation, electronic mail, facsimile transmission, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facility of a national state or other securities exchange of any Restricted Jurisdiction and will not be capable of acceptance by any such use, means, instrumentality or facility or from within any Restricted Jurisdiction. Accordingly, unless otherwise determined by Virgin Money or required by the Takeover Code and permitted by applicable law and regulation, copies of this document and the accompanying Form of Acceptance are not being, and must not be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed or sent in, into or from any Restricted Jurisdiction and persons receiving such documents (including, without limitation, custodians, nominees and trustees) should observe these restrictions and must not mail or otherwise forward, distribute or send it in, into or from such jurisdiction. Doing so may render invalid any purported acceptance of the Offer by persons in any such jurisdiction.

The distribution of this document in jurisdictions other than the United Kingdom and the availability of the Offer to Church House Trust Shareholders who are not resident in and citizens of the United Kingdom may be affected by the laws of relevant jurisdictions in which they are located or of which they are citizens. Therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom or Church House Trust Shareholders who are not resident in or citizens of the United Kingdom should obtain advice and observe any applicable requirements in these jurisdictions.

The Loan Notes and the Contingent Loan Notes have not been and will not be registered under the United States Securities Act of 1933, as amended or under the securities laws of any jurisdiction of the United States or the relevant securities laws of Japan and the relevant clearances will not be obtained from the regulatory authority of any province or territory of Canada. In addition no prospectus in relation to the Loan Notes or the Contingent Loan Notes has been, or will be, lodged with, or registered by, the Australian Securities Commission. Accordingly, the Loan Notes and the Contingent Loan Notes may not be offered, sold, resold, delivered or distributed (directly or indirectly) in or into the United States, Canada, Australia or Japan or any Restricted Jurisdiction (except in transactions exempt from, or not subject to, the registration requirements of the United States Securities Act of 1933, as amended, and otherwise in compliance with all applicable legislation).

Further information for overseas shareholders is set out in paragraph 7 of Part B of Appendix 1 of this document. **Any person (including, without limitation, any custodian, nominee and trustee) who would, or otherwise intends to, or who may have a contractual or legal obligation to forward this document, together with the accompanying Form of Acceptance, to any jurisdiction outside the United Kingdom should read that paragraph before taking any action.**

### **Dealing disclosure requirements**

Under the provisions of Rule 8.3 of the Takeover Code, if any person is, or becomes, “interested” (directly or indirectly) in 1 per cent. or more of any class of “relevant securities” of Church House Trust, all “dealings” in any “relevant securities” of that company (including by means of an option in respect of, or a derivative referenced to, any such “relevant securities”) must be publicly disclosed by no later than 3.30 p.m. (London time) on the London business day following the date of the relevant transaction. This requirement will continue until the date on which the Offer becomes, or is declared, unconditional as to acceptances, lapses or is otherwise withdrawn or on which the “offer period” otherwise ends. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an “interest” in “relevant securities” of Church House Trust, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the Takeover Code, all “dealings” in “relevant securities” of Church House Trust by Virgin Money or Church House Trust, or by any of their respective “associates”, must be

disclosed by no later than 12.00 noon (London time) on the London business day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose “relevant securities” “dealings” should be disclosed, and the number of such securities in issue, can be found on the Panel’s website at <http://www.thetakeoverpanel.org.uk/>.

“Interests in securities” arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an “interest” by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the Takeover Code, which can also be found on the Panel’s website. If you are in any doubt as to whether or not you are required to disclose a “dealing” under Rule 8, you should consult the Panel on telephone number +44(0)20 7638 0129; fax number +44(0)20 7236 7013.

### **Forward-looking statements**

This document contains “forward-looking statements” concerning Virgin Money and Church House Trust. All statements other than statements of historical facts included in this document may be forward-looking statements.

Often but not always, forward-looking information statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes”, or variations (including negative variations) of such words and phrases, or state that certain actions, events or results “may”, “could”, “should”, “would”, “might”, “will” or “continue to” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Virgin Money, Church House Trust and/or their subsidiaries to be materially different from any further results, performance or achievements expressed or implied by the forward-looking statements. Factors that would cause actual results to differ materially from those described in this document include: costs and terms related to the acquisition, the economic environment of the industries in which Virgin Money and Church House Trust operate; failure to retain management; regulatory change in the industry and/or the general economic environment.

The list is not exhaustive of the factors that may affect the forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. Although Virgin Money has attempted to identify important factors that could cause actual actions, event or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended.

Forward-looking statements contained herein in respect of Virgin Money are made as of the date of this document based on the opinions and estimates of management. Subject to requirements to update under any applicable regulation or law, Virgin Money disclaims any obligation to update any forward-looking statements, whether as a result of new information, estimates or opinions, future events or results or otherwise.

Forward-looking statements contained herein in respect of Church House Trust are made as of the date of this document based on the opinions and estimates of management. Subject to requirements to update under any applicable regulation or law, Church House Trust disclaims any obligation to update any forward-looking statements, whether as a result of new information, estimates or opinions, future events or results or otherwise.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

**HOW TO ACCEPT THE OFFER:**

**YOU SHOULD COMPLETE THE ACCOMPANYING FORM OF ACCEPTANCE IN ACCORDANCE WITH THE INSTRUCTIONS PRINTED THEREON. THE COMPLETED FORM OF ACCEPTANCE, TOGETHER WITH YOUR VALID SHARE CERTIFICATE(S) AND/OR OTHER DOCUMENT(S) OF TITLE SHOULD BE RETURNED AS SOON AS POSSIBLE AND IN ANY EVENT SO AS TO BE RECEIVED BY THE RECEIVING AGENT, CAPITA REGISTRARS CORPORATE ACTIONS, THE REGISTRY, 34 BECKENHAM ROAD, BECKENHAM, KENT BR3 4TU, SO AS TO ARRIVE NO LATER THAN 1.00 P.M. ON 29 JANUARY 2010. A REPLY-PAID ENVELOPE IS ENCLOSED FOR USE IN THE UNITED KINGDOM ONLY.**

**IF YOU REQUIRE ASSISTANCE IN COMPLETING YOUR FORM OF ACCEPTANCE (OR WISH TO OBTAIN AN ADDITIONAL FORM OF ACCEPTANCE), OR ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE TO ACCEPT THE OFFER, PLEASE TELEPHONE THE RECEIVING AGENT, CAPITA REGISTRARS ON 0871 664 0321 FROM WITHIN THE UK OR ON +44 20 8639 3399 IF CALLING FROM OUTSIDE THE UK. CALLS TO THE 0871 664 0321 NUMBER COST 10 PENCE PER MINUTE FROM A BT LANDLINE. OTHER NETWORK PROVIDERS' COSTS MAY VARY; LINES ARE OPEN 9.00 A.M. TO 5.00 P.M. (LONDON TIME) MONDAY TO FRIDAY (EXCEPT UK PUBLIC HOLIDAYS). CALLS TO THE HELPLINE FROM OUTSIDE THE UK WILL BE CHARGED AT THE APPLICABLE INTERNATIONAL RATE. DIFFERENT CHARGES MAY APPLY TO CALLS FROM MOBILE TELEPHONES AND CALLS MAY BE RECORDED AND RANDOMLY MONITORED FOR SECURITY AND TRAINING PURPOSES. THE HELPLINE CANNOT PROVIDE ADVICE ON THE MERITS OF THE OFFER NOR GIVE ANY FINANCIAL, LEGAL OR TAX ADVICE.**

**ALL REFERENCES TO TIME IN THIS DOCUMENT AND IN THE FORM OF ACCEPTANCE ARE TO LONDON TIME.**

This page should be read in conjunction with the rest of this document and the Form of Acceptance. Church House Trust Shareholders are recommended to seek financial advice from their stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if they are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser in the relevant jurisdiction.

**THE FIRST CLOSING DATE OF THE OFFER IS 1.00 P.M. ON 29 JANUARY 2010**

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# PART 1 – LETTER OF RECOMMENDATION FROM THE CHAIRMAN OF CHURCH HOUSE TRUST

## Church House Trust Plc

*(Incorporated under the Companies Acts 1948 to 1967 in England and Wales,  
with registration number 980698)*

### *Directors*

David H. C. Batten *(Executive Chairman)*  
Graham J. Hughes *(Executive Director)*  
James P. Mahon *(Executive Director)*  
Michael G. C. T. Baines *(Non-Executive Director)*  
Raymond M. Edwards *(Non-Executive Director)*  
Dominic V. Gibbs *(Non-Executive Director)*  
Andrew E. Martin Smith *(Non-Executive Director)*

### *Registered and Head Office*

3 Goldcroft  
Yeovil  
Somerset  
BA21 4DQ

8 January 2010

*To holders of Church House Trust Shares and, for information only, to Church House Trust Optionholders*

Dear Church House Trust Shareholder

## **Recommended Offer for Church House Trust by Virgin Money**

### **1. Introduction**

It was announced today that the Church House Trust Board and the Virgin Money Board have reached agreement on the terms of a unanimously recommended offer under which Virgin Money will acquire the entire issued and to be issued share capital of Church House Trust.

The Church House Trust Board has taken responsibility for considering the Offer and is recommending acceptance of it to Church House Trust Shareholders. In doing so, the Church House Trust Board has taken advice from Europa Partners, Church House Trust's financial adviser.

The purpose of this letter is to explain the background to the Offer, the reasons why the Church House Trust Board, following advice from Europa Partners, unanimously considers the terms of the Offer and the Distribution (even if no value is ascribed to the Distribution) to be fair and reasonable and why it unanimously recommends Church House Trust Shareholders to accept the Offer. In providing its advice, Europa Partners has taken into account the commercial assessments of the Church House Trust Board.

### **2. The Offer**

Under the Offer, which is being made by Virgin Money, Church House Trust Shareholders will receive:

**for each Church House Trust Share                      509.2 pence in cash and 1.0294 Contingent Loan Notes**

The Offer (including the Contingent Loan Notes at a valuation of 90 pence per £1 nominal value) values the entire issued and to be issued share capital of Church House Trust (assuming exercise of all outstanding options under the Church House Trust Option Schemes) at approximately £12.28 million. If the Offer becomes or is declared unconditional in all respects, in addition to the cash and Contingent Loan Notes comprising the Offer Price, Qualifying Shareholders will also, following the passing of the resolutions at the Church House Trust General Meeting on 11 December 2009, receive the Distribution.

Since Church House Trust Shares are not listed on any stock exchange and are infrequently traded, there is no readily accessible market benchmark against which to measure the Offer Price. However, the Offer Price (including the Contingent Loan Notes at a valuation of 90 pence per £1 nominal value) worth approximately 601.8 pence represents a premium of 11.5 per cent. to the price of 540 pence per Church House Trust Share paid by The Cayzer Trust Company Limited in September 2007 for 215,000 new Church House Trust Shares (the last substantial trade registered in Church House Trust Shares).

Full details of the formal Offer together with details of the procedure for acceptance, are contained in Part 2 of this document. The Offer is subject to the conditions and further terms set out in Appendix 1 of this document and the accompanying Form of Acceptance. The Offer is conditional on, amongst other things, valid acceptances being received in respect of not less than 90 per cent. (or such lower percentage, subject to the Takeover Code, as Virgin Money may decide) in nominal value and of the voting rights of the Church House Trust Shares to which the Offer relates. The FSA has already notified its approval in writing to Virgin Money on 23 December 2009, in respect of the proposed change of control of Church House Trust, such approval being effective for 3 months beginning on 23 December 2009, but may be extended on request.

The Church House Trust Shares will be acquired by Virgin Money pursuant to the Offer fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and any other interests of any nature whatsoever and together with all rights now or hereafter attaching thereto, including without limitation voting rights (except for rights to the Distribution to which only Qualifying Shareholders will be entitled).

The Offer will extend to any Church House Trust Shares unconditionally allotted or issued whilst the Offer remains open for acceptance (or such earlier date, subject to the Takeover Code, as Virgin Money may decide), including shares issued pursuant to the exercise of options granted under the Church House Trust Option Schemes.

### **3. The Loan Note Alternative**

As an alternative to the cash consideration receivable under the Offer (but not instead of Contingent Loan Notes), Church House Trust Shareholders may elect to receive Loan Notes. Full details of the Loan Notes are set out at Part A of Appendix 2 of this document. When deciding on which form of consideration to receive, Church House Trust Shareholders should consider the information on taxation set out in paragraph 4 of Appendix 6 of this document. Church House Trust Shareholders who are in any doubt as to their tax position, or are subject to taxation in any jurisdiction other than the UK, should consult an appropriate independent financial adviser.

### **4. The Contingent Loan Notes**

Part of the Offer Price shall consist of Contingent Loan Notes which will be issued at the same time as the cash element of the Offer Price is settled. The Contingent Loan Notes will be redeemed, if and to the extent required by the holder, in accordance with their terms, on the First Contingent Consideration Date, and Contingent Loan Notes which are not redeemed on that date, will be redeemed on the Final Contingent Consideration Date.

Fractions of Contingent Loan Notes will not be issued and the balance of any entitlement that is not a whole multiple of £1 will be disregarded and not issued.

Up to £2.1 million in aggregate will be payable upon redemption of the Contingent Loan Notes. However, payment of the full principal amount of the Contingent Loan Notes upon their redemption is subject to the following contingency. An exercise has been undertaken to calculate an overall bad debt provision on the loan book of Church House Trust as at 30 November 2009. The same exercise, applying the same provisioning policy, will subsequently be undertaken to calculate an overall bad debt provision for that same loan book as at 31 December 2011. This overall bad debt provision (referred to as Aggregate Expected Loss in Part B of Appendix 2 where it is described in more detail) will, to the extent possible, reflect (a) actual losses realised on the loan book in the intervening period and (b) any repayments of those loans between 30 November 2009 and 31 December 2011. If the overall bad debt provision has increased as at 31 December 2011, as compared to 30 November 2009, the amount of that increase will be deducted from £2.1 million to establish the aggregate amount to be paid out upon redemption of the Contingent Loan Notes. In the event that the amount proposed to be deducted exceeds £50,000 Virgin Money shall make all reasonable efforts to consult with David Batten and Graham Hughes who will be entitled to make representations to it.

The Contingent Loan Notes will be cash collateralised by Virgin Money depositing the amount of £2.1 million into an escrow account held at the Escrow Bank which will earn interest at 2.28 per cent. These funds will be dealt with in accordance with the terms of the Contingent Loan Note Instrument and in accordance with the terms of the Contingent Loan Note Escrow Agreement, summaries of which are set out, respectively, in Part B of Appendix 2 and paragraph 8(1)(b) of Appendix 6 of this document. The Contingent

Loan Notes are not transferable other than with the consent of the Board of Virgin Money, or a duly authorised committee of the Board of Virgin Money.

The Contingent Loan Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under any relevant securities law of Canada, Australia or Japan. Accordingly, the Contingent Loan Notes cannot be offered, sold or delivered directly or indirectly, in the United States, Canada, Australia or Japan or any Restricted Jurisdiction.

Full details of the Contingent Loan Notes are set out in Part B of Appendix 2 of this document.

## **5. Background to and reasons for recommending the Offer**

The Church House Trust Directors consider that while Church House Trust has established itself as a successful independent private banking business, it is not immune to the extreme turbulence in financial markets. Since August 2007 these unsettling market conditions have impacted the growth prospects of Church House Trust as an independent entity and emphasised Church House Trust's exposure to economic and financial volatility. CHI traded at a loss during 2008 and 2009 principally due to the fall in management fees caused by a decline in UK share prices. Whilst there was a substantial increase in share values during 2009, there is no certainty that current levels will be sustained. Church House Trust's growth is also constrained by the increasing regulatory demands of the financial supervisory authorities concerning capital requirements. Accordingly, the Church House Trust Directors believe that the Offer, which has been facilitated by the transactions approved at the Church House Trust General Meeting on 11 December 2009, represents a better solution for Church House Trust Shareholders than continuing as an independent group.

Furthermore, the Church House Trust Directors consider that the Offer represents an opportunity for Church House Trust Shareholders to realise their entire investment at an attractive price payable in cash, Contingent Loan Notes and the Distribution (even if no value is ascribed to the Distribution), an opportunity which in the absence of an offer is not available to them. The Church House Directors believe that the sale of Church House Trust to Virgin Money represents a good outcome for the business, its shareholders and its customers.

During the course of negotiations which have led to the making of the Offer, Virgin Money specified to the Church House Trust Board that it would only make the Offer if arrangements had been put in place so that two of Church House Trust's subsidiaries, CHI and CHC, are no longer subsidiaries at the time Virgin Money takes control of the Company and there are no material liabilities left outstanding between Church House Trust and CHI.

As stated in the Church House Trust Circular, the CHI Distribution is the distribution by Church House Trust of the 25 per cent. of the CHI Shares not sold to the CHI Buyers under the CHI Disposal. Resolution 5 proposed and passed at the Church House Trust General Meeting on 11 December 2009 authorised the distribution in specie to Church House Trust Shareholders on the register of members of Church House Trust on 11 December 2009 of the CHI Shares the subject of the CHI Distribution, such distribution to take place simultaneously with completion of the CHI Disposal. The combined effect of the CHI Disposal and the CHI Distribution is to remove CHI in its entirety from the Church House Trust Group on the Offer becoming or being declared unconditional in all respects.

While the Church House Trust Board had prior to the convening of the Church House Trust General Meeting on 11 December 2009 sought purchasers for CHC, as no suitable offer had been forthcoming the Church House Trust Board determined that a distribution in specie of the CHC Shares to Qualifying Shareholders was the appropriate mechanism for removal of CHC from the Church House Trust Group on the Offer becoming or being declared unconditional in all respects. Resolution 6 proposed and passed at the Church House Trust General Meeting on 11 December 2009 authorised the CHC Distribution, such distribution to take place simultaneously with completion of the CHI Disposal.

At the Church House Trust General Meeting on 11 December 2009 such resolutions of Church House Trust to approve the CHI Disposal, the CHI Loan Assignment, the CHI Distribution and the CHC Distribution as are required by rule 16 of the Takeover Code and the 2006 Act were passed. The rationale for each of the above actions was set out in the Church House Trust Circular, together with the recommendations of the Independent Directors and the Church House Trust Board, as appropriate, in respect of the resolutions proposed at the Church House Trust General Meeting on 11 December 2009.

Further, on the distribution of the 25 per cent. of the CHI Shares held by Church House Trust to Qualifying Shareholders, CHI will issue to each Qualifying Shareholder one warrant for each CHI Share held by such Qualifying Shareholder pursuant to which each Qualifying Shareholder shall be entitled to subscribe for one further CHI Share at a price of 89.25 pence per CHI Share in the event that, within two years of completion of the CHI Disposal, there is a sale of the entire issued share capital of CHI or CHI disposes of a material part of its assets or undertaking. In the event that a Qualifying Shareholder transfers his or her CHI Shares, the right to exercise any such warrant will lapse.

The CHI Disposal and the CHI Loan Assignment are each conditional on the Offer becoming or being declared unconditional in all respects. All other conditions of the CHI Disposal have been satisfied. Details of the agreements governing the CHI Disposal and the CHI Loan Assignment are set out in paragraphs 8(2)(c) and 8(2)(d), respectively, of Appendix 6. The CHI Distribution and the CHC Distribution are each conditional on the CHI Disposal, and will take effect immediately upon the CHI Disposal completing in accordance with its terms. Therefore, in the event that the Offer becomes or is declared unconditional in all respects, CHI and CHC will cease to be subsidiaries of Church House Trust and the CHI Loan will be assigned to the CHI Loan Buyers.

Each of the CHI Buyers and the CHI Loan Buyers have entered into arrangements acceptable to Virgin Money and Church House Trust to secure the payment to Church House Trust of sums due to it in respect of the CHI Disposal and the CHI Loan Assignment.

Following the passing of the resolutions at the Church House Trust General Meeting on 11 December 2009, the Offer is being made on the basis that the CHI Disposal, the CHI Loan Assignment, the CHI Distribution and the CHC Distribution will take place immediately upon the Offer becoming or being declared unconditional in all respects so that when the Offer completes, Church House Trust will be comprised solely of its deposit-taking and mortgage lending activities.

In considering whether to recommend the Offer, the Church House Trust Directors have taken into account a number of factors including the following:

- (a) the Offer provides Church House Trust Shareholders with an opportunity to realise their entire investment for cash, Contingent Loan Notes and the Distribution (even if no value is ascribed to the Distribution) at a significant premium to recent transactions in Church House Trust Shares completed in a more favourable economic environment. Since Church House Trust Shares are not listed on any stock exchange and are infrequently traded, there is no readily accessible market benchmark against which to measure the Offer Price. However, the Offer Price (including the Contingent Loan Notes at a valuation of 90 pence per £1 nominal value) worth approximately 601.8 pence, represents a premium of 11.5 per cent. to the price of 540 pence per Church House Trust Share paid by The Cayzer Trust Company Limited in September 2007 for 215,000 new Church House Trust Shares (the last substantial trade registered in Church House Trust Shares);
- (b) the value of the Offer (including Contingent Loan Notes at a valuation of 90 pence per £1 nominal value) is worth approximately 601.8 pence per Church House Trust Share, representing a premium of approximately 68.1 per cent. to Church House Trust's net asset value per Church House Trust Share as at 31 December 2008 (the date at which Church House Trust's last consolidated audited accounts were prepared) which was 358 pence based on Church House Trust Shares then in issue;
- (c) in addition to the cash and Contingent Loan Notes comprising the Offer, if and when the Offer becomes or is declared unconditional in all respects, Qualifying Shareholders will also receive the Distribution;
- (d) the Offer is supported by Church House Trust Shareholders representing 65.8 per cent. of the issued share capital of Church House Trust at the date of the Offer, and who have given irrevocable undertakings to Virgin Money to accept the Offer as described in paragraph 5 of Appendix 6; and
- (e) since 2006, the Church House Trust Board has considered several approaches and strategic alternatives for Church House Trust, including a sale of the business. However, none of the discussions with third parties resulted in a formal offer being made for Church House Trust.

## **6. Current trading and prospects of Church House Trust**

The Church House Trust Directors have reviewed management information relating to the financial performance of Church House Trust during 2008 and 2009. Trading during this period has been difficult due to a decline in management fees in the asset management business caused by the falls in the UK stock market and a mostly fixed cost base. In the banking business both the deposit-taking and the mortgage loan business have developed satisfactorily.

In assessing the prospects of Church House Trust, the Church House Trust Board has examined the budget for 2010 prepared by Church House Trust's management and has considered the likely outcome for the year based on different macro-economic conditions. Under the scenarios considered, Church House Trust is expected to continue to trade satisfactorily. However, given its current capital base and regulatory requirements, Church House Trust is unlikely to be able to benefit from growth opportunities. The Church House Trust Directors believe that while Church House Trust has adopted plans which it believes would enable it to continue to do business satisfactorily in the current very difficult trading environment, there remain significant external risks presented by the deterioration in the broader economic outlook and the continuing turbulence in financial markets. The Church House Trust Directors have noted the increasing scrutiny under which all UK deposit taking institutions are being placed by the financial supervisory authorities giving rise to concern that the regulatory capital requirements for its current activities may in future not be matched by Church House Trust's ready access to capital.

If the Offer does not complete, the transactions approved by the resolutions at the Church House Trust General Meeting will also not complete and Church House Trust will need to address its current structure as well as its ability to continue to prosper as an independent entity.

## **7. Directors, management, employees and location**

The Virgin Money Board has given assurances to the Church House Trust Board that, following the Offer becoming or being declared unconditional in all respects, the existing employment rights, including pension rights, of all employees and management of Church House Trust will be safeguarded. Virgin Money has indicated that there are no immediate plans to change the location of Church House Trust's place of business or redeploy its fixed assets.

Upon the Offer becoming or being declared unconditional in all respects the resignations of all of the Church House Trust Directors as directors of Church House Trust will become effective and the appointments of Jayne-Anne Gadhia and Marian Watson as Directors of Church House Trust will become effective. However, David Batten will remain as an employee of Church House Trust and Graham Hughes will cease to be an employee of CHI but be employed by Church House Trust in each case, save as disclosed in this document, on the same terms as those they are currently on following the Offer becoming or being declared unconditional in all respects. David Batten and Graham Hughes' current service contracts, certain proposed changes to their conditions of employment and certain other proposed changes to Church House Trust employees' conditions of employment are described in paragraphs 6(1)(a), 6(1)(b) and 6(3) of Appendix 6. Europa Partners considers the variation to the terms of the service contracts with David Batten and Graham Hughes to be fair and reasonable.

Upon completion of the CHI Disposal, David Batten and Graham Hughes will resign as directors of CHI, with Michael Baines, Dominic Gibbs, James Mahon and Andrew Martin Smith remaining as directors of CHI.

## **8. Irrevocable undertakings**

Virgin Money has received irrevocable undertakings to accept, or procure acceptance of, the Offer from the Church House Trust Directors who hold, in aggregate, 352,387 Church House Trust Shares, representing in aggregate approximately 21.2 per cent. of the existing issued share capital of Church House Trust. The Church House Trust Directors have also irrevocably undertaken to accept the Option Offer in relation to all Church House Trust Options held by them (being options over 317,760 Church House Trust Shares) under the Unapproved Share Option Schemes and revocably undertaken to accept the Option Offer in relation to all options under the Approved Share Option Scheme held by them (being options over 12,240 Church House Trust Shares), constituting options, in aggregate, over 330,000 Church House Trust Shares, so as to exercise their options and accept the Offer in relation to the Church House Trust Shares they acquire immediately before

the Offer becomes or is declared unconditional in all respects. These irrevocable undertakings will lapse only in the event of the Offer lapsing or being withdrawn.

In addition, Virgin Money has received irrevocable undertakings in respect of an aggregate of 740,502 Church House Trust Shares from other Church House Trust Shareholders, representing approximately 44.6 per cent. of the existing issued share capital of Church House Trust. These irrevocable undertakings will lapse only in the event of the Offer lapsing or being withdrawn.

In addition, Virgin Money has received irrevocable undertakings in respect of 1,666 options under the Unapproved Share Option Schemes and revocable undertakings in respect of 2,500 options under the Approved Option Scheme from Church House Trust Optionholders (who are not Church House Trust Directors) to accept the Option Offer, so as to exercise their options and accept the Offer in relation to the Church House Trust Shares they acquire immediately before the Offer becomes or is declared unconditional in all respects.

In total, therefore, Virgin Money has received irrevocable undertakings to accept, or procure the acceptance of, the Offer in respect of 1,092,889 Church House Trust Shares representing in aggregate approximately 65.8 per cent. of the existing issued share capital of Church House Trust and irrevocable and revocable undertakings to accept the Option Offer in relation to in aggregate options over 334,166 Church House Trust Shares.

Further details of such irrevocable undertakings are included in paragraph 9 of the letter from the Chairman of Virgin Money set out in Part 2 of this document and in paragraph 5 of Appendix 6 of this document.

## **9. Church House Trust Option Schemes**

The Offer extends to any Church House Trust Shares unconditionally allotted or issued whilst the Offer remains open for acceptance (or by such earlier date as Virgin Money may, subject to the Takeover Code or with the consent of the Panel, decide) as a result of the exercise of options granted by Church House Trust under the Church House Trust Option Schemes, and Church House Trust has today posted appropriate proposals to Church House Trust Optionholders in relation to their options. Under the terms of these proposals Church House Trust Optionholders will be given the opportunity to exercise their Church House Trust Options and accept the Offer in respect of the Church House Trust Shares that are allotted pursuant to such exercise and any that choose to accept such proposals before the date immediately preceding the Offer becoming or being declared unconditional in all respects will be treated as exercising their options and accepting the Offer in respect of the Church House Trust Shares they are allotted pursuant to such exercise immediately prior to the Offer becoming or being declared unconditional in all respects.

## **10. Exclusivity**

On 26 May 2009 (as subsequently amended on 6 July 2009 and 14 September 2009) Church House Trust and a subsidiary of Virgin Money, Virgin Money Limited (**VM**) entered into a letter of intent (the **Exclusivity Letter**) which included undertakings as to exclusivity given by Church House Trust to VM and a costs indemnity given by VM to Church House Trust which would have had effect in the event that VM had withdrawn from negotiations towards making the Offer in certain specified circumstances. On 7 January 2010, VM assigned its rights, title, interest and benefit to the Exclusivity Letter to Virgin Money by deed of assignment. A summary of the Exclusivity Letter is set out in paragraph 9 of Appendix 6 of this document.

## **11. United Kingdom taxation**

In deciding whether to accept the Offer, Church House Trust Shareholders should take account of their own individual circumstances, particularly their tax position.

Your attention is drawn to paragraph 4 of Appendix 6 of this document which contains a general guide as to UK tax implications for Church House Trust Shareholders who accept the Offer. If you are in any doubt as to your tax position or you are subject to taxation in any other jurisdiction, you should consult an appropriate independent adviser immediately.

## **12. Overseas Shareholders**

Church House Trust Shareholders resident overseas should refer to paragraph 14 of the letter from the Chairman of Virgin Money set out in Part 2 of this document.

## **13. Compulsory acquisition and re-registration**

Your attention is drawn to paragraph 18 of the letter from the Chairman of Virgin Money set out in Part 2 of this document in relation to Virgin Money's intentions with regard to the compulsory acquisition of Church House Trust Shares and the re-registration of Church House Trust as a private company.

## **14. Action to be taken to accept the Offer**

Your attention is drawn to Part 2 of this document containing the letter from the Chairman of Virgin Money and the accompanying Form of Acceptance, which set out the procedure for acceptance of the Offer.

To accept the Offer you must complete the Form of Acceptance, in accordance with the instructions printed thereon. The completed Form of Acceptance, together with your valid share certificate(s) and other document(s) of title should be returned as soon as possible and in any event so as to be received by post or by hand (during normal business hours only) at the address shown on the front page of this document no later than 1.00 p.m. on 29 January 2010. A reply-paid envelope is enclosed for use in the United Kingdom only.

If you are in any doubt as to the action you should take, you should consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser in the relevant jurisdiction.

## **15. Recommendation**

**The Church House Trust Directors, who have been so advised by Europa Partners, unanimously consider the terms of the Offer and the Distribution (even if no value is ascribed to the Distribution) to be fair and reasonable. In providing advice to the Church House Trust Directors Europa Partners has taken into account the Church House Trust Directors' commercial assessments of the Offer and the Distribution.**

**Accordingly, the Church House Trust Directors unanimously recommend that Church House Trust Shareholders accept the Offer as they have irrevocably undertaken to do or procure to be done in respect of their own holdings of issued Church House Trust Shares, which, in aggregate, amount to 352,387 Church House Trust Shares, representing 21.2 per cent. of the issued share capital of Church House Trust at the date of the Offer.**

Yours faithfully

David H.C. Batten

*Chairman*

For and on behalf of the Church House Trust Board

## **PART 2 – LETTER FROM THE CHAIRMAN OF VIRGIN MONEY HOLDINGS (UK) LIMITED TO CHURCH HOUSE TRUST SHAREHOLDERS**

### **Virgin Money Holdings (UK) Limited**

*(Incorporated under the Companies Act 1985 in England and Wales, with registration number 3087587)*

#### *Directors*

Gordon Douglas McCallum *(Non-Executive Chairman)*  
Jayne-Anne Gadhia *(Chief Executive Officer)*  
David Norman Dyer *(Chief Financial Officer)*  
Patrick Charles Kingdon McCall *(Non-Executive Director)*

#### *Registered and Head Office*

Discovery House  
Whiting Road  
Norwich  
NR4 6EJ

*To holders of Church House Trust Shares and, for information only, to Church House Trust Optionholders*

8 January 2010

Dear Church House Trust Shareholder,

### **Recommended Offer by Virgin Money for Church House Trust**

#### **1. Introduction**

Today, the Virgin Money Board and the Church House Trust Board announced that Virgin Money and Church House Trust had reached agreement on the terms of a unanimously recommended offer to be made by Virgin Money for the entire issued and to be issued share capital of Church House Trust.

This letter, Appendix 1 of this document and the accompanying Form of Acceptance contain the formal terms and conditions of the Offer. They are accompanied by, and should be read in conjunction with, the rest of this document, which contains financial and other information on Virgin Money and Church House Trust. The procedures for acceptance of the Offer and settlement of the consideration due under the Offer are set out in paragraphs 15 and 16 of this letter and the Form of Acceptance.

**Your attention is drawn to the letter of recommendation from the Chairman of Church House Trust in Part 1 of this document which sets out the reasons why the Church House Trust Directors, who have been so advised by Europa Partners, Church House Trust's financial advisers, consider the terms of the Offer and the Distribution (even if no value is ascribed to the Distribution) to be fair and reasonable and accordingly why the Church House Trust Board unanimously recommends that Church House Trust Shareholders accept the Offer.**

The Church House Trust Directors have irrevocably undertaken to accept the Offer in respect of their holdings of Church House Trust Shares, which together amount to 352,387 Church House Trust Shares, representing approximately 21.2 per cent. of Church House Trust's existing issued share capital. In addition, Virgin Money has received irrevocable undertakings to accept the Offer in respect of an aggregate of 740,502 Church House Trust Shares from other Church House Trust Shareholders, representing approximately 44.6 per cent. of the existing issued share capital of Church House Trust and irrevocable undertakings to accept the Option Offer from other Church House Trust Optionholders in respect of an aggregate of options over 4,166 Church House Trust Shares.

In total therefore, Virgin Money has received irrevocable undertakings to accept, or procure the acceptance of, the Offer in respect of 1,092,889 Church House Trust Shares representing approximately 65.8 per cent. of the existing issued share capital of Church House Trust and irrevocable and revocable undertakings to accept the Option Offer in relation to in aggregate options over 334,116 Church House Trust Shares.

Please read carefully paragraph 15 below which sets out the procedures for acceptance of the Offer. Your attention is drawn, in particular, to the conditions and further terms of the Offer set out in Appendix 1 of this document and in the Form of Acceptance which accompanies this document. Your attention is also drawn to the summaries of the terms of the Loan Notes and the Contingent Loan Notes and the financial and other information on Virgin Money and Church House Trust contained in the Appendices to this document.

To accept the Offer you must complete and return the accompanying Form of Acceptance together with your valid share certificate(s) and/or other document(s) of title as soon as possible and, in any event, so as to be received by Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 1.00 p.m. on 29 January 2010. A reply-paid envelope is enclosed for use in the United Kingdom.

## **2. The Offer**

Virgin Money hereby offers to acquire, on the terms and subject to the terms and conditions set out in or referred to in Appendix 1 of this document and the accompanying Form of Acceptance, all of the issued and to be issued share capital of Church House Trust on the following basis:

**for each Church House Trust Share                      509.2 pence in cash and 1.0294 Contingent Loan Notes**

The Offer (including the Contingent Loan Notes at their valuation of 90 pence per £1 nominal value) values the entire issued and to be issued share capital of Church House Trust (assuming exercise of all outstanding options under the Church House Trust Option Schemes) at approximately £12.28 million. If the Offer becomes or is declared unconditional in all respects, in addition to the cash and Contingent Loan Notes comprising the offer price, Qualifying Shareholders will also, following the passing of the resolutions at the Church House Trust General Meeting on 11 December 2009, receive the Distribution.

Since Church House Trust Shares are not listed on any stock exchange and are infrequently traded, there is no readily accessible market benchmark against which to measure the Offer Price. However, the Offer Price (including the Contingent Loan Notes at a valuation of 90 pence per £1 nominal value) worth approximately 601.8 pence represents a premium of 11.5 per cent. to the price of 540 pence per Church House Trust Share paid by The Cayzer Trust Company Limited in September 2007 for 215,000 new Church House Trust Shares (the last substantial trade registered in Church House Trust Shares).

Full details of the formal Offer together with details of the procedure for acceptance, are contained in this Part 2 of this document. The Offer is subject to the conditions and further terms set out in Appendix 1 of this document and the accompanying Form of Acceptance. The Offer is conditional on, amongst other things, valid acceptances being received in respect of not less than 90 per cent. (or such lower percentage, subject to the Takeover Code, as Virgin Money may decide) in nominal value and of the voting rights of the Church House Trust Shares to which the Offer relates. The FSA has already notified its approval in writing to Virgin Money on 23 December 2009, in respect of the proposed change of control of Church House Trust, such approval being effective for 3 months beginning on 23 December 2009, but may be extended on request.

The Church House Trust Shares will be acquired by Virgin Money pursuant to the Offer fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and any other interests of any nature whatsoever and together with all rights now or hereafter attaching thereto, including without limitation voting rights (except for rights to the Distribution to which only Qualifying Shareholders will be entitled).

The Offer will extend to any Church House Trust Shares unconditionally allotted or issued whilst the Offer remains open for acceptance (or such earlier date, subject to the Takeover Code, as Virgin Money may decide), including shares issued pursuant to the exercise of options granted under the Church House Trust Option Schemes.

## **3. The Loan Note Alternative**

As an alternative to all or part of the cash element of the Offer Price (but not instead of the Contingent Loan Notes), Church House Trust Shareholders who validly accept the Offer (other than certain overseas Church

House Trust Shareholders) may elect to receive Loan Notes instead of cash consideration. The Loan Notes will be issued by Virgin Money on the following basis:

**for each £1 of cash consideration**

**£1 nominal of Loan Notes**

The Loan Notes will be issued credited as fully paid in amounts and integral multiples of £1 nominal value. No application will be made for the Loan Notes to be listed or dealt in on any stock exchange.

The Loan Notes will bear interest at a rate equal to 0.1 per cent. below LIBOR on the first day of each interest period, payable in six monthly instalments in arrears. The first interest date will be 28 February 2010 if the Offer becomes or is declared unconditional in all respects prior to that date, failing which it will be 31 August 2010 (**the First Interest Date**). Thereafter interest will accrue on 28 February and 31 August in each year (**the Interest Date**). Interest accrued on the First Interest Date and each Interest Date shall be paid to the holders of Loan Notes within 10 Business Days of such First Interest Date or Interest Date. If any payment is due on a non-Business Day, the due date for payment shall instead be the next Business Day unless that is in the next calendar month, in which case it shall be the preceding Business Day.

The Loan Notes will be redeemable at the option of the holder within 10 Business Days of any Interest Date upon 28 days written notice prior to the relevant Interest Date to Virgin Money. Unless previously redeemed or repurchased, all outstanding Loan Notes will be redeemed within 10 Business Days of the date falling 5 years after the date which falls fourteen days after the Offer becomes or is declared unconditional in all respects.

Fractions of Loan Notes will not be issued and the balance of any entitlement that is not a whole multiple of £1 will be disregarded and not issued.

The Loan Notes will be secured by Virgin Money depositing a sum equal to elections by the Church House Trust Shareholders to receive Loan Notes instead of the cash element of the Offer Price into a designated deposit account with the Escrow Bank, such funds to be dealt with in accordance with the terms of redemption contained in the Loan Note Instrument and in accordance with the terms of the Loan Note Escrow Agreement, summaries of which are set out, respectively, in Part A of Appendix 2 and in paragraph 8(1)(b) of Appendix 6 of this document.

The Loan Notes are not transferable.

The Loan Note Alternative is conditional on the Offer becoming or being declared unconditional in all respects. The Loan Note Alternative will remain open until 1.00 p.m. on 29 January 2010, but may be closed at any time thereafter.

The Loan Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under any relevant securities law of Canada, Australia or Japan. Accordingly, the Loan Notes cannot be offered, sold or delivered directly or indirectly, in the United States, Canada, Australia or Japan or any Restricted Jurisdiction.

Quayle Munro has advised Virgin Money that, based on the information it has received (including market conditions) on 7 January 2010 (being the latest practicable date prior to the publication of this document), in its opinion, if the Loan Notes had been in issue on that date, the value of the Loan Notes would have been not less than 99 pence per £1 nominal value.

Full details of the Loan Notes are set out in Part A of Appendix 2 of this document.

#### **4. The Contingent Loan Notes**

Part of the Offer Price shall consist of Contingent Loan Notes which will be issued at the same time as the cash element of the Offer Price is settled. The Contingent Loan Notes will be redeemed, if and to the extent required by the holder, in accordance with their terms, on the First Contingent Consideration Date, and Contingent Loan Notes which are not redeemed on that date will be redeemed on the Final Contingent Consideration Date.

Fractions of Contingent Loan Notes will not be issued and the balance of any entitlement that is not a whole multiple of £1 will be disregarded and not issued.

Up to £2.1 million in aggregate will be payable upon redemption of the Contingent Loan Notes. However, payment of the full principal amount of the Contingent Loan Notes upon their redemption is subject to the following contingency. An exercise has been undertaken to calculate an overall bad debt provision on the loan book of Church House Trust as at 30 November 2009. The same exercise, applying the same provisioning policy, will subsequently be undertaken to calculate an overall bad debt provision for that same loan book as at 31 December 2011. This overall bad debt provision (referred to as Aggregate Expected Loss in Part B of Appendix 2 where it is described in more detail) will, to the extent possible, reflect (a) actual losses realised on the loan book in the intervening period and (b) any repayments of those loans between 30 November 2009 and 31 December 2011. If the overall bad debt provision has increased as at 31 December 2011, as compared to 30 November 2009, the amount of that increase will be deducted from £2.1 million to establish the aggregate amount to be paid out upon redemption of the Contingent Loan Notes. In the event that the amount proposed to be deducted exceeds £50,000 Virgin Money shall make all reasonable efforts to consult with David Batten and Graham Hughes who will be entitled to make representations to it.

The Contingent Loan Notes will be cash collateralised by Virgin Money depositing the amount of £2.1 million into an escrow account held at the Escrow Bank which will earn interest at 2.28 per cent. These funds will be dealt with in accordance with the terms of the Contingent Loan Note Instrument and in accordance with the terms of the Contingent Loan Note Escrow Agreement, summaries of which are set out, respectively, in Part B of Appendix 2 and paragraph 8(1)(b) of Appendix 6 of this document. The Contingent Loan Notes are not transferable other than with the consent of the Board of Virgin Money, or a duly authorised committee of the Board of Virgin Money.

The Contingent Loan Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under any relevant securities law of Canada, Australia or Japan. Accordingly, the Contingent Loan Notes cannot be offered, sold or delivered directly or indirectly, in the United States, Canada, Australia or Japan or any Restricted Jurisdiction.

Full details of the Contingent Loan Notes are set out in Part B of Appendix 2 of this document.

Quayle Munro has advised Virgin Money that, based on the information it has received (including market conditions) on 7 January 2010 (being the latest practicable date prior to the publication of this document), in its opinion, if the Contingent Loan Notes had been in issue on that date, the value of the Contingent Loan Notes would have been not less than 90 pence per £1 nominal value. In arriving at this conclusion Quayle Munro has relied on the Aggregate Expected Loss as at 30 November 2009 (as described in more detail in Part B of Appendix 2) representing the best estimate as at that date of future losses likely to be realised on the Loan Book (as defined in Part B of Appendix 2), but has reflected the combination of (a) the passage of time, (b) interest earned on the Contingent Loan Notes and (c) the possibility of future revisions to this estimate, for instance as a result of a deterioration in individual borrowers' ability to pay or underlying collateral values, in an additional discount of the estimated value of the Contingent Loan Notes to their par value. Church House Trust Shareholders should be aware that the Aggregate Expected Loss of the Loan Book at any particular date, including 31 December 2011, and hence the Redemption Amount (as defined in Part B of Appendix 2), are heavily reliant on the development of individual borrowers' financial condition and relevant property values. These parameters are influenced by the changes in UK house prices, employment conditions and personal income levels. As such, it is possible, should these indicators and Church House Trust's borrowers' financial condition deteriorate in the next two years, that the value of the Aggregate Expected Loss as at 31 December 2011 could exceed meaningfully the value derived as at 30 November 2009. Any such increase would reduce the aggregate amount payable on redemption of the Contingent Loan Notes pound-for-pound.

## **5. Background to and reasons for the Offer**

Virgin Money is a successful and rapidly growing financial services business in the UK. Virgin Money reported a 41 per cent. increase in operating profit in 2008. Virgin Money currently has over 2.5 million customers and offers payment cards (credit cards and prepaid cards), savings and investment products

(stakeholder pensions, children's pensions, employers pensions, FTSE tracker ISA, bond and gilt ISA, climate change ISA, cash ISA, and unit trusts), general insurance products (motor, home, travel, and pet) and life assurance products to the UK market. Virgin Money has over £2 billion of funds under management and over 2.3 million Virgin Money cards in issue. The business was founded in 1995 and has since developed a reputation for innovation and excellent customer service.

The financial crisis has tarnished the reputation of many UK banks, while market concentration in the sector has increased substantially. This has created the opportunity for a new entrant to provide a better, different form of banking to its customers, thereby increasing competition in the sector. Virgin Money identified this opportunity two years ago and therefore, together with certain partners, it prepared a recapitalisation proposal for Northern Rock plc, the UK mortgage bank which was ultimately nationalised in February 2008. Research conducted by Virgin Money over the past two years has shown consistently that there is a clear consumer demand for Virgin Money to enter the banking market. The research demonstrates that Virgin Money would be both a trusted deposit taker and mortgage lender. The acquisition of Church House Trust will provide the platform from which Virgin Money will develop a retail banking business in the UK, offering a full range of products to consumers under the "Virgin Money" brand.

Following extensive research and an evaluation of a number of opportunities to enter the retail banking market, Virgin Money identified Church House Trust, a regional private bank, as an attractive vehicle for launching a retail banking business in the UK and Virgin Money believes that Church House Trust offers it a strong platform for growth. The reasons for this are:

- Church House Trust's scale will facilitate a seamless integration into the existing operations of Virgin Money;
- Church House Trust has all the necessary banking permissions and a good relationship with the FSA;
- Church House Trust has no reliance on wholesale markets for funding, no borrowing from other banks, retail deposits of more than double its loan book, a broad range of savings products and it focuses on detailed personal underwriting;
- Church House Trust offers an IT infrastructure that can be strengthened and built upon;
- Virgin Money has undertaken significant due diligence, and it believes relevant issues can be addressed satisfactorily by its business and integration plans;
- Virgin Money can use Church House Trust as a platform to allow savings and mortgage products to be offered to consumers under the Virgin Money brand;
- having established an initial banking platform, the Virgin Money Directors believe that the acquisition of Church House Trust will enable Virgin Money to contemplate future acquisitions as appropriate. The Government has said it hopes the disposal of bank assets will see new players enter the market and Virgin Money may consider opportunities should they present themselves.

Following the acquisition of Church House Trust, Virgin Money will be well capitalised with an initial Tier 1 ratio in excess of 35 per cent. and will inject £37.3 million of new capital into Church House Trust. Liquidity management will also reflect best practice and the business will focus on the controlled growth of retail deposits.

Virgin Money aims to bring simplicity to the UK banking market which has traditionally been a complex sector. Virgin Money will provide a better, different form of banking to its customers, increasing competition in the sector. Virgin Money's aim is to make 'everyone better off' in the way it does business by offering good value to customers, treating employees well, making a positive contribution to society and delivering a growing profit to shareholders. Virgin Money's approach to banking is founded on developing a sustainable, savings-based business. Virgin Money sees the acquisition of Church House Trust as a strong and sensible first step in delivering Virgin Money's banking ambition.

Virgin Money's application in respect of the proposed change of control of Church House Trust was approved by the FSA on 23 December 2009, such approval being effective for 3 months, beginning on 23 December 2009, but may be extended on request.

## **6. Information on Virgin Money**

Virgin Money was founded as Virgin Direct in 1995 as a joint venture between a member of the Virgin group of companies and Norwich Union to offer equity savings products directly to the UK retail consumer market, one of the first such offerings in the UK.

In 1997, Virgin Direct Personal Financial Service Limited launched The Virgin One Account, a joint venture with RBS that offered the UK's first current account mortgage direct to the retail market. In 2001, RBS bought out Virgin Direct Personal Financial Service Limited's stake in the joint venture and the management team transferred to RBS.

Virgin Direct subsequently changed its name to Virgin Money and increased its product offering, adding a credit card offered in partnership with Bank of America, additional savings and insurance products. In April 2004, Virgin Group Investments Limited acquired full ownership of Virgin Money.

In 2007, key members of the founding management team returned to Virgin Money and managed its well publicised bid for Northern Rock plc.

Virgin Money's current business is divided into four divisions:

1. marketing and distribution of credit cards and prepaid cards; referral facilities for loans and mortgages;
2. provision of Individual Savings Accounts, Personal Equity Plans, unit trusts and pensions;
3. marketing and distribution of general insurance, life insurance and deposit accounts pursuant to agreements with leading financial services companies; and
4. Virgin Money Giving, a not-for-profit business.

A member of the Virgin group has signed a five-year deal to be the official sponsor of the London Marathon, the biggest annual fundraising event in the world. The inaugural Virgin London Marathon is on 25 April 2010. Virgin Money is leading the London Marathon sponsorship with the ambition to help runners raise £250 million over 5 years and will use its infrastructure, online capability and financial expertise to help to try to realise that ambition through Virgin Money Giving.

Virgin Money Giving is the not-for-profit online fundraising arm of Virgin Money and was established in 2009. Virgin Money uses its infrastructure and expertise as a financial services business to ensure that Virgin Money Giving is efficient, and secure. The Virgin Money Directors believe that Virgin Money Giving offers a high quality service to fundraisers, charities and donors. [virginmoneygiving.com](http://virginmoneygiving.com), which is backed by hundreds of charities, officially opened to all fundraisers for all charity events on 14 October 2009. [virginmoneygiving.com](http://virginmoneygiving.com) is free for fundraisers, charges a flat £100 + VAT registration fee for charities and a 2 per cent. fee on all donations before Gift Aid which means, for every £10 raised, where Gift Aid is available, charities receive up to £12.46. Virgin Money Giving charges charities the minimum fees needed to cover the running costs of the site. Any money left over after covering operating costs will go towards reducing fees further or improving services for fundraisers and charities. Fundraisers can personalise their pages, send out email alerts and manage the different events they might be taking part in. They can include their own content, photos and links to their page as well as customise messages for their supporters. Fundraisers can also link their page to social networking sites. [virginmoneygiving.com](http://virginmoneygiving.com) is the official sponsorship website of the Virgin London Marathon, Royal Parks Half Marathon and Sony 'Run to the Beat'.

Virgin Money operates from three locations in the UK: Edinburgh, London and Norwich. For the financial year ended 31 December 2008, (the last date to which audited accounts have been prepared), Virgin Money reported turnover of £98.4m and profit before tax of £27.5m.

Virgin Money has reviewed management information for the period since 31 December 2008, as well as internally prepared forecasts under a range of different macro-economic assumptions. Under the scenarios considered, Virgin Money is expected to continue to trade satisfactorily.

Virgin Money believes that trading prospects for its business are satisfactory due to:

- (a) strong customer recognition of, and trust in, the Virgin brand;
- (b) the position of the Virgin Money credit card as a market-leader in its chosen market segment;
- (c) the high financial quality of the Virgin Money credit card customer base;
- (d) despite market conditions, Virgin Money's funds under management have stayed over £2 billion; and
- (e) the burgeoning success of Virgin Money's insurance business and the rapid acceptance of Virgin Money Giving in the charity sector.

Virgin Money is part of the Virgin group of companies whose ultimate holding company is VGHL. Virgin Money is the holding company for the Virgin Money businesses. Virgin is an internationally recognised brand. Operational businesses trade under the Virgin brand in a broad range of sectors including transport, communications, financial services and health and wellness. VGHL has interests in over 200 companies which are owned by VGHL in various proportions and have operations in over a dozen countries. Together, Virgin Atlantic, Virgin America, Virgin Blue, Virgin Rail Group, Virgin Galactic, Virgin Hotels Group, Virgin Mobile in France and India, Virgin Money in the UK, USA, South Africa and Australia, and the Virgin Active Group with operations in the UK, South Africa, Italy and Spain had total revenues in their last reported financial year of over £5 billion. VGHL is also a significant shareholder in Virgin Media Inc. with a stake of approximately 6.5 per cent.

The shareholders of VGHL are Sir Richard Branson and the trustees of a series of trusts whose principal beneficiaries are Sir Richard Branson and/or certain members of his family. No shareholder has a controlling interest. VGHL is not required to publish financial information as it is incorporated in the British Virgin Islands.

## **7. Information on Church House Trust**

Edmund Batten, a West Country solicitor, originally founded Batten & Co, Private Bankers, in 1792 alongside his legal practice. The bank flourished through a succession of mergers and acquisitions in the nineteenth and early twentieth centuries eventually merging with the Stuckey's Bank which in turn merged with Westminster Bank.

Following a period of expansion for Battens Solicitors, partners of which included and include today Edmund Batten's descendants, from 1924 to the 1980's, the then partners of Battens formed Church House Trust in 1987 to service the needs of its private clients. Since then, Church House Trust has taken retail deposits and provided general banking services, in addition to providing wealth management, pension and other financial services consulting functions.

Historically, the business of Church House Trust has been divided into:

- (a) investment management, including the provision of discretionary portfolio management and investment advice services through CHI;
- (b) banking, including the taking of deposits, and general commercial and private lending through Church House Trust;
- (c) pensions, including advice in respect of Self Invested Pension Plans, Small Self Administered Schemes and pension administration services through CHI; and
- (d) tax and trust services through CHC.

As is described in paragraph 5 of Part 1 of this document, during the course of negotiations leading to the making of the Offer, Virgin Money has stated that it requires the removal of CHI and CHC as subsidiaries of Church House Trust on or prior to Virgin Money taking control of Church House Trust. Following the Offer becoming or being declared unconditional in all respects, Church House Trust will therefore only undertake the banking business described in paragraph (b) above and not the other businesses.

At the date of this document, Church House Trust operates from two locations in the UK, Yeovil and Leeds. On completion of the CHI Disposal, the CHI Distribution and the CHC Distribution, Church House Trust will operate from Yeovil only. For the financial year ended 31 December 2008 (the last date to which audited financial statements of Church House Trust have been prepared) Church House Trust reported operating income of £4.05 million and profit before tax of £0.45 million. Church House Trust has not published any audited or unaudited consolidated results since the statutory financial statements for the period ended 31 December 2008.

Financial information on Church House Trust is incorporated by reference in Appendix 3 of this document.

## **8. Directors, management, employees and location**

The Virgin Money Board has given assurances to the Church House Trust Board that, following the Offer becoming or being declared unconditional in all respects, the existing employment rights, including pension rights, of all employees and management of Church House Trust will be safeguarded. Virgin Money has indicated that there are no immediate plans to change the location of Church House Trust's place of business or redeploy its fixed assets.

Upon the Offer becoming or being declared unconditional in all respects, the resignations of all of the Church House Trust directors as directors of Church House Trust will become effective and the appointments of Jayne-Anne Gadhia and Marian Watson as directors of Church House Trust will become effective. However, David Batten will remain as an employee of Church House Trust and Graham Hughes will cease to be an employee of CHI but be employed by Church House Trust in each case, save as disclosed in this document, on the same terms as those they are currently on following the Offer becoming or being declared unconditional in all respects. David Batten and Graham Hughes' current service contracts, certain proposed changes to their conditions of employment and certain other proposed changes to Church House Trust employees, conditions of employment are described in paragraphs 6(1)(a), (6)(1)(b) and 6(3) of Appendix 6. Europa Partners considers the variation to the terms of the service contracts with David Batten and Graham Hughes to be fair and reasonable.

Upon completion of the CHI Disposal, David Batten and Graham Hughes will resign as directors of CHI, with Michael Baines, Dominic Gibbs, James Mahon and Andrew Martin Smith remaining as directors of CHI.

## **9. Irrevocable Undertakings**

Virgin Money has received irrevocable undertakings to accept, or procure acceptance of, the Offer from the Church House Trust Directors who hold, in aggregate, 352,387 Church House Trust Shares, representing in aggregate approximately 21.2 per cent. of the existing issued share capital of Church House Trust. The Church House Trust Directors have also irrevocably undertaken to accept the Option Offer in relation to all Church House Trust Options held by them (being options over 317,760 Church House Trust Shares) under the Unapproved Share Option Schemes and revocably undertaken to accept the Option Offer in relation to all options under the Approved Share Option Scheme held by them (being options over 12,240 Church House Trust Shares), constituting, in aggregate, options over 330,000 Church House Trust Shares, so as to exercise their options and accept the Offer in relation to the Church House Trust Shares they acquire immediately before the Offer becomes or is declared unconditional in all respects. These irrevocable undertakings will lapse only in the event of the Offer lapsing or being withdrawn.

In addition, Virgin Money has received irrevocable undertakings in respect of an aggregate of 740,502 Church House Trust Shares from other Church House Trust Shareholders, representing approximately 44.6 per cent. of the existing issued share capital of Church House Trust. These irrevocable undertakings will lapse only in the event of the Offer lapsing or being withdrawn.

In addition, Virgin Money has received irrevocable undertakings in respect of 1,666 options under the Unapproved Share Option Schemes and revocable undertakings in respect of 2,500 options under the Approved Option Scheme from Church House Trust Optionholders (who are not Church House Trust Directors) to accept the Option Offer, so as to exercise their options and accept the Offer in relation to the

Church House Trust Shares they acquire immediately before the Offer becomes or is declared unconditional in all respects.

In total, therefore, Virgin Money has received irrevocable undertakings to accept, or procure the acceptance of, the Offer in respect of 1,092,889 Church House Trust Shares representing in aggregate approximately 65.8 per cent. of the existing issued share capital of Church House Trust and irrevocable and revocable undertakings to accept the Option Offer in relation to in aggregate options over 334,166 Church House Trust Shares.

Further details of the irrevocable undertakings received by Virgin Money are set out in paragraph 5 of Appendix 6 of this document.

#### **10. Church House Trust Option Schemes**

The Offer extends to any Church House Trust Shares unconditionally allotted or issued whilst the Offer remains open for acceptance (or by such earlier date as Virgin Money may, subject to the Takeover Code or with the consent of the Panel, decide) as a result of the exercise of options granted by Church House Trust under the Church House Trust Option Schemes, and Church House Trust has today posted appropriate proposals to Church House Trust Optionholders in relation to their options. Under the terms of these proposals Church House Trust Optionholders will be given the opportunity to exercise their Church House Trust Options and accept the Offer in respect of the Church House Trust Shares they are allotted pursuant to such exercise and any that choose to accept such proposals before the date immediately preceding the Offer becoming or being declared unconditional in all respects will be treated as exercising their options and accepting the Offer in respect of the Church House Trust Shares that are allotted pursuant to such exercise immediately prior to the Offer becoming or being declared unconditional in all respects.

#### **11. Financing of the Offer**

The Offer will be financed from Virgin Money's cash reserves.

Quayle Munro is satisfied that the necessary financial resources are available to Virgin Money to enable it to satisfy in full the consideration payable by Virgin Money under the terms of the Offer, including the amounts required to cash collateralise in full the Loan Note Alternative and the Contingent Loan Notes as described in this document.

#### **12. Exclusivity**

On 26 May 2009 (as subsequently amended on 6 July 2009 and 14 September 2009) Church House Trust and a subsidiary of Virgin Money, Virgin Money Limited, (VM) entered into a letter of intent (the **Exclusivity Letter**) which included undertakings as to exclusivity given by Church House Trust to VM and a costs indemnity given by VM to Church House Trust which would have had effect in the event that VM had withdrawn from negotiations towards making the Offer in certain specified circumstances. On 7 January 2010 VM assigned its rights, title, interest and benefit to the Exclusivity Letter to Virgin Money by deed of assignment. A summary of the Exclusivity Letter is set out in paragraph 9 of Appendix 6 of this document.

#### **13. United Kingdom Taxation**

In deciding whether to accept the Offer, Church House Trust Shareholders should take account of their own individual circumstances, particularly their tax position.

Your attention is drawn to paragraph 4 of Appendix 6 of this document which contains a general guide as to UK tax implications for Church House Trust Shareholders who accept the Offer. If you are in any doubt as to your tax position or you are subject to taxation in any other jurisdiction, you should consult an appropriate independent adviser immediately.

#### **14. Overseas Shareholders**

**The availability of the Offer to Church House Trust Shareholders who are citizens or residents of jurisdictions outside the United Kingdom may be affected by the laws of their jurisdiction. Such**

**persons should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction. If you remain in any doubt, you should consult your professional adviser in the relevant jurisdiction without delay.**

The attention of Church House Trust Shareholders who are citizens or residents of jurisdictions outside the United Kingdom or who are holding shares for such citizens or residents and any person (including, without limitation, any custodian, nominee or trustee) who may have an obligation to forward any document in connection with the Offer outside the United Kingdom is drawn to paragraph 7 of Part B and to paragraph 2(b) of Part C of Appendix 1 of this document and to the relevant provisions of the Form of Acceptance, which they should read before taking any action.

Unless otherwise determined by Virgin Money or required by the Takeover Code and permitted by applicable law and regulation, the Offer is not being made, directly or indirectly, in or into, the United States, Australia, Canada or Japan or any other jurisdiction where to do so would violate the laws of that jurisdiction, and it is not currently intended that the Offer will be capable of acceptance by any such use, means, instrumentality or facility or from any such jurisdiction. Accordingly, persons who are unable to give the warranties set out in paragraph 2(b) of Part C of Appendix 1 of this document may be deemed not to have validly accepted the Offer.

Neither the Loan Notes nor the Contingent Loan Notes have been, and nor will they be, registered under the United States Securities Act of 1933, as amended, or under any relevant securities law of Canada, Australia or Japan. Accordingly, neither the Loan Notes nor the Contingent Loan Notes can be offered, sold or delivered directly or indirectly, in the United States, Canada, Australia or Japan or any Restricted Jurisdiction.

## **15. Procedure for acceptance of the Offer**

Church House Trust Shareholders should read this section in conjunction with the Form of Acceptance and Parts B and C of Appendix 1 of this document which shall be deemed to be incorporated in and form part of the terms of the Offer. Holders of Church House Trust Shares may only accept the Offer in respect of such shares by completing and returning the enclosed Form of Acceptance in accordance with the procedure set out below.

### **15.1 Completion of the Form of Acceptance**

To accept the Offer, you must complete the Form of Acceptance in accordance with the instructions set out below and on the Form of Acceptance. You should complete separate Forms of Acceptance for Church House Trust Shares held under different designations.

- (a) To accept the Offer in respect of all your Church House Trust Shares you must complete Box 2 and sign Box 4 of the enclosed Form of Acceptance. In all cases, if you are an individual, you must sign Box 4 on the Form of Acceptance in the presence of a witness who should also sign in accordance with the instructions printed on it. Any Church House Trust Shareholder which is a company should execute Box 4 of the Form of Acceptance in accordance with the instructions printed on it. If you do not insert a number in Box 2 of the Form of Acceptance, or if you insert in Box 2 a number which is greater than the number of Church House Trust Shares that you hold and you have signed Box 4, your acceptance will be deemed to be in respect of all the Church House Trust Shares held by you.
- (b) To accept the Offer in respect of less than all your Church House Trust Shares you must insert in Box 2 of the enclosed Form of Acceptance such lesser number of Church House Trust Shares in respect of which you wish to accept the Offer in accordance with the instructions printed thereon. You should then follow the procedure set out above in respect of such lesser number of Church House Trust Shares.
- (c) To elect for the Loan Note Alternative in respect of some or all of your Church House Trust Shares in respect of which you accept the Offer, you must complete Box 2 and Box 3 and sign

Box 4 of the Form of Acceptance in the presence of a witness who should also sign in accordance with the instructions printed on it.

#### 15.2 *Return of the Form of Acceptance*

To accept the Offer, the completed and signed Form of Acceptance should be returned by post or by hand (during normal business hours only) to the Receiving Agent, Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, together (subject to paragraph 15.3 below) with the relevant share certificate(s) and/or other document(s) of title, as soon as possible and, in any event, so as to be received not later than 1.00 p.m. on 29 January 2010. A reply-paid envelope for use in the UK only is enclosed for your convenience. No acknowledgement of receipt of documents will be given.

Any Form of Acceptance received in an envelope post-marked in the United States, Australia, Canada or Japan or other Restricted Jurisdiction or otherwise appearing to Virgin Money or its agents to have been sent from any of these jurisdictions may be rejected as an invalid acceptance of the Offer. For further information on Church House Trust Shareholders resident overseas, see paragraph 14 of this Part 2 above.

#### 15.3 *Share certificates not readily available or lost*

A completed and signed Form of Acceptance should be accompanied by the relevant share certificate(s) and/or other document(s) of title. If for any reason the relevant share certificate(s) and/or other document(s) of title is/are not readily available or is/are lost, you should nevertheless complete, sign and lodge the Form of Acceptance as stated above so as to be received by post or by hand (during normal business hours only) to the Receiving Agent, Capita Registrars Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 1.00 p.m. on 29 January 2010.

You should send with the Form of Acceptance any valid share certificate(s) and/or other document(s) of title which you may have available, accompanied by a letter stating that the remaining documents will follow as soon as possible or that you have lost one or more of your share certificate(s) and/or other document(s) of title. You should then arrange for the relevant share certificate(s) and/or other document(s) of title to be forwarded as soon as possible and in any event to be received by the Receiving Agent, Capita Registrars at the address given above, not later than 1.00 p.m. on 29 January 2010.

If you have lost your share certificate(s) and/or other document(s) of title, you should write as soon as possible to David Batten at 3 Goldcroft, Yeovil, Somerset BA21 4DQ, requesting a letter of indemnity for the lost share certificate(s) and/or other document(s) of title which, when completed in accordance with the instructions given, should be returned by post or by hand (during normal business hours only) to the Receiving Agent, Capita Registrars at the address given above.

#### 15.4 *Validity of Acceptances*

Without prejudice to Part B and Part C of Appendix 1 of this document, subject to the provisions of the Takeover Code, Virgin Money reserves the right to treat as valid in whole or in part any acceptance of the Offer which is not entirely in order or which is not accompanied by the relevant share certificate(s) and/or other document(s) of title. In that event, no payment of cash or issue of Loan Notes or Contingent Loan Notes under the Offer will be made until after the relevant share certificate(s) and/or other document(s) of title or indemnities for any lost share certificate(s) and/or other document(s) of title reasonably satisfactory to Virgin Money have been received.

### 16. **Settlement**

Subject to the Offer becoming or being declared unconditional in all respects (and except as provided in paragraph 7 of Part B of Appendix 1 of this document in the case of certain overseas Church House Trust Shareholders), settlement of the consideration to which any Church House Trust Shareholder is entitled

under the Offer will be effected: (i) in the case of acceptances received, complete in all respects, by the date on which the Offer becomes or is declared unconditional in all respects, within 14 days of such date; and (ii) in the case of acceptances of the Offer received, complete in all respects, after the date on which the Offer becomes or is declared unconditional in all respects but while the Offer remains open for acceptance, within 14 days in the following manner:

- (a) settlement of any cash due will be dispatched by first class post (or such other method as may be approved by the Panel) to accepting Church House Trust Shareholders or their appointed agents (but not into the United States, Australia, Canada or Japan). All such cash payments will be made in pounds sterling by cheque drawn on a branch of a United Kingdom clearing bank; or
- (b) if a Church House Trust Shareholder elects for the Loan Note Alternative, definitive certificates for the Loan Notes will be despatched (but not into the United States, Australia, Canada or Japan) by first class post; and
- (c) definitive certificates for the Contingent Loan Notes will be despatched (but not into the United States, Australia, Canada or Japan) by first class post.

## **17. General**

If the Offer does not become and is not declared unconditional in all respects, the relevant Form of Acceptance, share certificate(s) and/or other document(s) of title will be returned by post (or by such other method as may be approved by the Panel) within 14 days of the Offer lapsing to the person or agent whose name and address (outside a Restricted Jurisdiction) is set out in the Form of Acceptance or, if none is set out, to the first-named holder at his or her registered address (provided that no such documents will be sent to an address in a Restricted Jurisdiction).

All remittances, communications, notices, certificates and documents of title sent by, to or from Church House Trust Shareholders or their appointed agents will be sent at their own risk.

## **18. Compulsory Acquisition and Re-Registration**

If Virgin Money receives acceptances under the Offer in respect of, and/or otherwise acquires, 90 per cent. or more by nominal value and voting rights of the Church House Trust Shares to which the Offer relates, Virgin Money intends to exercise its rights pursuant to the provisions of Chapter 3 of Part 28 of the 2006 Act to compulsorily acquire the remaining Church House Trust Shares to which the Offer relates on the same terms as the Offer.

It is also proposed that if the Offer becomes or is declared unconditional in all respects and Virgin Money receives sufficient acceptances from Church House Trust Shareholders to take its shareholding to over 75 per cent. of the Church House Trust Shares, Virgin Money intends that Church House Trust will be re-registered as a private company under the relevant provisions of the 2006 Act.

## **19. Further Information**

Further details of the terms and conditions of the Offer are set out in full in Appendix 1 of this document. Your attention is drawn to the further information in the Appendices, which form part of this document, and to the accompanying Form of Acceptance which should be read in conjunction with this document. The Appendices and the Form of Acceptance contain material information which may not be summarised elsewhere in this document.

## **20. Action to be taken**

To accept the Offer, the Form of Acceptance must be completed, signed and returned in accordance with the instructions printed thereon as soon as possible, (together with your valid share certificate(s) and/or other document(s) of title) and in any event so as to be received by the Receiving Agent, Capita Registrars Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 1.00 p.m. on 29 January 2010. A reply-paid envelope is enclosed for your convenience for use in the UK only.

Full details of action to be taken to accept the Offer are set out in paragraph 15 of this letter, Appendix 1 of this document and in the accompanying Form of Acceptance.

If you have any questions relating to the procedure to accept the Offer, please contact the Receiving Agent, Capita Registrars on 0871 664 0321 from within the UK or on +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute from a BT landline. Other network providers' costs may vary. Lines are open 9.00 a.m. to 5.00 p.m. (London time) Monday to Friday (except UK public holidays). Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Offer nor give any financial, legal or tax advice.

Yours faithfully,

Gordon McCallum  
*Chairman*  
for and on behalf of  
Virgin Money Holdings (UK) Limited

# Appendix 1 – Conditions And Further Terms Of The Offer

## Part A – Conditions of the Offer

The Offer is subject to the following conditions and will comply with the applicable rules and regulations of the Takeover Code:

- (a) valid acceptances being received (and not, where permitted, withdrawn) by not later than 1.00 p.m. (London time) on the First Closing Date (or such later time(s) and/or date(s) as Virgin Money may, subject to the rules of the Takeover Code or with the consent of the Panel, decide) in respect of not less than 90 per cent. (or such lower percentage as Virgin Money may, subject to the Takeover Code, decide) (i) in nominal value of Church House Trust Shares to which the Offer relates and (ii) of the voting rights attached to those shares, provided that this condition will not be satisfied unless Virgin Money shall have acquired or agreed to acquire (directly or indirectly, whether pursuant to the Offer or otherwise) Church House Trust Shares carrying in aggregate more than 50 per cent. of the voting rights then normally exercisable at a general meeting of Church House Trust, including for this purpose (except to the extent otherwise agreed by the Panel) any such voting rights attaching to Church House Trust Shares that are unconditionally allotted or issued before the Offer becomes or is declared unconditional as to acceptances whether pursuant to the exercise of any outstanding subscription or conversion rights or otherwise.

For the purposes of this condition:

- (i) Church House Trust Shares which have been unconditionally allotted but not issued before the Offer becomes or is declared unconditional as to acceptances whether pursuant to the exercise of any outstanding subscription or conversion rights or otherwise shall be deemed to carry the voting rights they will carry upon issue; and
- (ii) valid acceptance shall be deemed to have been received in respect of Church House Trust Shares which are treated for the purposes of section 979(8) of the 2006 Act as having been acquired or contracted to be acquired by Virgin Money by virtue of acceptances of the Offer;
- (iii) the expression **Church House Trust Shares to which the Offer relates** and **associates** shall be construed in accordance with Chapter 3 of Part 28 of the 2006 Act;
- (b) without limitation to conditions (c) and (d), the FSA having notified its approval in writing in respect of each person who will acquire control or any additional or increased control (for the purposes of the Financial Services and Markets Act 2000) over Church House Trust in connection with the Offer or the acquisition or proposed acquisition of any shares or other securities in, or control or management of Church House Trust by Virgin Money (**Approvals**), or, where no such notification has been made in respect of any such person, the period allowed under the Financial Services and Markets Act 2000 for the FSA to notify any objections to such person acquiring such control or any such additional or increased control having expired without notification of such objection and the FSA not having cancelled or varied, and not having notified (or intimated that it may notify) any proposal to cancel or vary, any permission (within the meaning of Part IV of the Financial Services and Markets Act 2000) held by any such authorised person at the date of the Announcement or, where the Offer has not or will not become or be declared unconditional in all respects prior to the date following three months after 23 December 2009, the FSA failing to extend such Approvals as it has already given prior to the date of this Announcement as requested by Virgin Money;
- (c) no government or governmental, quasi governmental, supranational, statutory, regulatory, environmental, administrative, fiscal or investigative body, court, tribunal or any statutory person whatsoever in any jurisdiction in which Church House Trust carried on business at the date of the Announcement (**Relevant Jurisdiction**) (each a **Third Party**) having, without the consent of Virgin Money, decided to take, institute, implement or threaten in writing (and in each case not having withdrawn the same), any action, proceeding, suit, investigation, enquiry or reference, or having

required any action to be taken or otherwise having done anything or having enacted, made or proposed any statute, regulation, decision or order (and in each case not having withdrawn the same) which in each case, would or might reasonably be likely to:

- (i) make the Offer, its implementation or the acquisition or proposed acquisition of any shares or other securities in, or control of, Church House Trust by Virgin Money void, illegal and/or unenforceable under the laws of any Relevant Jurisdiction, or otherwise directly or indirectly prohibit, or materially restrain, restrict or delay the implementation of, or impose additional conditions or obligations which are materially adverse with respect to, or otherwise materially challenge or require material amendment of the Offer or the acquisition of any such shares or securities in Church House Trust by Virgin Money;
- (ii) require, prevent or materially delay the divestiture or materially alter the terms envisaged for such divestiture by Virgin Money or by any member of the Wider Church House Trust Group of all or a material part of their respective businesses, assets or properties including without limitation the CHI Disposal, the CHI Loan Assignment or all or any part of the Distribution or impose any limitation on the ability of any of them to conduct their businesses (or any material part thereof) or to own or control any of their assets or properties (or any material part thereof) to an extent which in each case is material in the context of the Church House Trust Group taken as a whole or Virgin Money (as the case may be);
- (iii) impose any material limitation on, or result in a delay in, the ability of Virgin Money to acquire or hold or to exercise effectively all or any rights of ownership in respect of shares or loans, or other securities convertible into shares or any other securities (or the equivalent) in Church House Trust or on the ability of any member of the Wider Church House Trust Group or Virgin Money directly or indirectly to hold or exercise effectively any rights of ownership of shares or other securities (or the equivalent) in any member of the Wider Church House Trust Group, in either case in any respect which is material in the context of the Church House Trust Group, taken as a whole or to exercise management control over any member of the Wider Church House Trust Group;
- (iv) require Virgin Money or any member of the Wider Church House Trust Group to acquire or offer to acquire any shares, other securities (or the equivalent) or interest in any member of the Wider Church House Trust Group or any material asset owned by any third party (other than in the implementation of the Offer and pursuant to chapter 3 of Part 28 of the 2006 Act);
- (v) result in any member of the Wider Church House Trust Group ceasing to be able to carry on business to the extent conducted at the date of this document under any name under which it presently carries on business to an extent which is material in the context of the Wider Church House Trust Group taken as a whole;
- (vi) impose any limitation that is material in the context of the Wider Church House Trust Group taken as a whole on the ability of Virgin Money or any member of the Wider Church House Trust Group to integrate or coordinate all or any part of its business with all or any part of the business of Virgin Money and/or the Wider Church House Trust Group; or
- (vii) otherwise affect the business, assets, profits, financial or trading position or the prospects of any member of the Wider Church House Trust Group or Virgin Money in a manner which is adverse to and material in the context of the Wider Church House Trust Group taken as a whole,

and all applicable waiting and other time periods (including any extension of such waiting and other time periods) during which any such Third Party could decide to take, institute, implement or threaten any such action, proceeding, suit, investigation, enquiry or reference or take any other step under the laws of any Relevant Jurisdiction in respect of the Offer or the acquisition or proposed acquisition of any Church House Trust Shares having expired, lapsed, or been terminated;

- (d) all necessary notifications, filings or applications having been made in connection with the Offer and all applicable waiting periods (including any extensions thereof) under any applicable legislation or

regulation of any Relevant Jurisdiction having expired, lapsed, been waived or been terminated (as appropriate) and all statutory and regulatory obligations in connection with the Offer in any Relevant Jurisdiction having been complied with and all Authorisations necessary in any Relevant Jurisdiction for or in respect of the Offer and the acquisition or the proposed acquisition of any shares or other securities in, or control of, Church House Trust by Virgin Money having been obtained in terms and in a form reasonably satisfactory to Virgin Money, from all necessary Third Parties or (without prejudice to the generality of the foregoing) from any person or bodies with whom any member of the Wider Church House Trust Group has entered into contractual arrangements or from any persons or bodies with whom Virgin Money has entered into contractual arrangements in connection with the Offer and all such Authorisations necessary to carry on the business of any member of the Wider Church House Trust Group in any Relevant Jurisdiction having been obtained in each case where the direct consequence of a failure to make such notification or filing or to wait for the expiry, lapse or termination of any such waiting period or to comply with such obligation or obtain such Authorisations would have a material adverse effect on the Wider Church House Trust Group, Virgin Money or the ability of Virgin Money to implement the Offer and all such Authorisations remaining in full force and effect at the time at which the Offer becomes otherwise unconditional and there being no notice in writing or intimation of an intention to revoke, suspend, materially restrict, adversely modify or not to renew such Authorisations;

- (e) save as disclosed in the Announcement or in the November Accounts or as fairly disclosed to Virgin Money in the course of negotiations leading to the Announcement, there being no provision of any arrangement, agreement, licence, permit, lease or other instrument to which any member of the Pre-Completion Church House Trust Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or be subject or any event or circumstance which, as a consequence of the Offer or the acquisition or the proposed acquisition by Virgin Money of any shares or other securities in Church House Trust or because of a change in the control or management of any member of the Pre-Completion Church House Trust Group would or might reasonably be expected to result in, in each case to an extent which is material and adverse in the context of the Wider Church House Trust Group taken as a whole:
- (i) any monies borrowed by, or any other indebtedness, actual or contingent, of any member of the Wider Church House Trust Group being or becoming repayable, or capable of being declared repayable, immediately or prior to its or their stated maturity date or repayment date, or the ability of any such member to borrow monies or incur any indebtedness being or becoming capable of being withdrawn or inhibited;
  - (ii) any rights, liabilities, obligations, interests or business of any member of the Wider Church House Trust Group or Virgin Money under any such arrangement, agreement, licence, permit, lease or instrument or the interests or business of any member of the Wider Church House Trust Group or Virgin Money in or with any other firm or company or body or person (or any agreement or arrangement relating to any such business or interests) being terminated or modified or affected or any onerous obligation or liability arising or any adverse action being taken thereunder;
  - (iii) any member of the Wider Church House Trust Group ceasing to be able to carry on any part of its business under any name under which it presently carries on business;
  - (iv) any assets or interests of, or any asset the use of which is enjoyed by, any member of the Wider Church House Trust Group being or falling to be disposed of or charged or any right arising under which any such asset or interest would reasonably be expected to be required to be disposed of or charged or would cease to be available to any member of the Wider Church House Trust Group other than in the ordinary course of business;
  - (v) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Wider Church House Trust Group and any such mortgage, charge or other security interest becoming enforceable or being enforced;

- (vi) the financial or trading position or prospects of, any member of the Wider Church House Trust Group being prejudiced or affected; or
- (vii) the creation of any liability (actual or contingent) by any member of the Wider Church House Trust Group other than in the ordinary course of business;

and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Pre-Completion Church House Trust Group is a party or by which any such member or any of its assets may be bound, entitled or subject is likely to result in any of the events or circumstances as are referred to in paragraphs e(i) to e(vii) above.

- (f) save as disclosed in the Announcement or in the November Accounts or as fairly disclosed to Virgin Money in the course of negotiations leading to the Announcement, no member of the Pre-Completion Church House Trust Group having since 30 November 2009:
  - (i) issued or agreed to issue or authorised the issue of additional shares of any class, or securities or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities or transferred (save, where relevant, as between Church House Trust and wholly owned subsidiaries of Church House Trust other than CHI and CHC and save for the issue of Church House Trust Shares on the exercise of options granted before the date of this document under the Church House Trust Option Schemes);
  - (ii) recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus, dividend or other distribution (whether payable in cash or otherwise) other than to Church House Trust or one of its wholly owned subsidiaries;
  - (iii) merged with (by statutory merger or otherwise) or demerged from or acquired any body corporate, partnership or business or acquired or disposed of, or, other than in the ordinary course of business, transferred, mortgaged or charged or created any security interest over, any assets or any right, title or interest in any asset (including shares and trade investments) in any such case that is material in the context of the Wider Church House Trust Group taken as a whole or authorised, proposed or announced any intention to do so;
  - (iv) issued or authorised the issue of any debentures or incurred or increased any indebtedness or become subject to any actual or contingent liability in any such case to an extent which is material in the context of the Wider Church House Trust Group taken as a whole;
  - (v) other than in the ordinary course of business, entered into or varied or authorised, proposed or announced its intention to enter into or vary any contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which is of a loss-making, long term, or unusual or onerous nature or involves or could reasonably be expected to involve an obligation of a nature or magnitude which is, in any such case, material in the context of the Wider Church House Trust Group or which is or is reasonably likely to be materially restrictive on the business of any member of the Wider Church House Trust Group or Virgin Money, as the case may be, each such group taken as a whole;
  - (vi) entered into or varied the terms of any service agreement with any director or senior executive of the Wider Church House Trust Group other than as agreed in writing with Virgin Money or set out in this document;
  - (vii) proposed, agreed to provide or modified in any material respect the terms of any share option scheme, bonus scheme, incentive scheme, or other benefit relating to the employment or termination of employment of any employee of the Pre-Completion Church House Trust Group;
  - (viii) implemented or effected, or authorised, proposed or announced its intention to implement or effect, any composition, assignment, reconstruction, amalgamation, scheme or other transaction or arrangement which would be materially restrictive to the business of the Wider

Church House Trust Group, taken as a whole, in respect of itself or another member of the Wider Church House Trust Group (other than pursuant to the Offer or in the ordinary course of business);

- (ix) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or, save in respect of the matters mentioned in sub paragraph (i) above, made any other change to any part of its share capital (other than in the case of Church House Trust) to an extent which is material in the context of the Wider Church House Trust Group, taken as a whole;
  - (x) waived or compromised or settled any claim otherwise than in the ordinary course of business which is material in the context of the Wider Church House Trust Group taken as a whole;
  - (xi) made any material alteration to its memorandum or articles of association or other constitutional documents;
  - (xii) taken or proposed any material steps, corporate action or had any legal proceedings instituted or threatened in writing against it, a moratorium of any indebtedness, its winding up (voluntary or otherwise), dissolution, reorganisation or for the appointment of any administrator, receiver, manager, administrative receiver, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or appointed any analogous person in any jurisdiction or had any such person appointed;
  - (xiii) been unable, or admitted in writing that it is unable, to pay its debts or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business;
  - (xiv) entered into any contract, commitment, agreement or arrangement otherwise than in the ordinary course of business or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced an intention to, or to propose to, effect any of the transactions, matters or events referred to in this condition (f); or
  - (xv) made or authorised or proposed or announced an intention to authorise or propose any change in its loan capital;
- (g) save as fairly disclosed by Church House Trust to Virgin Money in the course of negotiations leading to the Announcement, since 30 November 2009 (save as disclosed in this document or the November Accounts):
- (i) there having been no adverse change in the business, assets, financial or trading position or profits or prospects of any member of the Wider Church House Trust Group to an extent which is material in the context of the Wider Church House Trust Group taken as a whole or of the obligations of Virgin Money in connection with the Offer;
  - (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings having been threatened, announced or instituted by or against or remaining outstanding against any member of the Wider Church House Trust Group or to which any member of the Wider Church House Trust Group is or may reasonably be expected to become a party (whether as claimant or defendant or otherwise) and no enquiry or investigation by, or complaint or reference to, any Third Party against or in respect of any member of the Wider Church House Trust Group having been threatened, announced or instituted by or against, or remaining outstanding in respect of, any member of the Wider Church House Trust Group which, in any such case, might reasonably be expected materially and adversely to affect the Wider Church House Trust Group taken as a whole; or
  - (iii) no contingent or other liability having arisen or become known to Virgin Money which might reasonably be expected adversely to affect the business, assets, financial or trading position or profits or prospects of any member of the Wider Church House Trust Group to an extent which is material to the Wider Church House Trust Group taken as a whole;

- (h) no steps having been taken and no omissions having been made which might reasonably be expected to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Church House Trust Group, which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material and likely to have a material effect in the context of the Church House Trust Group taken as a whole;
- (i) save as disclosed in the Announcement or in the November Accounts or as fairly disclosed to Virgin Money in the course of negotiations leading to the Offer, Virgin Money not having discovered after the date of this document:
  - (i) that any financial, business or other information concerning the Pre-Completion Church House Trust Group disclosed to Virgin Money at any time by or on behalf of any member of the Wider Church House Trust Group which is material in the context of the acquisition of Church House Trust by Virgin Money is misleading, contains a misrepresentation of fact or omits to state a fact necessary to make that information not misleading in any material respect;
  - (ii) that any member of the Pre-Completion Church House Trust Group or any partnership, company or other entity in which any member of the Wider Church House Trust Group has a significant economic interest and which is not a subsidiary undertaking of Church House Trust, is subject to any liability, contingent or otherwise, and which is material in the context of the Wider Church House Trust Group; or
  - (iii) any additional information which affects the import of any information disclosed to Virgin Money before the date of the Announcement by or on behalf of any member of the Wider Church House Trust Group which is material in the context of the Wider Church House Trust Group.

Virgin Money reserves the right to waive in whole or in part all or any of conditions (b) to (i) inclusive. Conditions (b) to (i) inclusive must be satisfied as at, or waived (where possible) on or before, the 21st day after the later of the First Closing Date and the date on which condition (a) is fulfilled (or, in each case, such later date as the Panel may agree) failing which the Offer will lapse. Virgin Money shall be under no obligation to waive (if capable of waiver) or determine to be, or treat as, fulfilled, any of conditions (b) to (i) inclusive by a date earlier than the date specified above for the fulfilment thereof notwithstanding that the other conditions of the Offer may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such conditions may not be capable of fulfilment. Virgin Money shall not invoke any condition or precondition with the exception of condition (a) above so as to cause the Offer not to proceed, to lapse or to be withdrawn unless the circumstances which give rise to the right to invoke the condition or precondition are of material significance to Virgin Money in the context of the Offer.

Except with the consent of the Panel, the Offer will lapse if it (or any matter arising therefrom) is referred to the Competition Commission or if the European Commission initiates proceedings under Article 6(1)(c) of Council Regulations (EC) No. 139/2004 (the Regulation) before the later of 1.00 p.m. on the First Closing Date and the date on which the Offer becomes or is declared unconditional as to acceptances.

If the Panel requires Virgin Money to make an offer for Church House Trust Shares under the provisions of Rule 9 of the Takeover Code, Virgin Money may make such alterations to the conditions of the Offer, including condition (a), as are necessary to comply with the provisions of that Rule.

If the Offer lapses, the Offer will cease to be capable of further acceptance and persons who have accepted the Offer, and Virgin Money, will cease to be bound by Forms of Acceptance submitted at or before the time when the Offer lapses.

## Part B – Further Terms of the Offer

The conditions in Part A of this Appendix 1 of this document and the following terms set out in Parts B and C of this Appendix 1 and the accompanying Form of Acceptance apply to the Offer (including the Loan Note Alternative).

The following further terms apply, unless the context requires otherwise, to the Offer. Unless the context requires otherwise, any reference in this document and in the Form of Acceptance to:

- (a) **acceptances of the Offer** includes deemed acceptances of the Offer;
- (b) **the Offer** includes any revision, variation, renewal or extension thereof and also (where the context requires) any election for the Loan Note Alternative available with the Offer or any revision, variation, renewal or extension thereof;
- (c) the Offer **becoming unconditional** is to the acceptance condition being or becoming or being declared satisfied whether or not any other condition of the Offer remains to be fulfilled;
- (d) the **acceptance condition** is to the condition as to acceptances of the Offer in paragraph (a) of Part A of this Appendix 1 and references to the Offer being unconditional as to acceptances shall be construed accordingly;
- (e) **acceptance of the Loan Note Alternative** shall include an election or deemed election for the Loan Note Alternative;
- (f) the **Offer Document** is to this document and any other document containing the Offer;
- (g) an **extension of the Offer** shall include a reference to an extension of the date by which the acceptance condition has to be fulfilled;
- (h) a person **acting in concert** is a reference to a person acting or deemed to be acting in concert for the purposes of the Takeover Code;
- (i) **Day 21 of the Offer** shall mean 29 January 2010;
- (j) **Day 39 of the Offer** shall mean 16 February 2010;
- (k) **Day 42 of the Offer** shall mean 19 February 2010;
- (l) **Day 46 of the Offer** shall mean 23 February 2010; and
- (m) **Day 60 of the Offer** shall mean 9 March 2010.

### 1. Acceptance Period

- (a) The Offer is initially open for acceptance until 1.00 p.m. on Day 21 of the Offer. Virgin Money reserves the right (but will not be obliged, other than as may be required by the Takeover Code) at any time or from time to time to extend the Offer after such time and, in such event, will make a public announcement of such extension in the manner described in paragraph 3(a) below and give oral or written notice of such extension to the Receiving Agent. If the Offer has not become unconditional by Day 21 of the Offer, Virgin Money currently intends to extend the Offer until such time as the Offer becomes unconditional. There can be no assurance, however, that Virgin Money will, in such circumstances, extend the Offer and, if no such extension is made, the Offer will lapse on Day 21 of the Offer and no Church House Trust Shares will be purchased pursuant to the Offer.
- (b) Although no revision is envisaged, if the Offer is revised it will remain open for acceptance for a period of at least 14 calendar days (or such other period as may be permitted by the Panel) after the date on which the revised offer document is posted to Church House Trust Shareholders. Except with the consent of the Panel, no revision of the Offer may be made and no revised Offer Document may be made or posted to Church House Trust Shareholders after Day 46 of the Offer or, if later, the date which is 14 days before the last date on which the Offer can become unconditional.

- (c) The Offer, whether revised or not, shall not (except with the consent of the Panel) be capable of becoming unconditional as to acceptances after midnight on Day 60 of the Offer (or any other time or date beyond which Virgin Money has stated that the Offer will not be extended and has not, where permitted, withdrawn that statement) nor of being kept open for acceptance after that time and/or date unless the Offer has previously become unconditional as to acceptances. If the Offer has not become unconditional as to acceptances at such time (taking account of any prescribed extension of the Offer), the Offer will lapse in the absence of a competing bid and/or unless the Panel agrees otherwise. If the Offer lapses for any reason, the Offer shall cease to be capable of further acceptance and Virgin Money and Church House Trust Shareholders shall cease to be bound by prior acceptances. Virgin Money reserves the right, with the permission of the Panel, to extend the time for the Offer to become unconditional to any later time(s) and/or date(s).
- (d) If the Offer becomes unconditional as to acceptances, it will remain open for acceptance for not less than 14 calendar days from the date on which it would otherwise have expired. If the Offer becomes unconditional as to acceptances and it is stated by or on behalf of Virgin Money that the Offer will remain open until further notice or if the Offer will remain open for acceptances beyond the 70th day following posting of the Offer, then not less than 14 calendar days' written notice will be given by or on behalf of Virgin Money to Church House Trust Shareholders who have not accepted the Offer that the Offer will remain open for such period before closing it.
- (e) If a competing offer or other competitive situation arises (as determined by the Panel) after a "no increase" and/or "no extension" statement (as referred to in the Takeover Code) has been made by or on behalf of Virgin Money in relation to the Offer, Virgin Money may, if it specifically reserves the right to do so at the time the statement is made (or otherwise with the consent of the Panel), choose not to be bound by or withdraw the statement and extend or revise the Offer provided it complies with the requirements of the Takeover Code and, in particular, that:
  - (i) it announces the withdrawal as soon as possible and in any event within four business days after the date of the firm announcement of the competing offer or other competitive situation;
  - (ii) it notifies Church House Trust Shareholders at the earliest practicable opportunity in writing to that effect or, in the case of Church House Trust Shareholders with registered addresses outside the United Kingdom or whom Virgin Money reasonably believes to be nominees, custodians or trustees holding Church House Trust Shares for such persons, by announcement in the United Kingdom; and
  - (iii) any Church House Trust Shareholders who accepted the Offer after the "no increase" and/or "no extension" statement is given a right of withdrawal as described in paragraph 4(d) of Part B of this Appendix 1.

Virgin Money may, if it specifically reserves the right to do so at the time the statement is made choose not to be bound by the terms of a "no increase" and /or "no extension" statement and may post an increased or improved offer if it is recommended for acceptance by the Church House Trust Board or any duly appointed committee thereof or in other circumstances permitted by the Panel.

## **2. Acceptance condition**

- (a) Except with the consent of the Panel, for the purpose of determining at any particular time whether the acceptance condition is satisfied, Virgin Money may only take into account acceptances received or purchases of Church House Trust Shares made in respect of which all relevant documents are received by the Receiving Agent:
  - (i) by 1.00 p.m. on Day 60 of the Offer (or any other time and/or date beyond which Virgin Money has stated that the Offer will not be extended and has not withdrawn that statement); or
  - (ii) if the Offer is extended with the consent of the Panel, such later time(s) or date(s) as the Panel may agree.

If the latest time at which the Offer may become unconditional as to acceptances is extended beyond midnight on Day 60 of the Offer, acceptances received and purchases made in respect of which the relevant documents are received by the Receiving Agent after 1.00 p.m. on that date may only be taken into account with the agreement of the Panel except where the Takeover Code permits otherwise.

- (b) Except as otherwise agreed by the Panel and notwithstanding the right reserved by Virgin Money to treat an acceptance of the Offer as valid even though the relevant Form of Acceptance is not entirely in order or not accompanied by relevant share certificate(s) and/or other document(s) of title:
  - (i) an acceptance of the Offer will only be counted towards fulfilling the acceptance condition if the requirements of Note 4 and, if applicable, Note 6 on Rule 10 of the Takeover Code are satisfied in respect of it;
  - (ii) a purchase of Church House Trust Shares by Virgin Money or its nominee(s) or (if Virgin Money is required by the Panel to make an offer for Church House Trust Shares under Rule 9 of the Takeover Code) by a person acting in concert with Virgin Money or its nominee(s), will only be counted towards fulfilling the acceptance condition if the requirements of Note 5 and, if applicable, Note 6 on Rule 10 of the Takeover Code are satisfied in respect of it; and
  - (iii) before the Offer may become or be declared unconditional the Receiving Agent shall issue a certificate to Virgin Money or Quayle Munro (or their respective agents) which states the number of Church House Trust Shares in respect of which acceptances have been received and not validly withdrawn, and the number of Church House Trust Shares otherwise acquired, whether before or during the Offer Period, which comply with the provisions of this paragraph 2. Copies of the certificate will be sent to the Panel as soon as possible after it is issued.
- (c) For the purpose of determining at any particular time whether the acceptance condition has been satisfied Virgin Money is not bound (unless required by the Panel) to take into account any Church House Trust Shares which have been unconditionally allotted or issued or which arise as a result of the exercise of conversion rights before the determination takes place unless Church House Trust or its agent has given written notice to Virgin Money or the Receiving Agent, Capita Registrars, at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU on behalf of Virgin Money containing relevant details of the allotment, issue or conversion. Notification by e-mail, telex, facsimile or other electronic transmission does not constitute written notice for this purpose.

### **3. Announcements**

- (a) Without prejudice to paragraph 4(b) below, by 8.00 a.m. on the business day (the **relevant day**) following the day on which the Offer is due to expire or becomes or is declared unconditional as to acceptances, or is revised or extended (or such later time(s) or date(s) as the Panel may agree), Virgin Money will make an appropriate announcement (through a Regulatory Information Service) of the position. The announcement will state (unless otherwise permitted by the Panel):
  - (i) the total number of Church House Trust Shares (as nearly as practicable) (a) for which acceptances of the Offer have been received (showing the extent, if any, to which such acceptances have been received from any person(s) acting or deemed to be acting in concert with Virgin Money for the purposes of the Offer) and (b) which were the subject of an irrevocable commitment or letter of intent procured by Virgin Money or its associates (as defined in the Takeover Code);
  - (ii) details of any Church House Trust relevant securities in which Virgin Money or any person acting in concert with it has an interest or in respect of which he has a right to subscribe, in each case specifying the nature of the interests or rights concerned and details of any short positions over Church House Trust relevant securities held by Virgin Money or any person acting in concert with it (whether conditional or absolute and whether in the money or otherwise);

- (iii) details of any Church House Trust relevant securities in respect of which Virgin Money or any of its associates (as defined in the Takeover Code) has an outstanding irrevocable commitment or letter of intent; and
- (iv) details of any Church House Trust relevant securities which Virgin Money or any person acting in concert with it has borrowed or lent, save for any borrowed shares which have been either on-lent or sold,

and will specify the percentages of each class of relevant securities represented by these figures and the total number of shares which Virgin Money may count towards the satisfaction of its acceptance condition.

- (b) In computing the number of Church House Trust Shares represented by acceptances and/or purchases for the announcement, an acceptance or purchase will only be counted towards fulfilling the acceptance condition if the requirements of Notes 4, and 5 (as applicable) on Rule 10 of the Takeover Code are satisfied (unless the Panel agrees otherwise). Subject to this, Virgin Money may include or exclude, for announcement purposes, acceptances and purchases not in all respects in order or not accompanied by the relevant share certificate(s) and/or other document(s) of title or which are subject to verification.
- (c) Any decision to extend the time and/or date by which the acceptance condition has to be fulfilled or to which the Offer is extended may be made at any time up to, and will be announced by 8.00 a.m. on the relevant day or such later time(s) and/or date(s) as the Panel may agree. The announcement will state the next expiry time and date unless the Offer is then unconditional in all respects, in which case a statement may instead be made that the Offer will remain open until further notice.
- (d) In this Appendix, references to the making of an announcement or the giving of notice by or on behalf of Virgin Money includes the release of an announcement by Virgin Money's public relations consultants or Quayle Munro, in each case on behalf of Virgin Money to the press and the delivery by hand or telephone, telex or facsimile or other electronic transmission of an announcement to a Regulatory Information Service. An announcement made otherwise than to a Regulatory Information Service shall be notified simultaneously (unless the Panel agrees otherwise) to a Regulatory Information Service.

#### **4. Rights of withdrawal**

- (a) Except as provided by this paragraph 4 and paragraph 5(b) of this Part B, acceptances of and elections under the Offer and in respect of the Loan Note Alternative are irrevocable.
- (b) If Virgin Money announces the Offer to be unconditional and then fails to comply by 3.30 p.m. on the relevant day (or such later time(s) and/or date(s) as the Panel may agree) with any of the other requirements specified in paragraph 3(a) of Part B of this Appendix 1, an accepting Church House Trust Shareholder may (unless the Panel agrees otherwise) withdraw his acceptance of the Offer by written notice given by post or by hand (during normal business hours only) to the Receiving Agent, Capita Registrars at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Subject to paragraph 1(c) of Part B of this Appendix this right of withdrawal may be terminated not less than eight days after the relevant day by Virgin Money confirming, if such is the case, that the Offer is still unconditional as to acceptances, and complying with the other requirements specified in paragraph 3(a) of Part B of this Appendix 1. If that confirmation is given, the first period of 14 days referred to in paragraph 1(d) of Part B of this Appendix 1 will start on the date of that confirmation.
- (c) If by 3.00 p.m. on Day 42 of the Offer (or such later time(s) and/or date(s) as the Panel may agree) the Offer has not become unconditional as to acceptances, an accepting Church House Trust Shareholder may withdraw his acceptance of the Offer by written notice in the manner referred to in paragraph 4(b) of Part B of this Appendix 1 at any time before the earlier of (i) the time that the Offer becomes unconditional; and (ii) the final time for the lodging of acceptances of the Offer which can be taken into account in accordance with paragraph 2(a) of Part B of this Appendix 1.

- (d) If a “no increase” and/or “no extension” statement is withdrawn in accordance with paragraph 1(e) of Part B of this Appendix 1, a Church House Trust Shareholder who accepts the Offer after the date of the statement may withdraw such acceptance by written notice in the manner referred to in paragraph 4(b) above for a period of eight days after the date on which Virgin Money posts the notice of the withdrawal of that statement to Church House Trust Shareholders.
- (e) All questions as to the validity (including time of receipt) of any notice of withdrawal will be determined by Virgin Money whose determination (except as required by the Panel) will be final and binding. None of Virgin Money, Church House Trust, Quayle Munro, the Receiving Agent or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give such notification.
- (f) In this paragraph 4, **written notice** (including any letter of appointment, direction or authority) means notice in writing signed by the relevant accepting Church House Trust Shareholder (or his/their agent(s) duly appointed in writing and evidence of whose appointment satisfactory to Virgin Money is produced with the notice). Telex, facsimile, e-mail or other electronic transmission or copies will not be sufficient. A notice which is postmarked in, or otherwise appears to Virgin Money or its agents to have been sent from the United States, Australia, Canada or Japan or any other Restricted Jurisdiction may not be treated as valid.
- (g) If the Panel determines that Virgin Money is not permitted to invoke a condition to the Offer it may instead determine that accepting Church House Trust Shareholders shall be entitled to withdraw their acceptances on such terms and by such time as the Panel may determine and notwithstanding that the Offer has become unconditional as to acceptances. The Panel may also determine that the timetable applicable to the Offer shall be varied in such manner as it may determine.

## 5. Revised Offer

- (a) Although no revised offer is envisaged, if the Offer is revised, the benefit of the revised offer will, subject to paragraphs 5(b), (c) and 7 below, be made available to a Church House Trust Shareholder who has accepted the Offer (in its original or any revised form(s)) and who has not validly withdrawn such acceptance (a **previous acceptor**) if any such revised offer(s) represents, on the date on which it is announced (on such basis as Quayle Munro may consider appropriate), an improvement (or no diminution) in the value of the consideration offered compared with the consideration or terms previously offered or in the overall value received and/or retained by a Church House Trust Shareholder. The acceptance by or on behalf of a previous acceptor will, subject as provided in paragraphs 5(b), (c) and 7 of Part B of this Appendix 1 be deemed an acceptance of the revised offer and will constitute the separate appointment of each of Virgin Money and any director of Virgin Money or of Quayle Munro as his attorney and/or agent with authority:
  - (i) to accept the revised offer on behalf of such previous acceptor;
  - (ii) if the revised offer includes alternative form(s) of consideration, to make elections for and/or accept the alternative form(s) of consideration on behalf of such previous acceptor in the proportions the attorney and/or agent in his absolute discretion thinks fit; and
  - (iii) to execute on behalf of such previous acceptor in his name all further documents (if any) and to do all things (if any) as may be required to give effect to such acceptances and/or elections.

In making any election and/or acceptance, the attorney and/or agent will take into account the nature of any previous acceptance(s) or election(s) made by or on behalf of the previous acceptor and other facts or matters he may reasonably consider relevant.

For the avoidance of doubt, for the purposes of paragraph 5(a) of this Part B, the expression “the Offer” includes (and shall be deemed to include) the Loan Note Alternative, and “revision” shall include any revision of the Offer including those parts which related to the Loan Note Alternative (i) in its original or revised form, (ii) in its terms and conditions, (iii) in the value or nature of the consideration offered or (iv) otherwise.

- (b) Although no revision is envisaged, if the Offer is revised, a revised offer document will be posted to Church House Trust Shareholders. On the day of posting, Virgin Money will put the Offer Document on display and announce that the document has been posted and where the document can be inspected. Where necessary, a circular containing the opinion of Church House Trust Board on the revised offer will be posted to Church House Trust Shareholders. On the day of posting, Church House Trust will put the circular on display and announce that the document has been posted and where the document can be inspected. The Church House Trust Board will append to the circular containing its opinion on a revised offer, a separate opinion from the representatives of its employees on the effects of the revised offer on employment, provided such opinion is received in good time before publication of the Church House Trust Board's circular.
- (c) Although no revision is envisaged, if a revised offer document is posted to Church House Trust Shareholders, both Virgin Money and Church House Trust will make the revised offer document readily and promptly available to the representatives of the employees of Virgin Money and Church House Trust respectively or, where there are no such representatives, to the employees themselves. Church House Trust will make any circular posted by Church House Trust Board to Church House Trust Shareholders readily and promptly available to its employee representatives or, where there are no such representatives, to the employees themselves.
- (d) The deemed acceptance and/or election referred to in paragraph 5(a) of Part B of this Appendix 1 shall not apply, and the power of attorney and authorities conferred by that paragraph shall not be exercised if, as a result, the previous acceptor would (on such basis as Quayle Munro may reasonably consider appropriate) receive and/or retain (as appropriate) less in aggregate in consideration under the revised offer or otherwise than he would have received and/or retained (as appropriate) in aggregate in consideration as a result of his acceptance of the Offer in the form originally accepted by such previous acceptor or on his behalf including (if applicable) an election for the Loan Note Alternative in the form in which it is previously accepted by him or on his behalf having regard to any election or previous acceptance originally made by him.
- (e) The deemed acceptance and/or election referred to in paragraph 5(a) of Part B of this Appendix shall not apply, and the power of attorney and the authorities conferred by that paragraph shall not be exercised in the case of a previous acceptor who lodges with the Receiving Agent within 14 calendar days of the posting of the document containing the revised offer to Church House Trust Shareholders, a form of acceptance (or any other form issued on behalf of Virgin Money) in which he validly elects to receive consideration under the revised offer in some other manner. Any such change of election will be conditional upon the Receiving Agent verifying that the request is validly made.
- (f) The authorities and powers of attorney conferred by this paragraph 5 and any acceptance of a revised offer and/or any election in relation to it shall be irrevocable unless and until the previous acceptor withdraws his acceptance having become entitled to do so under paragraph 4 of Part B of this Appendix.
- (g) Subject to paragraphs 5(b) and (c) of Part B of this Appendix, Virgin Money and Quayle Munro reserve the right to treat an executed Form of Acceptance relating to the Offer (in its original or any previously revised form(s)) which is received (or dated) after the announcement or issue of any revised offer as a valid acceptance of the revised offer (and where applicable a valid election for the alternative forms of consideration). That acceptance will constitute an authority in the terms of paragraph 5(a) of Part B of this Appendix, *mutatis mutandis*, on behalf of the relevant Church House Trust Shareholder.

## **6. General**

- (a) Except with the consent of the Panel, the Offer will lapse unless all the conditions relating to the Offer have been satisfied or (if capable of waiver) waived or, where appropriate, have been determined by Virgin Money in its opinion to be and remain satisfied by midnight on the later of Day 42 of the Offer and the date which is 21 days after the date on which the Offer becomes unconditional as to acceptances, or such later date(s) as Virgin Money, with the consent of the Panel, may decide. Virgin

Money shall be under no obligation to waive, to determine, or treat as satisfied any condition by a date earlier than the latest date specified above for the satisfaction thereof notwithstanding that the other conditions of the Offer may at such earlier date have been waived or satisfied and that there are at such earlier date no circumstances indicating that any such conditions may not be capable of satisfaction. If the Offer lapses for any reason:

- (i) it will not be capable of further acceptance;
  - (ii) accepting Church House Trust Shareholders and Virgin Money will cease to be bound by Forms of Acceptance submitted before the time the Offer lapses;
  - (iii) neither Virgin Money nor any person acting, or deemed to be acting, in concert with Virgin Money for the purposes of the Offer may, pursuant to the Takeover Code, make an offer (whether inside or outside the United Kingdom) for Church House Trust Shares for a period of one year following the date of such lapse, except with the permission of the Panel; and
  - (iv) Forms of Acceptance, share certificates and/or other document(s) of title will be returned by post within 14 calendar days of the Offer lapsing, at the risk of the Church House Trust Shareholder in question, to the person or agent whose name and address is set out in the relevant box on the Form of Acceptance or, if none is set out, to the first-named holder at his registered address. No such documents will be sent to an address in the United States, Australia, Canada or Japan or any other Restricted Jurisdiction.
- (b) The expression **Offer Period** when used in this document means the period commencing on (and including) 20 November 2009 and ending on 1.00 p.m. on Day 21 or, if this is later, the date on which the Offer becomes or is declared unconditional as to acceptances or lapses.
- (c) Except with the consent of the Panel:
- (i) settlement of the consideration to which any Church House Trust Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Virgin Money may otherwise be, or claim to be, entitled against that Church House Trust Shareholder; and
  - (ii) settlement of the consideration will be effected in the manner prescribed in paragraph 16 of the letter from the Chairman of Virgin Money contained in Part 2 of this document not later than 14 days after the date on which the Offer becomes or is declared unconditional in all respects or within 14 days of the date of receipt of a valid and complete acceptance, whichever is the later.

Subject to paragraph 7 below, no consideration will be sent to an address in the United States, Australia, Canada or Japan or any other Restricted Jurisdictions.

- (d) The terms, provisions, instructions and authorities contained in or deemed to be incorporated in the Form of Acceptance constitute part of the terms of the Offer. Words and expressions defined in this document have the same meaning when used in the Form of Acceptance unless the context requires otherwise. The provisions of this Appendix shall be deemed to be incorporated and form part of the Form of Acceptance.
- (e) If the expiry date of the Offer is extended, a reference in this document and in the Form of Acceptance to Day 21 of the Offer or First Closing Date will (except in the definition of Offer Period and in paragraph 6(a) of Part B of this Appendix and where the context requires otherwise) be deemed to refer to the expiry date of the Offer as so extended.
- (f) Any omission or failure to despatch this document, the Form of Acceptance or any other document relating to the Offer and/or notice required to be despatched under the terms of the Offer to, or any failure to receive the same by, any person to whom the Offer is, or should be, made shall not invalidate the Offer in any way or create any implication that the Offer has not been made to any such person. Subject to the provisions of paragraph 7 of Part B of this Appendix, the Offer is made to any Church

House Trust Shareholder to whom this document, and the Form of Acceptance or any related document may not be despatched or by whom such documents may not be received, and these persons may collect these documents from the Receiving Agent at the address set out in paragraph 4(b) of Part B of this Appendix.

- (g) Subject to the Takeover Code, and notwithstanding any other provision of Part B of this Appendix, Virgin Money and Quayle Munro reserve the right to treat as valid in whole or in part any acceptance of the Offer if received by the Receiving Agent or otherwise on behalf of Virgin Money which is not entirely in order or which is not accompanied by (as applicable) the relevant share certificate(s) and/or other relevant document(s).
- (h) If all conditions are satisfied, fulfilled or, to the extent permitted, waived and sufficient acceptances are received and/or sufficient Church House Trust Shares are otherwise acquired, Virgin Money intends to apply the provisions of Chapter 3 of Part 28 of the 2006 Act to acquire compulsorily any outstanding Church House Trust Shares.
- (i) All powers of attorney, appointments of agents and authorities on the terms conferred by or referred to in this Appendix or in the Form of Acceptance are given by way of security for the performance of the obligations of the Church House Trust Shareholder and are irrevocable (in respect of powers of attorney in accordance with section 4 of the Powers of Attorney Act 1971) except in the circumstances where the donor of the power of attorney, appointment or authority validly withdraws his acceptance in accordance with paragraph 4 of Part B of this Appendix 1.
- (j) No acknowledgement of receipt of any Form of Acceptance, communication, notice, share certificate(s) or document(s) of title will be given by or on behalf of Virgin Money. All communications, notices, certificates, documents of title and remittances to be delivered by or sent to or from Church House Trust Shareholders (or their designated agents) will be delivered by or sent to or from them (or their designated agent(s)) at their own risk.
- (k) Subject to paragraph 7 below the Offer is made on 8 January 2010 and is capable of acceptance from and after that time. Forms of Acceptance, copies of this document, and any related documents may be collected from the Receiving Agent at the address specified in paragraph 4(b) of Part B of this Appendix. The Offer is made by means of this document and by means of an advertisement to be inserted in the London Gazette under section 978 of the Companies Act 2006.
- (l) The Offer, the Form of Acceptance and all acceptances in respect of the Offer are governed by and will be construed in accordance with English law. Execution by or on behalf of a Church House Trust Shareholder of a Form of Acceptance constitutes his irrevocable submission to the jurisdiction of the courts of England in relation to all matters arising in connection with the Offer and his agreement that nothing shall limit the rights of Virgin Money to bring any action, suit or proceeding arising out of or in connection with the Offer in any other matter permitted by law or in any court of competent jurisdiction.
- (m) Church House Trust Shares are to be acquired by Virgin Money under the Offer fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and other interests of any nature whatsoever and together with all rights attaching to them on or after the date of the Announcement, including, without limitation, voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, made or paid on or after that date other than the CHI Distribution and the CHC Distribution.
- (n) All references in this Appendix 1 to any statute or statutory provision shall include a statute or statutory provision which amends, consolidates or replaces the same (whether before or after the date hereof).
- (o) Any references in this Appendix 1 to the return or despatch of documents by post shall extend to the return or despatch by such other method as the Panel may approve.

- (p) If the Panel requires Virgin Money to make an Offer for Church House Trust Shares under the provisions of Rule 9 of the Takeover Code, Virgin Money may make such alterations to the conditions of the Offer, including condition (a) of Part A of this Appendix, as are necessary to comply with the provisions of that Rule.

## **7. Overseas shareholders**

- (a) The making of the Offer (including the Loan Note Alternative) in, or to persons resident in, or nationals or citizens of, jurisdictions outside the United Kingdom (**overseas shareholders**) and the availability of Loan Notes in such jurisdiction or to such persons who are custodians, nominees, guardians or trustees for such persons may be prohibited or affected by the laws of the relevant jurisdiction. Such overseas shareholders should inform themselves about and observe any applicable legal requirements of such jurisdictions. It is the responsibility of any overseas shareholder wishing to accept the Offer or elect for Loan Notes to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, including obtaining any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities needing to be observed and the payment of any issue, transfer or other taxes or duties or other requisite payments due in that jurisdiction. Any such overseas shareholder shall be responsible for any such issue, transfer or other taxes or duties or other payments by whomsoever payable and Virgin Money and Quayle Munro (and any person acting on behalf of any of them) shall be fully indemnified and held harmless by such overseas shareholders for any such issue, transfer or other taxes or duties or other payments which Virgin Money or Quayle Munro (and any person acting on behalf of them) may be required to pay. If you are an overseas shareholder and you are in doubt about your position you should consult your professional adviser in the relevant jurisdiction.
- (b) The Offer (including the Loan Note Alternative) is not being made, directly or indirectly, in or into or by use of the mails of, or by any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of, the United States, Australia, Canada or Japan or any area subject to its jurisdiction or any political division thereof, nor is it being made in any other Restricted Jurisdiction and the Offer cannot be accepted by any such use, means or instrumentality or otherwise from within the United States, Australia, Canada or Japan or any other Restricted Jurisdiction. Copies of this document, the Form of Acceptance and any related documents are not being (unless determined otherwise by Virgin Money in its sole discretion), and must not be, mailed or otherwise distributed or sent in, into or from the United States, Australia, Canada or Japan or any other Restricted Jurisdiction including to Church House Trust Shareholders or participants in the Church House Trust Share Schemes with registered addresses in the United States, Australia, Canada or Japan or any other Restricted Jurisdiction or to persons whom Virgin Money or Quayle Munro knows to be custodians, trustees or nominees holding Church House Trust Shares for persons with registered addresses in the United States, Australia, Canada or Japan or any other Restricted Jurisdiction. Persons receiving those documents (including, without limitation, custodians, nominees and trustees) should not distribute, mail or send them in, into or from the United States, Australia, Canada or Japan or any other Restricted Jurisdiction or use such mails or any such means, instrumentality or facility for any purpose directly or indirectly in connection with the Offer, and so doing may render any purported acceptance of the Offer invalid.
- (c) Persons wishing to accept the Offer (including the Loan Note Alternative) must not use the mails of the United States, Australia, Canada or Japan or any other Restricted Jurisdiction or any such means, instrumentality or facility for any purpose directly or indirectly relating to acceptance of the Offer. All Church House Trust Shareholders (including nominees, trustees of custodians) who may have a contractual or legal obligation, or may otherwise intend, to forward this document and/or Form of Acceptance, should read the further details in this regard which are contained in this paragraph 7 of Part B and in Part C of this Appendix 1 before taking any action. Envelopes containing Forms of Acceptance, evidence of title or other documents relating to the Offer should not be postmarked in the United States, Australia, Canada or Japan or any other Restricted Jurisdiction or otherwise despatched

from such jurisdictions and all acceptors must provide addresses outside the United States, Australia, Canada or Japan or any other Restricted Jurisdiction for the receipt of the consideration to which they are entitled under the Offer or for the return of the Form of Acceptance or documents of title.

- (d) Subject to the provisions of this paragraph 7 and applicable laws, a Church House Trust Shareholder may be deemed NOT to have accepted the Offer if:
- (i) he puts “No” in Box 6 of the Form of Acceptance and thereby does not make the representations and warranties set out in paragraph 2(b) of Part C of this Appendix;
  - (ii) he completes Box 7 of the Form of Acceptance with an address in the United States, Australia, Canada or Japan or any other Restricted Jurisdiction or has a registered address in the United States, Australia, Canada or Japan or any other Restricted Jurisdiction and in any such case does not insert in Box 7 of the Form of Acceptance the name and address of a person or agent outside the United States, Australia, Canada or Japan or other Restricted Jurisdiction to whom he wishes the consideration to which he is entitled under the Offer to be sent;
  - (iii) he inserts in Box 7 of the Form of Acceptance the name and address of a person or agent in the United States, Australia, Canada or Japan or any other Restricted Jurisdiction to whom he wishes the consideration to which he is entitled under the Offer to be sent; or
  - (iv) in any case, the Form of Acceptance received from him is in an envelope postmarked in, or which otherwise appears to Virgin Money or its agents to have been sent from, the United States, Australia, Canada or Japan or any other Restricted Jurisdiction.

Virgin Money reserves the right, in its sole discretion, to investigate, in relation to any acceptance, whether the representations and warranties set out in paragraph 2(b) of Part C of this Appendix could have been truthfully given by the relevant Church House Trust Shareholder and, if such investigation is made and as a result Virgin Money determines (for any reason) that such representations and warranties could not have been so given, such acceptance may be rejected as invalid.

- (e) If any person, (including without limitation, custodians nominees and trustees) despite the restrictions described above and whether pursuant to a contractual or legal obligation or otherwise, forwards this document, the Form of Acceptance or any related document in, into or from the United States, Australia, Canada or Japan or any other Restricted Jurisdiction or uses the mails or any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, the United States, Australia, Canada or Japan or any other Restricted Jurisdiction in connection with that forwarding, that person should:
- (i) inform the recipient of such fact;
  - (ii) explain to the recipient that such action may invalidate any purported acceptance of the Offer or election for the Loan Note Alternative by the recipient; and
  - (iii) draw the attention of the recipient to this paragraph 7.

Notwithstanding the above, Virgin Money may in its sole and absolute discretion provide cash consideration to a Restricted Overseas Person (as described in paragraph 7(i) of this Part B) if required to do so by or on behalf of that person if Virgin Money is satisfied, in that particular case, that to do so would not constitute a breach of any securities or other relevant legislation of the United States, Canada, Australia or Japan, as appropriate.

- (f) Virgin Money and Quayle Munro each reserve the right to notify any matter, including the making of the Offer, to all or any Church House Trust Shareholders:
- (i) with a registered address outside the United Kingdom; or

- (ii) whom Virgin Money or Quayle Munro knows to be a custodian, trustee or nominee holding Church House Trust Shares for persons who are citizens, residents or nationals of jurisdictions outside the United Kingdom,

by announcement in the United Kingdom in an appropriate manner or by notice in the London Gazette or paid advertisement in one or more newspapers published and circulated in the United Kingdom. Such notice shall be deemed to have been sufficiently given, despite any failure by any such Church House Trust Shareholder to receive or see that notice. A reference in this document to a notice or the provision of information in writing by or on behalf of Virgin Money is to be construed accordingly. No such document will be sent to an address in the United States, Australia, Canada or Japan or any other Restricted Jurisdiction.

- (g) If any written notice from a Church House Trust Shareholder withdrawing his acceptance in accordance with paragraph 4 of Part B of this Appendix is received in an envelope postmarked in, or which otherwise appears to Virgin Money or its agents to have been sent from, the United States, Australia, Canada or Japan or any other Restricted Jurisdiction Virgin Money reserves the right, in its absolute discretion, to treat that notice as invalid.
- (h) The provisions of this paragraph 7 and/or any other terms of the Offer relating to overseas shareholders may be waived, varied or modified as regards specific Church House Trust Shareholders or on a general basis by Virgin Money in its sole discretion. Subject to this discretion, the provisions of this paragraph 7 supersede any terms of the Offer inconsistent with them. References in this paragraph 7 to a Church House Trust Shareholder shall include the person or persons executing a Form of Acceptance and, in the event of more than one person executing the Form of Acceptance, the provisions of this paragraph 7 apply to them jointly and severally.
- (i) As used in this document and in the Form of Acceptance, the **United States** means the United States of America, its possessions and territories, all areas subject to its jurisdiction or any political subdivision thereof, any state of the United States and the District of Columbia; **Australia** means the Commonwealth of Australia; its states; territories; and possessions; **Canada** means Canada, its provinces and territories; **Japan** means Japan, its cities, prefectures, territories and possession and **Restricted Overseas Person** means either a person (including an individual, partnership, unincorporated syndicate, unincorporated organisation, trust, trustee, executor, administrator, or other legal representative) in, or resident in the United States, Australia, Canada or Japan.

**Overseas shareholders should inform themselves about and observe any applicable legal or regulatory requirements. If you are in any doubt about your position, you should consult your appropriate adviser in the relevant jurisdiction.**

## **8. The Loan Note Alternative**

- (a) Church House Trust Shareholders who accept the Offer may (subject to paragraph 7 of this Part B) elect to receive, in exchange for those of their Church House Trust Shares in respect of which they make a valid election, Loan Notes instead of cash to which they would otherwise have been entitled under the Offer on the basis of £1 in nominal amount of Loan Notes for every £1 which they would otherwise have received in cash.
- (b) The Loan Notes will be issued in multiples of £1 and the balance of any entitlement that is not a whole multiple of £1 will be disregarded. Further particulars of the terms of the Loan Notes are set out in Part A of Appendix 2.
- (c) The Loan Note Alternative is conditional upon the Offer becoming or being declared unconditional in all respects. The Loan Note Alternative will lapse if the Offer lapses, is withdrawn or expires.
- (d) The Loan Note Alternative will remain open until 1.00 p.m. on Day 21, but may be closed at any time thereafter.

- (e) No election for the Loan Note Alternative will be valid unless both a valid acceptance of the Offer and a valid election for the Loan Note Alternative, duly completed in all respects and accompanied by, if appropriate, all relevant share certificates and/or other document(s) of title, are duly received by the time and date on which the Loan Note Alternative closes.
- (f) If any acceptance of the Offer which include an election for the Loan Note Alternative is not, and is not deemed to be, valid or complete in all respects at such time, such elections shall for all purposes be void and the holder(s) of the Church House Trust Shares purporting to make such election shall not, for any purpose, be entitled to receive the Loan Note Alternative, but any such acceptance which is otherwise valid shall be deemed to be an acceptance of the Offer (without the Loan Note Alternative) for the number of Church House Trust Shares which are the subject of the acceptance of the holder(s) of the Church House Trust Shares and such holder(s) of the Church House Trust Shares will, on the Offer becoming or being declared unconditional in all respects, be entitled to receive the cash consideration due under the Offer.
- (g) The insertion of a number in Box 3 of the Form of Acceptance shall, subject to the other terms of the Offer, be treated in respect of the relevant number of Church House Trust Shares as an election for the Loan Note Alternative.

## Part C – Form of Acceptance

1. For the purposes of Part C of this Appendix and the accompanying Form of Acceptance, the phrase Church House Trust **Shares comprised in the acceptance** shall mean the number of Church House Trust Shares inserted in Box 2 of the Form of Acceptance or, if no number is inserted (or a number greater than the relevant Church House Trust Shareholder’s holding of Church House Trust Shares), the greater of:
  - (a) the relevant Church House Trust Shareholder’s entire holding of Church House Trust Shares as disclosed by details of the register of members made available to the Receiving Agent prior to the time the relevant Form of Acceptance is processed by them;
  - (b) the relevant Church House Trust Shareholder’s entire holding of Church House Trust Shares as disclosed by details of the register of members made available to the Receiving Agent prior to the latest time for receipt of Form(s) of Acceptance which can be taken into account in determining whether the Offer is unconditional; and
  - (c) the number of Church House Trust Shares in respect of which certificates or an indemnity in lieu thereof is received.
  
2. Without prejudice to the terms of the Form of Acceptance and the provisions of Parts A and B of this Appendix, each Church House Trust Shareholder by whom, or on whose behalf, a Form of Acceptance is executed and lodged with the Receiving Agent (subject to the rights of withdrawal set out in this document), irrevocably undertakes, represents, warrants and agrees to and with Virgin Money, Quayle Munro and the Receiving Agent (so as to bind him, his personal or legal representatives, heirs, successors and assigns):
  - (a) that the execution of a Form of Acceptance shall constitute (whether or not any other Boxes are completed):
    - (i) an acceptance of the Offer in respect of the number of Church House Trust Shares inserted or deemed to be inserted in Box 2 of the Form of Acceptance;
    - (ii) if Box 3 is completed, an election under the Loan Note Alternative to receive Loan Notes instead of the cash to which he would otherwise have been entitled under the terms of the Offer, in respect of the number of Church House Trust Shares inserted or deemed to be inserted in Box 3; and
    - (iii) an undertaking to execute any further documents, take any further action and give any further assurances which may be required to enable Virgin Money to obtain the full benefit of Part C of this Appendix 1 and/or to perfect any of the authorities expressed to be given hereunder and otherwise in connection with his acceptance of the Offer;

in each case on and subject to the terms and conditions set out or referred to in this document and that, subject only to the rights of withdrawal set out in paragraph 4 of Part B of this Appendix, each such acceptance shall be irrevocable provided that (i) if no Boxes are completed; or (ii) the total number of Church House Trust Shares inserted in Box 2 and/or Box 3 is greater than the number of Church House Trust Shares comprised in the acceptance; or (iii) the acceptance is otherwise completed incorrectly, but the Form of Acceptance is signed, it will be deemed to be an acceptance of the Offer in respect of all Church House Trust Shares comprised in the acceptance,
  - (b) that, unless “No” is inserted in Box 6 of the Form of Acceptance such Church House Trust Shareholder:
    - (i) has not received or sent copies or originals of this document, the Form of Acceptance or any related documents in, into or from the United States, Australia, Canada or Japan or any other Restricted Jurisdiction;

- (ii) has not, in connection with the Offer or the execution or delivery of the Form of Acceptance, utilised, directly or indirectly, the mails of, or any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of, the United States, Australia, Canada or Japan or any other Restricted Jurisdiction;
  - (iii) is accepting the Offer from outside the United States, Australia, Canada or Japan or any other Restricted Jurisdiction and was outside such jurisdictions when the Form of Acceptance was delivered;
  - (iv) he is not a Restricted Overseas Person (as described in paragraph 7(i) of Part B of this Appendix 1);
  - (v) is not an agent or fiduciary acting on a non-discretionary basis for a principal, unless such agent or fiduciary is an authorised employee of such principal or such principal has given any instructions with respect to the Offer from outside the United States, Australia, Canada or Japan or any other Restricted Jurisdiction; and
  - (vi) if such Church House Trust Shareholder is a citizen, resident or national of a jurisdiction outside the United Kingdom, he has observed the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, obtained all requisite governmental, exchange control or other consents, complied with all other necessary formalities and paid any issue, transfer or other taxes or duties or other requisite payments due in any such jurisdiction in connection with such acceptance and that he has not taken or omitted to take any action that will or may result in Virgin Money, Quayle Munro or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Offer or his acceptance of the Offer;
- (c) that the execution of the Form of Acceptance and its delivery constitutes (subject to the Offer becoming unconditional in all respects and to such Church House Trust Shareholder not having validly withdrawn his acceptance) the irrevocable appointment of any directors of, or any person authorised by, Virgin Money or Quayle Munro as his agent and/or attorney with an irrevocable instruction and authorisation to such attorney to:
- (i) complete and execute all or any form(s) of transfer, renunciation and/or other documents at the discretion of such attorney in relation to the Church House Trust Shares comprised in the acceptance in favour of Virgin Money or such other persons as Virgin Money or its agents may direct;
  - (ii) deliver any form(s) of transfer, renunciation and/or other document(s) at the discretion of such attorney together with any share certificate or other document(s) of title for registration relating to such Church House Trust Shares within six months of the Offer becoming unconditional in all respects; and
  - (iii) take any other action as may in the opinion of such attorney be necessary or expedient for the purposes of, or in connection with the acceptance of the Offer and to vest in Virgin Money (or its nominees) the full legal and beneficial ownership of Church House Trust Shares comprised in the acceptance;
- (d) that the execution of the Form of Acceptance and its delivery to the Receiving Agent constitutes (subject to the Offer becoming unconditional in all respects in accordance with its terms and to such Church House Trust Shareholder not having validly withdrawn his acceptance) an irrevocable instruction and authorisation:
- (i) to Church House Trust or its agents to procure the registration of the transfer of the Church House Trust Shares comprised in the acceptance and the delivery of the share

- certificate(s) and other document(s) of title in respect of the Church House Trust Shares to Virgin Money or as it may direct;
- (ii) subject to the provisions of paragraph 7 of Part B of this Appendix, to Virgin Money or its agents to procure that such Church House Trust Shareholder's name is entered, where applicable, in the registers of holders of Loan Notes subject to the Loan Note Instrument;
  - (iii) subject to the provisions of paragraph 7 of Part B of this Appendix, to Virgin Money or its agents to procure that such Church House Trust Shareholder's name is entered, where applicable, in the registers of holders of Contingent Loan Notes subject to the Contingent Loan Note Instrument; and
  - (iv) subject to the provisions of paragraph 7 of Part B of this Appendix, to Virgin Money, Quayle Munro or their respective agents to procure the issue and despatch by post of a cheque for cash and a certificate for Contingent Loan Notes and/or a certificate for any Loan Notes to which such Church House Trust Shareholder is entitled under the Offer at such shareholder's risk to the person or agent whose name and address outside the United States, Canada, Australia or Japan or any other Restricted Jurisdiction is set out in Box 1 (or, if applicable, Box 5 or 7) or, if none is set out, to the first-named holder at his registered address outside the United States, Australia, Canada or Japan or any other Restricted Jurisdiction;
- (e) that the execution of the Form of Acceptance constitutes the giving of authority to each of Virgin Money and Quayle Munro and their respective director(s), partners and agents within the terms set out in Part B and Part C of this Appendix;
- (f) that, subject to the Offer becoming unconditional in all respects and such Church House Trust Shareholder not having validly withdrawn his acceptance (or if the Offer would become unconditional in all respects or lapse on the outcome of the resolution in question or if the Panel otherwise gives its consent) in respect of Church House Trust Shares in respect of which the Offer has been accepted or deemed to be accepted, and pending registration in the name of Virgin Money or as it may direct:
- (i) Virgin Money or its agents shall be authorised to direct the exercise of any votes and any or all other rights and privileges (including the right to requisition the convening of a general or separate class meeting of Church House Trust) attaching to the Church House Trust Shares comprised or deemed to be comprised in such acceptance;
  - (ii) the execution of a Form of Acceptance by a Church House Trust Shareholder shall constitute with regard to such Church House Trust Shares comprised in the acceptance and in respect of which such acceptance has not been validly withdrawn:
    - (aa) an authority to Church House Trust from such Church House Trust Shareholder or its agents to send any notice, circular, warrant or other document or communication which may be required to be sent to him as a member of Church House Trust to Virgin Money at its registered office;
    - (bb) an irrevocable authority to any directors of, or person authorised by Virgin Money or Quayle Munro or their respective agents to sign any document and do such things as may, in the opinion of that agent and/or attorney, seem necessary or desirable in connection with the exercise of any votes or other rights or privileges attaching to the Church House Trust Shares held by him (including, without limitation, signing any consent to short notice of a general or separate class meeting as his agent and/or attorney and on his behalf and executing a form of proxy appointing any person nominated by Virgin Money to attend general and separate class meetings of Church House Trust and attending any such meeting and exercising the votes attaching to the Church House Trust Shares comprised or deemed to be comprised in such acceptance on his behalf, where

relevant such votes to be cast so far as possible to satisfy any outstanding condition of the Offer); and

- (cc) the agreement of such Church House Trust Shareholder not to exercise any such rights without the consent of Virgin Money and the irrevocable undertaking not to appoint a proxy for or to attend such general or separate class meeting of Church House Trust;
- (g) that he will deliver to the Receiving Agent, or procure the delivery to the Receiving Agent of, his certificate(s) or other document(s) of title in respect of those Church House Trust Shares comprised in the acceptance and not validly withdrawn by him or an indemnity acceptable to Virgin Money, as soon as possible, and in any event within six months of the Offer becoming unconditional in all respects;
- (h) that he will ratify each and every act or thing which may be done or effected by Virgin Money, Quayle Munro or the Receiving Agent or any of their respective directors or agents or by Church House Trust or its agents, as the case may be, in the exercise of any of the powers and/or authorities under Part C of this Appendix;
- (i) that, if any provision of Part B or Part C of this Appendix shall be unenforceable or invalid or shall not operate so as to afford Virgin Money, Quayle Munro or the Receiving Agent or any of their respective directors, agents or persons authorised by them, or Church House Trust or any of its agents the benefit of the authority expressed to be given therein, he will, with all practicable speed, do all such acts and things and execute all such documents that may be required or desirable to enable Virgin Money, Quayle Munro and/or the Receiving Agent and any of their respective directors, agents or persons authorised by them or Church House Trust or any of its agents to secure the full benefit of Part B or Part C of this Appendix;
- (j) that he is irrevocably and unconditionally entitled to sell and transfer the beneficial ownership of the Church House Trust Shares comprised or deemed to be comprised in such acceptance and that such shares are sold fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and other interests of any nature whatsoever and together with all rights attaching to them on or after the date of the Announcement including, without limitation, voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, paid or made on or after that date other than the CHI Distribution and the CHC Distribution;
- (k) that the terms and conditions of the Offer shall be deemed to be incorporated in, and form part of, the Form of Acceptance which shall be read and construed accordingly;
- (l) that the Form of Acceptance shall be deemed to be delivered on the date of its execution and shall take effect as a deed on such date;
- (m) that the execution of the Form of Acceptance constitutes Church House Trust Shareholder's submission to the exclusive jurisdiction of the courts of England in relation to all matters arising in connection with the Offer and the Form of Acceptance;
- (n) that he is not a client (as defined in the FSA Handbook) of Quayle Munro in connection with the Offer; and
- (o) that he will do all such acts and things as shall be necessary or expedient to vest the aforesaid Shares in Virgin Money or its nominee(s) or such other person as it may decide.

A reference in Part C of this Appendix to a Church House Trust Shareholder includes a reference to the person or persons executing the Form of Acceptance and in the event of more than one person executing a Form of Acceptance the provisions of Part C of this Appendix will apply to them jointly and to each of them.

## Appendix 2 – Particulars of the Loan Notes and the Contingent Loan Notes

### Part A – Loan Notes

#### 1. Particulars of the Loan Notes

The Loan Notes will be created by a resolution of the board of directors of Virgin Money or a duly authorised committee thereof and will be constituted by the Loan Note Instrument executed as a deed by Virgin Money. The issue of the Loan Notes is conditional on the Offer becoming or being declared unconditional in all respects. The Loan Note Instrument will contain provisions, *inter alia*, to the following effect.

#### 2. Form and Status

The Loan Notes will be evidenced by certificates and will be issued by Virgin Money in registered form in amounts and integral multiples of £1 in nominal amount and will constitute unsecured obligations of Virgin Money. The Loan Note Instrument will not contain any restrictions on borrowing, disposals or charging of assets by Virgin Money.

#### 3. Interest

Interest on the Loan Notes (after the deduction of tax) shall accrue six-monthly in arrears on 28 February and 31 August in each year (**Interest Date**) except that the first interest date will be 28 February 2010 if the Offer becomes or is declared unconditional in all respects prior to that date, failing which it will be 31 August 2010 (the **First Interest Date**). Except where Loan Notes have previously been repaid, redeemed or purchased, the final interest date will be the date falling 5 years from the date falling 14 days after the Offer becomes or is declared unconditional in all respects (the **Maturity Date**). The period from and including the first date of issue of any of the Loan Notes up to but excluding the First Interest Date and the period from and including the First Interest Date or any subsequent Interest Date up to but excluding the next following Interest Date is herein called an **Interest Period**. Interest accrued on the First Interest Date and each Interest Date shall be paid to the holders of Loan Notes within 10 Business Days of such First Interest Date or Interest Date. If any payment is due on a non-Business Day, the due date for payment shall instead be the next Business Day unless that is in the next calendar month, in which case it shall be the preceding Business Day.

The rate of interest on the Loan Notes for each Interest Period will be the rate per annum which is equal to 0.1 per cent. below LIBOR. Interest shall be calculated on the basis of a 365 day year and the number of days elapsed in the relevant Interest Period.

#### 4. Repayment, redemption and purchase

A holder of Loan Notes (a **Noteholder**) may require Virgin Money to redeem the whole or any part (being a minimum amount of £1 nominal or any integral multiple thereof) of the principal amount of his holding of Loan Notes at par, together with accrued interest (subject to any requirement to deduct income tax therefrom) up to but excluding the date of redemption within 10 Business Days from any Interest Date, from and including the First Interest Date and thereafter on any Interest Date falling prior to the Maturity Date by giving not less than 28 days' notice in writing to the Registrars prior to the relevant Interest Date accompanied by the certificate(s) for all the Loan Notes to be repaid (or, if lost, an indemnity in a form reasonably acceptable to Virgin Money) and a notice of redemption.

Fractions of Loan Notes will not be issued and the balance of any entitlement that is not a whole multiple of £1 will be disregarded and not issued.

Any Loan Notes not previously repaid, redeemed or purchased will be repaid in full at par within 10 business days of the Maturity Date, together with accrued interest (subject to any requirement to deduct income tax) up to but excluding that date.

Each Noteholder will be entitled to require all or part (being £1 nominal amount or any integral multiple thereof) of the Loan Notes held by him to be repaid at par together with accrued interest (subject to any requirement to deduct any income tax) if:

(a) ***Insolvency***

Virgin Money stops payment of, is (or is deemed under Section 123 of the Insolvency Act 1986) unable or otherwise admits inability to pay its debts.

(b) ***Arrangements with creditors***

Virgin Money:

- (i) makes a general or special arrangement or composition (whether voluntary or compulsory) with its creditors or any class of creditors;
- (ii) declares or agrees a moratorium; or
- (iii) makes a proposal for a voluntary arrangement under Section 1 of the Insolvency Act 1986 to be made in respect of Virgin Money.

(c) ***Insolvency proceedings***

Any order or resolution is passed for the administration, liquidation, winding-up or dissolution of Virgin Money.

(d) ***Appointment of receivers and managers***

An encumbrancer takes possession or a receiver, administrative receiver, administrator, manager or sequestrator is appointed in respect of (or Virgin Money applies for or consents to any such appointment) Virgin Money or any substantial part of the assets or undertaking of Virgin Money.

(e) ***Cessation of business***

Virgin Money either does or threatens to cease to carry on business.

Any Loan Notes repaid, redeemed or purchased will be cancelled and will not be available for re-issue.

A holder of Loan Notes may elect that the principal amount of the Loan Notes shall be redeemed in US dollars. To be effective, the election must be submitted by the Loan Note holder in writing to Virgin Money no less than 28 days and no more than 6 months before the relevant redemption date. In such case, Virgin Money shall pay to the Loan Note holder an amount in US dollars equal to the amount in US dollars obtained by converting the principal amount outstanding on such Loan Notes into US dollars (at the spot rate for the purchase of US dollars with sterling prevailing at the date 15 days before the redemption date). Provided that such amount shall be no less and no more than (and if it would otherwise be, shall be equal to, as the case may be) 99.5 per cent. or 100.5 per cent. of the amount in US dollars which the sterling amount of the Loan Notes to be redeemed could have purchased (at the spot rate for the purchase of US dollars with sterling at 12.00 a.m. on the redemption date). Virgin Money shall determine the spot rate in good faith.

## **5. Cash Collateralisation Arrangements**

The cash value of the Loan Notes will be deposited by Virgin Money into an escrow account held at the Escrow Bank under the terms of the Loan Note Escrow Agreement. All rights of payment of the Loan Note holders under the Loan Notes will be limited recourse to the funds in the Escrow Account.

## **6. Guarantee**

The Loan Notes will not be guaranteed.

## **7. Transfer**

The Loan Notes will not be transferable.

## **8. Maturity**

Unless previously redeemed or repurchased, all outstanding Loan Notes will be redeemed as at the Maturity Date with payment made within 10 Business Days of such date.

## **9. Modification**

The holders of the Loan Notes will have power by extraordinary resolution passed in accordance with the provisions of the Loan Note Instrument or by resolution in writing signed by holders of not less than 75 per cent. of the outstanding Loan Notes, *inter alia*, to sanction any abrogation, modification or compromise or arrangement in respect of their rights against Virgin Money and to assent to any amendment of the provisions of the Loan Note Instrument.

No application has been made or is intended to be made to any stock exchange for the Loan Notes to be listed or otherwise traded.

## **10. No overseas registration**

The Loan Notes have not been, and will not be, registered under the Securities Act or under the securities laws of any state of the United States or the applicable securities laws of Australia, Canada or Japan and the relevant clearances have not been, and will not be, obtained from the regulatory authority in any of these jurisdictions. Accordingly, the Loan Note Alternative is not available to Church House Trust Shareholders who are US persons or who are resident in Australia, Canada or Japan, and the Loan Notes may not be offered, sold, resold, delivered or distributed (directly or indirectly) in or into the United States, Australia, Canada or Japan or to or for the benefit of any US person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Further information for overseas Church House Trust Shareholders is set out in paragraph 7 of Part B of Appendix 1 to this document.

## **11. Governing law**

The Loan Notes and the Loan Note Instrument will be governed by and construed in accordance with English law.

## Part B – Contingent Loan Notes

### 1. Particulars of Contingent Loan Notes

The Contingent Loan Notes will be created by a resolution of the board of directors of Virgin Money or a duly authorised committee thereof and will be constituted by the Contingent Loan Note Instrument executed as a deed by Virgin Money. The issue of the Contingent Loan Notes is conditional on the Offer becoming or being declared unconditional in all respects. The Contingent Loan Note Instrument will contain provisions, *inter alia*, to the following effect.

### 2. Form and Status

The Contingent Loan Notes will be evidenced by certificates and will be issued by Virgin Money in registered form in amounts and integral multiples of £1 in nominal value and will constitute unsecured obligations of Virgin Money. The Contingent Loan Note Instrument will not contain any restrictions on borrowing, disposals or charging of assets of Virgin Money.

### 3. Interest

- 3.1 Interest on the Contingent Loan Notes (after the deduction of tax) shall accrue six-monthly in arrears on 28 February and 31 August in each year in respect of the Interest Periods (as defined below) ending on the day immediately before that date except that the first interest date will be 28 February 2010 if the Offer becomes or is declared unconditional in all respects prior to that date, failing which it will be 31 August 2010 and the final interest date will be 6 April 2012 (the **Second Repayment Date** (each an **Interest Date**)). The period from and including the first date of issue of any of the Contingent Loan Notes up to (but excluding) the following Interest Date and the period from and including an Interest Date up to (but excluding) the next following Interest Date is herein called an **Interest Period**. Interest accrued on each Interest Date shall be paid to the Contingent Loan Note holders within 10 Business Days of such Interest Date. If any payment is due on a non-Business Day, the due date for payment shall instead be the next Business Day unless that is in the next calendar month, in which case it shall be the preceding Business Day.
- 3.2 The rate of interest on the Contingent Loan Notes will be 2.28 per cent. Interest shall be calculated on the basis of a 365 day year and the number of days elapsed in the relevant Interest Period.

### 4. Redemption

- 4.1 The Contingent Loan Notes will be redeemable in whole or in part at the election of the holders of Contingent Loan Notes at their redemption value (calculated as set out below) on 30 March 2012 and all or part of any Contingent Loan Notes that are not redeemed on that day will be redeemed at their redemption value (calculated as set out below) on 6 April 2012. Each Contingent Loan Note or part of a Contingent Loan Note will be redeemed at its **Redemption Amount** being an amount per Contingent Loan Note or part of a Contingent Loan Note calculated in accordance with the following formula:

$$\text{Redemption Amount} = \frac{\text{£2.1 million less the Contingent Consideration Adjustment Amount}}{\text{£2.1 million}} \times \text{the aggregate par value of the Contingent Loan Note or part of a Contingent Loan Note}$$

Virgin Money will calculate the Contingent Consideration Adjustment Amount and notify the Contingent Loan Note holders of the aggregate amount to be paid out by way of redemption of the Contingent Loan Notes and the amount to be paid out per £1 par value of Contingent Loan Note by way of redemption by no later than 9 March 2012 (the **Redemption Notification**).

In the event that the Contingent Consideration Adjustment Amount proposed to be deducted exceeds £50,000 Virgin Money shall make all reasonable efforts to consult with David Batten and Graham Hughes who will be entitled to make representations to it.

4.2 The **Contingent Consideration Adjustment Amount** shall be calculated on the following basis:

**Contingent Consideration Adjustment Amount** means the Aggregate Expected Loss as at 31 December 2011 minus £447,724 (being the Aggregate Expected Loss as at 30 November 2009).

4.3 Where the Contingent Consideration Adjustment Amount is:

- (a) zero or less, the Contingent Loan Notes will be redeemed for £2.1 million in aggregate; and
- (b) more than £2.1 million, the Contingent Loan Notes will not be redeemed and will be worthless (but, for the avoidance of doubt, amounts of interest already paid prior to the Redemption Notification will not be repayable).

4.4 The **Aggregate Expected Loss** as at a particular date, will be calculated by Virgin Money establishing the Expected Loss as at that date for each individual loan in the Loan Book and aggregating all such Expected Losses. **Loan Book** shall be the loans in the loan book of Church House Trust as at 30 November 2009. The **Expected Loss** will be determined as the Probability of Default multiplied by the Loss Given Default. A **default** will arise where a customer has missed three contractual payments, has entered into an individual voluntary arrangement or has been declared bankrupt.

4.5 The **Probability of Default** for each loan in the Loan Book as at a particular date will be the probability of that loan going into default established by considering the arrears status and history of the relevant customer as at the date of calculation and any other factors that Virgin Money reasonably consider to be relevant. The calculation of the Probability of Default will be at the reasonable discretion of Virgin Money but will not be inconsistent with UK GAAP. For the avoidance of doubt, if prior to the date at which calculation is made, an individual loan has gone into default, the Probability of Default of that individual loan will be 100 per cent.

4.6 The **Loss Given Default** for each loan in the Loan Book will be measured as at a particular date (the **Relevant Date**) as the difference between the gross value of the loan on the balance sheet of Church House Trust as at 30 November 2009 and the Estimated Recoveries on that loan as at the Relevant Date calculated as follows:

**Estimated Recoveries** in relation to a loan means (i) the Forced Sale Value of any asset securing the loan (the **Property**); minus (ii) Sales Costs; minus (iii) the Discount, where (i) minus (ii) is the **Undiscounted Recoveries**.

Where:

- (a) **Forced Sale Value** means an amount equal to 75 per cent. of the current market value of the Property unless as at the date of calculation, in the reasonable opinion of Virgin Money a more accurate estimate of likely actual forced sale price of that Property, is available, in which case that estimate;
- (b) **Sales Costs** means, unless Virgin Money, in its reasonable opinion, has obtained a more reliable estimate of the likely actual legal or other costs of a forced sale of the relevant Property in which case that estimate, an amount equal to 10 per cent. of the Forced Sale Value of the relevant Property;
- (c) **Discount** means Undiscounted Recoveries discounted at the Effective Interest Rate over a 6 month period, unless Virgin Money in its reasonable opinion has obtained a more reliable estimate of the period from default to the ultimate date of recovery of monies after repossession proceedings commence in which case over that estimated period); and
- (d) **Effective Interest Rate** means the rate which exactly discounts the estimated future cash payments and receipts through the expected life of the loan to the gross amount of the loan on the balance sheet of Church House Trust as at 30 November 2009.

Where the Loss Given Default for a loan is a number which is less than zero, the Expected Loss for that loan shall be zero.

Where the Loss Given Default is being calculated as at a particular date in relation to a loan that was in the Loan Book but no longer has a carrying value in the balance sheet of Church House Trust as at that particular date (including without limitation because it has been repaid or gone into default and an enforcement process taken in relation to it), actual historical figures will be used as appropriate for the Forced Sale Value, Sales Costs and Discount and Effective Rate of Interest and the Probability of Default shall be zero or 100 per cent. as the case may be, depending on whether it actually went into default.

A holder of Contingent Loan Notes may elect that the principal amount of the Contingent Loan Notes shall be redeemed in US dollars. To be effective, the election must be submitted by the Contingent Loan Note holder in writing to Virgin Money no less than 28 days and no more than 6 months before the relevant redemption date. In such case, Virgin Money shall pay to the Contingent Loan Note holder an amount in US dollars equal to the amount in US dollars obtained by converting the Redemption Amount payable on such Contingent Loan Notes into US dollars (at the spot rate for the purchase of US dollars with sterling prevailing at the date 15 days before the redemption date). Provided that such amount shall be no less and no more than (and if it would otherwise be, shall be equal to, as the case may be) 99.5 per cent. or 100.5 per cent. of the amount in US dollars which the sterling amount of the Redemption Amount payable on the Contingent Loan Notes to be redeemed could have purchased (at the spot rate for the purchase of US dollars with sterling at 12.00 a.m. on the redemption date). Virgin Money shall determine the spot rate in good faith.

Fractions of Contingent Loan Notes will not be issued and the balance of any entitlement that is not a whole multiple of £1 will be disregarded and not issued.

#### **5. Cash Collateralisation Arrangements**

£2.1 million will be deposited by Virgin Money into an escrow account held at the Escrow Bank under the terms of the Contingent Loan Note Escrow Agreement.

#### **6. Guarantee**

The Contingent Loan Notes will not be guaranteed.

#### **7. Transfer**

The Contingent Loan Notes will not be transferable without the consent of the Board of Virgin Money, or a duly authorised committee of the Board of Virgin Money.

#### **8. Modification**

The holders of the Contingent Loan Notes will have power by extraordinary resolution passed in accordance with the provisions of the Contingent Loan Note Instrument or by resolution in writing signed by holders of not less than 75 per cent. of the outstanding Contingent Loan Notes, *inter alia*, to sanction any abrogation, modification, compromise or arrangement in respect of their rights against Virgin Money proposed by Virgin Money and to assent to any amendment of the provisions of the Contingent Loan Note Instrument.

No application has been made or is intended to be made to any stock exchange for the Contingent Loan Notes to be listed or otherwise traded.

#### **9. No overseas registration**

The Contingent Loan Notes have not been, and will not be, registered under the Securities Act or under the securities laws of any state of the United States or the applicable securities laws of Australia, Canada or Japan and the relevant clearances have not been, and will not be, obtained from the regulatory authority in any of these jurisdictions.

#### **10. Governing Law**

The Contingent Loan Notes and the Contingent Loan Note Instrument will be governed by and construed in accordance with English law.

## Appendix 3 – Financial Information incorporated by reference relating to Church House Trust

The Information listed below relating to Church House Trust is hereby incorporate by reference into this document.

<i>No.</i>	<i>Information</i>	<i>Source of Information</i>
1.	Turnover, net profit or loss before and after taxation, the charge for tax, extraordinary items, minority interests, the amount absorbed by dividends and earnings and dividends per share for Church House Trust for the three years ended 31 December 2008	<p>Church House Trust Annual Report and Accounts 2008, Consolidated profit and loss account on page 9 and Note 8 ‘Dividends’ on page 17.</p> <p>See <a href="http://www.church-house.co.uk/uploads/1/Audited_2008_Group.pdf">http://www.church-house.co.uk/uploads/1/Audited_2008_Group.pdf</a></p> <p>Church House Trust Annual Report and Accounts 2007, Consolidated profit and loss account on page 10 and Note 8 ‘Dividends’ on page 18.</p> <p>See <a href="http://www.church-house.co.uk/uploads/1/000-CHT-financial_statements-2007.pdf">http://www.church-house.co.uk/uploads/1/000-CHT-financial_statements-2007.pdf</a></p> <p>Church House Trust Annual Report and Accounts 2006, Consolidated profit and loss account on page 10 and Note 9 ‘Dividends’ on page 20.</p> <p>See <a href="http://www.church-house.co.uk/uploads/1/000CHT-financial_statements-2006.pdf">http://www.church-house.co.uk/uploads/1/000CHT-financial_statements-2006.pdf</a></p>
2.	A statement of the assets and liabilities shown in the audited consolidated accounts for Church House Trust for the year ended 31 December 2008, being the last published audited accounts	<p>Church House Trust Annual Report and Accounts 2008, Consolidated Balance Sheet on page 10.</p> <p>See <a href="http://www.church-house.co.uk/uploads/1/Audited_2008_Group.pdf">http://www.church-house.co.uk/uploads/1/Audited_2008_Group.pdf</a></p>
3.	A cash flow statement as provided in the audited consolidated accounts for Church House Trust for the year ended 31 December 2008, being the last published audited accounts	<p>Church House Trust Annual Report and Accounts 2008, Consolidated cash flow statement on page 12.</p> <p>See <a href="http://www.church-house.co.uk/uploads/1/Audited_2008_Group.pdf">http://www.church-house.co.uk/uploads/1/Audited_2008_Group.pdf</a></p>
4.	Significant accounting policies together with any points from the notes to the accounts which are of major relevance to a appreciation of the figures	<p>Church House Trust Annual Report and Accounts 2008, Accounting Policies and Notes to the Financial Statements on pages 13 to 30.</p> <p>See <a href="http://www.church-house.co.uk/uploads/1/Audited_2008_Group.pdf">http://www.church-house.co.uk/uploads/1/Audited_2008_Group.pdf</a></p> <p>Church House Trust Annual Report and Accounts 2007, Notes to the Financial Statements on pages 14 to 30.</p> <p>See <a href="http://www.church-house.co.uk/uploads/1/000-CHT-financial_statements-2007.pdf">http://www.church-house.co.uk/uploads/1/000-CHT-financial_statements-2007.pdf</a></p> <p>Church House Trust Annual Report and Accounts 2006, Notes to the Financial Statements on pages 14 to 31.</p> <p>See <a href="http://www.church-house.co.uk/uploads/1/000CHT-financial_statements-2006.pdf">http://www.church-house.co.uk/uploads/1/000CHT-financial_statements-2006.pdf</a></p>

Information in relation to 1, 2 and 3 above has not been published in an inflation adjusted form.

The annual reports for Church House Trust for the three years ended 31 December 2008 are available in “read-only” format and can be printed free of charge from the Church House Trust website at <http://www.church-house.co.uk/news/index.shtml>.

Church House Trust will provide within two Business Days, without charge, to each person to whom a copy of this document has been delivered, upon their written or oral request, a copy of any documents incorporated by reference to this document, copies of any documents incorporated by reference in this document will not be provided unless such a request is made. Requests for copies of any such document should be directed to: Graham Hughes at Church House Trust.

## Appendix 4 – Financial Information relating to Virgin Money

The following financial information relating to Virgin Money for the years ending 31 December 2006, 31 December 2007 and 31 December 2008, has been extracted without material adjustment from the audited consolidated financial statements of Virgin Money for these three years.

With effect from the year ended 31 December 2007, Virgin Money has adopted Schedule 4 (format 2) of the Companies Act 1985, as the directors believe this better represents the Virgin Money Group's operating activities. Comparatives for 2006 have been restated to reflect this change. This change had no impact on turnover, operating profit, profit after tax or net assets in 2006 or 2007.

The financial information set out in this report does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

Copies of the financial statements for each of the three years ended 31 December 2008 have been delivered to the Registrar of Companies in England and Wales.

KPMG LLP have made a report under section 235 of the Companies Act 1985 in respect of the statutory consolidated accounts for each of the three years ended 31 December 2006, 31 December 2007 and 31 December 2008. Such reports were unqualified and did not contain a statement under section 237 of the Companies Act 1985.

### Consolidated Profit and Loss Account

#### For the year ending 31 December

	<i>2008</i> <i>£000s</i>	<i>2007</i> <i>£000s</i>	<i>2006</i> <i>£000s</i>
Turnover	98,434	77,794	74,843
Operating costs	(72,062)	(59,082)	(60,877)
Operating profit	<u>26,372</u>	<u>18,712</u>	<u>13,966</u>
Profit on disposal of trademark	–	6,572	–
Income from discontinued operations	2,846	–	–
Exceptional restructuring costs	–	–	(706)
Profit on ordinary activities before interest	<u>29,218</u>	<u>25,284</u>	<u>13,260</u>
Interest receivable and similar income	775	865	1,472
Interest payable and similar charges	(2,525)	(2,597)	(4,583)
Profit on ordinary activities before taxation	<u>27,468</u>	<u>23,552</u>	<u>10,149</u>
Tax on profit on ordinary activities	(3,099)	(3,224)	2,454
<b>Profit for the year</b>	<u><u>24,369</u></u>	<u><u>20,328</u></u>	<u><u>12,603</u></u>

**Consolidated Balance Sheet**  
**For the year ending 31 December**

	<i>2008</i> <i>£000s</i>
<b>Assets</b>	
Tangible fixed assets	2,163
Debtors	22,697
Cash at bank and in hand	14,479
Total assets	<u>39,339</u>
<b>Liabilities</b>	
Current liabilities	(42,694)
Amounts falling due after more than one year	(23,668)
Provisions for liabilities and charges	(4,684)
Total liabilities	<u>(71,406)</u>
Net liabilities	<u>(31,707)</u>
<b>Capital and reserves</b>	
Called up share capital	15
Share premium	1
Profit and loss account	(31,723)
Shareholders' deficit	<u>(31,707)</u>

**Consolidated Cash Flow Statement**  
**For the year ending 31 December**

	<i>2008</i> <i>£000s</i>
Cash inflow from operating activities	27,812
Returns on investment and servicing of finance	
Interest paid	(2,304)
Interest received	775
Net cash outflow from returns on investment and servicing of finance	<u>(1,529)</u>
Taxation	(1,460)
Capital expenditure and financial investments	
Payments to acquire tangible fixed assets	(615)
Receipts from the sale of intangible fixed assets	9,696
Net cash inflow from capital expenditure and financial investments	<u>9,081</u>
Net cash inflow before financing	33,904
Equity dividend paid	(47,396)
Cash outflow before use of liquid resources and financing	<u>(13,492)</u>
Financing	
Issue of ordinary share capital	16
Net movement in short-term borrowings	5,000
Net movement in long-term borrowings	9,000
Net cash inflow from financing	<u>14,016</u>
Increase in cash	<u>524</u>

## **1 Principal Accounting Policies**

### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and on a going concern basis, notwithstanding the net current liabilities of £39.5m in the balance sheet that the Virgin Money Directors believe to be appropriate for the following reasons:

- (a) the Virgin Money Directors have reviewed the budget and cash flow forecasts for Virgin Money and its subsidiary undertakings for a period of not less than 12 months from the date of approving these financial statements. The Virgin Money Directors are confident that they show that the company and its subsidiaries will have sufficient resources to meet their liabilities as they fall due; and
- (b) as part of this review, the Virgin Money Directors have taken into account that, at the date of approval of these financial statements, Virgin Money has in place facilities totalling £50.0m, of which £11.0m has not been drawn down. In addition, of the net liabilities due of £39.5m, £25.0m is due to its own subsidiary undertakings, which have no intention to call the amounts due for at least the next 12 months.

Accordingly, the Virgin Money Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

### ***Basis of Consolidation***

The Virgin Money Group financial statements consolidate the financial statements of Virgin Money and all its subsidiary undertakings drawn up to 31 December each year.

### ***Turnover***

Turnover is stated net of value added tax.

Turnover is recognised to reflect underlying contracts with product providers, being from the date credit cards issued in the UK are activated, loans are drawn down or general and life insurance policies are on risk. Additional turnover from credit cards is recognised daily based on the risk-adjusted return of the total card portfolio

Turnover from sales of Individual Savings Accounts (**ISAs**) is recognised daily based on the average value of ISA funds under management. Deposit account and other income is recognised as earned. Management fees are recognised daily based on the value of the funds. Gains and losses arising in derivative instruments taken out to manage exposures to stock market fluctuations are recognised on a settled basis.

The Virgin Money Group also received cash flows under an Australian contract which it then passes onto a related Virgin Money Group company. These Australian cash flows are not recognised in turnover and cost of sales because the company has no rights to these cash flows or risks in respect of them.

### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between treatment of certain item for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing difference that have originated but not reversed at the balance sheet date, except as otherwise required by FRS19, where transactions or events that result in an obligation to pay more or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

### ***Investments in subsidiary undertakings***

Investments in subsidiary undertakings are stated at cost less any impairment

### ***Leases***

Rentals payable under operating leases are charged in the profit and loss account as they fall under the contract.

### ***Fixed assets and depreciation***

The cost of fixed assets is their purchase cost plus incidental costs of acquisition. Depreciation is provided on a straight-line basis in order to write off the cost of fixed assets, less their appropriate residual value, over their estimated useful lives. Depreciation is charged from the date assets are brought into use in order to write off the cost of the assets over the following periods:

Leasehold improvements	5 years
Computer hardware	4 years
Computer software	3 years
Office equipment	5 years

### ***Classification of financial instruments issued by the Virgin Money Group***

The financial instruments issued by the Virgin Money Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Virgin Money Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Virgin Money Group; and
- (b) where the instrument will or may be settled in the Virgin Money Group's own equity instruments, it is neither a non-derivative that includes no obligation to deliver a variable number of the Virgin Money Group's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for fixed number of its own equity instrument.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

### ***Derivatives***

The Virgin Money Group uses various derivative financial instruments to manage its exposures to stock market and interest rate risks. Gains and losses and associated costs are recognised in the profit and loss account in the period in which the hedged transaction is closed.

### ***Dividends on shares presented within shareholders' funds***

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of Virgin Money. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

### ***Cash***

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

### ***Foreign currency translation***

Transactions denominated in foreign currencies are translated into the local currency at the rate of exchange ruling on the date of the transaction.

Monetary assets and liabilities nominated in a foreign currency are re-translated at the exchange rate ruling on the balance sheet date.

### ***Pensions***

Virgin Money operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

## **Appendix 5 – Sources of information and bases of calculation**

Unless otherwise stated the following constitute the bases and sources of certain information referred to in this document:

- information relating to Church House Trust has been extracted from the published audited reports and accounts of Church House Trust for the year ended 31 December 2008;
- information relating to Virgin Money has been extracted from the published audited reports and accounts of Virgin Money for the year ended 31 December 2008;
- the value of the issued share capital of Church House Trust is based on 1,660,759 Church House Trust Shares in issue as at the date of this document, together with 379,333 Church House Trust Shares to be issued in the event of exercise of all options under the Church House Trust Option Schemes other than the options over 310,000 Church House Trust Shares which carry an exercise price of £6 per Church House Trust Share or more, all of which have been surrendered, until or unless the Offer lapses or is withdrawn;
- the value of the Offer is based on 1,660,759 Church House Trust Shares in issue as at the date of this document, together with 379,333 Church House Trust Shares to be issued to satisfy the exercise of options granted under the Church House Trust Option Schemes other than the options over 310,000 Church House Trust Shares which carry an exercise price of £6 per Church House Trust Share or more, all of which have been surrendered, until or unless the Offer lapses or is withdrawn. It is further based on Quayle Munro's valuation of the Contingent Loan Notes of 90 pence per £1 nominal value;
- the statements of the premiums represented by the Offer Price (including the Contingent Loan Notes) to the price of 540 pence per Church House Trust Share and the net asset value of 358 pence per Church House Trust Share are calculated on the basis that the Contingent Loan Notes are valued at 90 pence per £1 nominal value.

## Appendix 6 – Additional information

### 1. Responsibility

- 1.1 The directors of Virgin Money whose names are set out in paragraph 2.1 below accept responsibility for the information contained in this document (other than that relating to Church House Trust or the Church House Trust Group, the Church House Trust Directors or members of their immediate families, related trusts or persons connected with them including the statements expressed to be opinions of the Church House Trust Directors or the recommendation of the Church House Trust Directors). To the best of the knowledge and belief of the directors of Virgin Money (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of that information.
- 1.2 The Church House Trust Directors, whose names are set out in paragraph 2.2 below, accept responsibility for the information contained in this document relating to Church House Trust and the Church House Trust Group, the Church House Trust Directors and members of their immediate families, related trusts and other persons connected with them including the statements expressed to be opinions of the Church House Trust Directors or the recommendation of the Church House Trust Directors. To the best of the knowledge and belief of the Church House Trust Directors (who have taken all reasonable care to ensure that such is the case), the information contained herein for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. Directors

- 2.1 The directors of Virgin Money and their positions in Virgin Money are as follows:

<i>Name</i>	<i>Position</i>
Gordon Douglas McCallum	Non-Executive Chairman
Jayne-Anne Gadhia	Chief Executive Officer
David Norman Dyer	Chief Financial Officer
Patrick Charles Kingdon McCall	Non-Executive Director

Virgin Money is a private company limited by shares and incorporated in England and Wales under the Companies Act 1985 with registered number 03087587.

The registered office of Virgin Money and the business address of each of the directors of Virgin Money is Discovery House, Whiting Road, Norwich NR4 6EJ.

- 2.2 The directors of Church House Trust and their positions in Church House Trust are as follows:

<i>Name</i>	<i>Position</i>
David Batten	Executive Chairman
Michael Baines	Non-Executive Director
Raymond Edwards	Non-Executive Director
Dominic Gibbs	Non-Executive Director
Graham Hughes	Executive Director
James Mahon	Executive Director
Andrew Martin Smith	Non-Executive Director

Church House Trust is a public company limited by shares and incorporated in England and Wales under the Companies Act 1948 to 1967 with registered number 00980698.

The registered office of Church House Trust and the business address of each of the directors of Church House Trust is 3 Goldcroft, Yeovil, Somerset BA21 4DQ.

### 3. Disclosures of shareholdings, interests and dealings

#### 3.1 Definitions

For the purposes of this paragraph 3:

**acting in concert** refers to persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company, and associates of Virgin Money are presumed to be acting in concert with Virgin Money for the purposes of the Takeover Code;

**arrangement** includes indemnity or option arrangements, and any agreement or understanding, formal or informal, of whatever nature relating to relevant securities which may be an inducement to deal or refrain from dealing;

**associate** of a company has the meaning given to it in the Takeover Code and includes (without limitation):

- (a) the subsidiaries, fellow subsidiaries and associated companies of Church House Trust and Virgin Money, and companies of which Virgin Money, Church House Trust or any such subsidiaries, fellow subsidiaries or associated companies are associated companies, as the case may be. For this purpose ownership or control of 20 per cent. or more of the equity share capital of a company is the test of associated company status;
- (b) connected advisers of Virgin Money or Church House Trust and persons controlling, controlled by or under the same control of any such connected advisers, as the case may be;
- (c) the Church House Trust Board or the Virgin Money Directors and the directors of any company covered in paragraph (a) above (together in each case with their close relatives and related trusts), as the case may be;
- (d) any pension funds of Virgin Money or Church House Trust or any company covered in paragraph (a) above, as the case may be;
- (e) any investment company, unit trust or other person, as the case may be, whose investments as associate (as otherwise defined in this definition) manages on a discretionary basis in respect of the relevant investment accounts;
- (f) an employee benefit trust of Virgin Money or Church House Trust or of any company covered in paragraph (a) above, as the case may be; and
- (g) a company having a material trading arrangement with Virgin Money or Church House Trust, as the case may be.

**Church House Trust companies** includes members of the Church House Trust Group (excluding Church House Trust), Church House Trust's parent companies (if any), any of their associated companies and any companies of which such companies are associated companies and "Church House Trust company" is any one such company;

**connected advisers** includes an organisation which (i) is advising Virgin Money or (as the case may be) Church House Trust in relation to the Offer; (ii) is corporate broker to Virgin Money or (as the case may be) Church House Trust; (iii) is advising a person acting in concert with Virgin Money or (as the case may be) Church House Trust in relation to the Offer or in relation to the matter which is the reason for that person being a member of the concert party; or (iv) is advising a paragraph (a) above associate of Virgin Money in relation to the Offer;

**dealing** includes: (i) the acquisition or disposal of securities, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to securities, or of general control of securities; (ii) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in

respect of any securities; (iii) subscribing or agreeing to subscribe for securities; (iv) the exercise or conversion, whether in respect of new or existing securities, of any securities carrying conversion or subscription rights; (v) the acquisition of, disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to securities; (vi) entering into, terminating or varying the terms of any agreement to purchase or sell securities; and (vii) any other action resulting, or which may result, in an increase or decrease in the number of securities in which a person is interested or in respect of which he has a short position;

**derivative** includes any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security;

**disclosure period** means the period commencing on 20 November 2008 (being the date twelve months prior to the commencement of the Offer Period) and ending on 7 January 2010 (being the latest practicable date before the publication of this document);

A person has an **interest** or is **interested** in securities if he has a long economic exposure, whether absolute or conditional, to changes in the price of those securities (and a person who only has a short position in securities is not treated as interested in those securities).

In particular, a person is treated as “interested” in securities if:

- (a) he owns them;
- (b) he has a right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them;
- (c) by virtue of any agreement to purchase, option or derivative, he has the option or right to acquire them or call for their delivery or is under an obligation to take delivery of them, whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or
- (d) he is party to any derivative whose value is determined by reference to their price and which results, or may result, in his having a long position in them;

References to directors having an “interest” in relevant securities are to be interpreted in accordance with Part 22 of the 2006 Act;

**relevant securities** includes (i) Church House Trust Shares and any other securities of Church House Trust conferring voting rights; (ii) equity share capital of Church House Trust; (iii) securities of Church House Trust carrying conversion or subscription rights into any of the foregoing; and

**short position** means any short position whether conditional or absolute and whether in the money or otherwise (including any short position under a derivative).

Ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status and “control” means an interest, or interests, in shares carrying in aggregate 30 per cent. or more of the voting rights attributable to the capital of a company which are currently exercisable at a general meeting, irrespective of whether such interest or interests give *de facto* control.

### 3.2 ***Shareholdings, interests and Dealings***

As at the close of business on 7 January 2010 (being the latest practicable date prior to the publication of this document):

- (a) the Church House Trust Directors and members of their immediate families and related trusts owned or controlled the following relevant securities, including options granted under Church House Trust Share Schemes which are set out in paragraph 3.2(c) below.

<i>Name</i>	<i>No. of relevant securities</i>
David Batten	294,858
Michael Baines	46,479
Raymond Edwards	84,580
Dominic Gibbs	Nil
Graham Hughes	234,711
James Mahon	178,143
Andrew Martin Smith	30,100

- (b) save as set out in paragraph 3.2(a) above, and paragraphs 3.2(c) and 3.2(d) below, no person acting in concert with Church House Trust owned or controlled any relevant securities during the disclosure period;
- (c) the following options over Church House Trust Shares have been granted to certain Church House Trust Directors and remain outstanding:

<i>Name</i>	<i>No. of Church House Trust Shares under Option and Scheme</i>	<i>Exercise Price</i>
David Batten	15,000 Unapproved Share Option Scheme	£2.45
	47,500 Unapproved Share Option Scheme	£4.00
	47,500 Unapproved Share Option Scheme	£5.00
Graham Hughes	15,000 Unapproved Share Option Scheme	£2.45
	47,500 Unapproved Share Option Scheme	£4.00
	47,500 Unapproved Share Option Scheme	£5.00
James Mahon	2,760 Unapproved Share Option Scheme	£2.45
	47,500 Unapproved Share Option Scheme	£4.00
	47,500 Unapproved Share Option Scheme	£5.00
	12,240 Approved Option Scheme	£2.45
Michael Baines	30,000 Executive Share Option Scheme	£6.50

On 7 January 2010 the following Church House Trust Directors and other individuals entered into deeds of surrender under which, they have surrendered the number of options under the Unapproved Share Option Scheme set opposite their name until and unless the Offer lapses or is withdrawn:

<i>Name</i>	<i>Options surrendered</i>
Michael Baines	30,000
Jerom Bos	10,000
Keith Edwards	90,000
James Johnsen	90,000
Jeremy Wharton	90,000

- (d) the following Church House Trust companies, pension funds of Church House Trust or employee benefit trusts of Church House Trust owned or controlled the following relevant securities:

<i>Name</i>	<i>Number of relevant Church House Trust Securities</i>
Batten Friendly Society	125,869
Church House Investments Limited	66,995
Church House Pension Trustee Limited	57,444
Share Incentive Plan	135,400
Goldcroft Group Pension Plan	46,149

- (e) The following dealings in relevant securities by the Church House Trust Directors and members of their immediate families and related trusts during the disclosure period were:

<i>Name</i>	<i>Date</i>	<i>Nature of Transaction</i>	<i>Number of Church House Trust Shares</i>	<i>Price per Church House Trust Share (£)</i>
David Batten	3 April 2009	Disposal	2,500	5.40
Share Incentive Plan Trustees	6 April 2009	Disposal	1,298	5.40
James Mahon	16 November 2009	Disposal	2,000	5.40

- (f) The following dealings in relevant securities by Church House Trust companies, pension funds of Church House Trust or employee benefit trusts of Church House Trust during the disclosure period were:

<i>Name</i>	<i>Date</i>	<i>Nature of Transaction</i>	<i>Number of Church House Trust Shares</i>	<i>Price per Church House Trust Share (£)</i>
Trustees of the Goldcroft Group Personal Pension Plan	8 March 2009	Acquisition	809	1.00
Batten Friendly Society	2 April 2009	Acquisition	1,850	5.40
Trustees of the Goldcroft Group Personal Pension Plan	3 April 2009	Acquisition	2,500	5.40
Trustees of the Goldcroft Group Personal Pension Plan	4 April 2009	Acquisition	1,481	5.40
Share Incentive Plan Trustees	6 April 2009	Disposal	1,298	5.40
Church House Pension Trustee Limited	6 April 2009	Acquisition	1,298	5.40
Trustees of the Goldcroft Group Personal Pension Plan	30 April 2009	Acquisition	416	5.40
Share Incentive Plan Trustees	30 April 2009	Disposal	1,058	5.40
Trustees of the Goldcroft Group Personal Pension Plan	10 July 2009	Acquisition	420	5.40
Trustees of the Goldcroft Group Personal Pension Plan	22 July 2009	Acquisition	352	5.40
Share Incentive Plan Trustees	26 August 2008	Disposal	300	5.40
Trustees of the Goldcroft Group Personal Pension Plan	26 August 2009	Acquisition	300	5.40
Trustees of the Goldcroft Group Personal Pension Plan	26 August 2009	Disposal	138	Nil
Trustees of the Goldcroft Group Personal Pension Plan	16 November 2009	Acquisition	2,000	5.40

### 3.3 **General**

- (a) None of Virgin Money or any of the directors of Virgin Money, any members of such directors' immediate families or any related trusts or companies, nor any person deemed to be acting in concert with Virgin Money, or any person with whom Virgin Money or any person deemed to be acting in concert with Virgin Money has an arrangement, was interested, had any rights to subscribe, had any short positions, any agreement to sell, any delivery obligation or right to require another person to purchase or take delivery, in each case in respect of any relevant securities on 7 January 2010 (being the latest practicable date prior to the posting of this document) nor has any such person dealt in any relevant securities during the disclosure period.

- (b) Save as disclosed above, none of Church House Trust, any Church House Trust Directors, any members of such directors' immediate families or any related trusts or companies, any person acting in concert with Church House Trust, or any person with whom Church House Trust or any associate of Church House Trust, has an arrangement, was interested, had any rights to subscribe or had any short positions any agreement to sell, any delivery obligation or right to require another person to purchase or take delivery in each case in respect of any relevant securities on 7 January 2010 (being the latest practicable date before publication of this document), nor has any such person dealt in any relevant securities during the Offer Period.
- (c) Save as disclosed above, no Church House Trust companies, or any pension fund of Church House Trust or any Church House Trust company, or any employee benefit trusts of Church House Trust or any Church House Trust company, was interested, had any rights to subscribe or had any short positions, any agreement to sell, any delivery obligation or right to require another person to purchase or take delivery, in each case in respect of any relevant securities on 7 January 2010 (being the latest practicable date before publication of this document), nor has any such person dealt in any relevant securities during the Offer Period.
- (d) Save as disclosed above, no connected adviser to Church House Trust, Church House Trust companies or persons acting in concert with Church House Trust or persons controlling, controlled by or under the same control as any such connected advisers (excluding exempt principal traders and exempt fund managers) was interested, had any rights to subscribe or had any short positions, any agreement to sell, any delivery obligation or right to require another person to purchase or take delivery, in each case in respect of any relevant securities on 7 January 2010 (being the latest practicable date before publication of this document), nor has any such person dealt in any relevant securities during the Offer Period.
- (e) Neither Virgin Money or Church House Trust nor any person acting in concert with Virgin Money or Church House Trust has borrowed or lent any relevant securities during the disclosure period, save for any borrowed shares which have either been on-lent or sold.
- (f) Neither Church House Trust nor any person acting in concert with Church House Trust has borrowed or lent any relevant securities during the disclosure period, save for any borrowed shares which have either been on-lent or sold.
- (g) Save as disclosed above, and the irrevocable commitments referred to in paragraph 5 of this Appendix 6, neither Virgin Money, nor Church House Trust nor any person acting in concert with Virgin Money or Church House Trust, nor any associates of Virgin Money or Church House Trust has any arrangements in relation to any relevant securities.

### 3.4 **Options**

As at the close of business on 7 January 2010 (being the latest practicable date prior to the posting of this document) the following options under the Church House Trust Option Schemes inclusive of those referred to at paragraph 3.2(c) above, were outstanding over Church House Trust Shares:

#### *Approved Share Option Scheme*

##### *No. of Church House Trust Shares*

<i>under Option</i>	<i>Exercise Price</i>	<i>Exercise Period</i>
2,000	£2.25	1 July 2006 to 15 July 2013
12,240	£2.45	27 December 2003 to 27 December 2010
11,500	£2.50	27 December 2003 to 27 December 2010

#### *Dryfield Share Option Scheme*

<i>No. of Church House Trust Shares under Option</i>	<i>Exercise Price</i>	<i>Exercise Period</i>
32,760	£2.45	27 December 2003 to 27 December 2010

#### *Executive Share Option Scheme*

<i>No. of Church House Trust Shares under Option</i>	<i>Exercise Price</i>	<i>Exercise Period</i>
160,000	£4.00	15 October 2004 to 14 October 2011
160,833	£5.00	15 October 2004 to 14 October 2011

The total number of options outstanding over Church House Trust Shares excluding those which have been surrendered as described in the next paragraph is 379,333.

All of the holders of the options under the Executive Share Option Scheme (including Michael Baines) with an exercise price of £6 per Church House Trust Share or more, being a total of options over 310,000 Church House Trust Shares, have agreed to surrender their options under that scheme until or unless the Offer lapses or is withdrawn and those options are therefore not included in the table above.

To the extent any options under the Church House Trust Option Schemes are not vested at the date of this document, such options shall become exercisable for a period of 6 months from the date prior to the date on which the Offer becomes or is declared unconditional in all respects, and if not exercised in that period they will lapse and become worthless.

#### **4. United Kingdom taxation**

The following paragraphs, which summarise the UK tax treatment of the Offer, are intended as a general guide only and are based on current law and published HM Revenue & Customs practice as at the date of this document.

They apply to Church House Trust Shareholders resident (or, if individuals, ordinarily resident or temporarily non-UK resident) for tax purposes in the UK who hold Church House Trust Shares as an investment (and not as employment-related securities or securities to be realised in the course of a trade) and who are the absolute beneficial owners of those Church House Trust Shares.

Church House Trust Shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to tax in a jurisdiction outside the United Kingdom, should consult their own independent professional advisers immediately.

##### **1. Tax on chargeable gains**

Liability to UK tax on chargeable gains will depend on the individual circumstances of each Church House Trust Shareholder and on the form of consideration received.

###### **a. Cash**

Cash received by a Church House Trust Shareholder under the Offer will constitute a disposal, or part disposal, of his Church House Trust Shares for the purposes of UK taxation of chargeable gains. Such a disposal, or part disposal, may, depending on the Church House Trust Shareholder's individual circumstances (including the availability of exemptions and allowable losses), give rise to a liability to UK taxation on chargeable gains. In addition, individuals who are temporarily non-UK resident may be liable to UK capital gains tax under anti-avoidance provisions.

Where a Church House Trust Shareholder receives a mixture of non-cash consideration (i.e. Loan Notes) and cash consideration pursuant to the Offer and the amount of cash received is "small" as compared with the value of his Church House Trust Shares, the receipt of the cash will not trigger a disposal at that time. Instead, a disposal will only be triggered when his Loan Notes are disposed of. The amount of cash received will be deducted from the Church House Trust

Shareholder's acquisition cost in the Loan Notes. HM Revenue & Customs currently regard a sum to be "small" for these purposes if either (i) it is 5 per cent. or less of the value of the Church House Trust Shares held by that Church House Trust Shareholder; or (ii) it is £3,000 or less regardless of whether it satisfies the 5 per cent. test.

b. *Loan Notes*

Church House Trust has been advised that the Loan Note Alternative and the Contingent Loan Notes constitutes a reorganisation for the purposes of UK taxation of chargeable gains, and that an exchange of Church House Trust Shares for Loan Notes and the Contingent Loan Notes under the Offer should not constitute a disposal of Church House Trust Shares for these purposes. Loan Notes and the Contingent Loan Notes issued in the context of an exchange of Church House Trust Shares should instead be treated as the same asset as the relevant shareholder's Church House Trust Shares, acquired at the same time and for the same consideration as those Church House Trust Shares. HM Revenue & Customs has confirmed that the tax treatment described above will not be disappplied solely on the grounds of not being effected for *bona fide* commercial reasons or as forming part of a scheme of arrangement of which the main purpose or one of the main purposes is avoidance of liability to capital gains tax or corporation tax.

For UK resident individuals, the Loan Notes and the Contingent Loan Notes will be "non-qualifying corporate bonds" for the purposes of UK taxation of chargeable gains. Depending on the Church House Trust Shareholder's individual circumstances (including the availability of exemptions and allowable losses), a liability to taxation may arise at the time the Loan Notes and the Contingent Loan Notes are disposed of. In addition, individuals who are temporarily non-UK resident may be liable to UK capital gains tax on any such disposal under anti-avoidance provisions.

For a Church House Trust Shareholder within the charge to UK corporation tax, the Loan Notes will be "qualifying corporate bonds" for the purposes of corporation tax on chargeable gains. To the extent that such a Church House Trust Shareholder elects to receive Loan Notes, any gain or loss which would otherwise have arisen on any disposal of its Church House Trust Shares will be "held over" and deemed to accrue on any subsequent disposal (including redemption or repayment) of the Loan Notes.

An individual who satisfies the conditions for entrepreneur's relief in relation to his holding of Church House Trust Shares should note that he may elect to treat the Church House Trust Shares as having been disposed of at the time that they are exchanged for Loan Notes. Church House Trust Shareholders to whom this may apply should consult their professional advisers.

2. ***Tax on interest on the Loan Notes***

Virgin Money will deduct UK income tax (currently at the rate of 20 per cent.) at source where required to do so under UK law, for example where the Loan Notes are held by (a) UK resident individuals or (b) non-UK residents where no relief is available under the provisions of an applicable double tax treaty or a similar measure. Virgin Money will not gross up payments of interest on the Loan Notes to compensate for any tax that it is required to deduct at source.

Holders of Loan Notes that are within the charge to UK corporation tax will generally be charged to corporation tax on all returns on and fluctuations in the value of the Loan Notes held by them broadly in accordance with their statutory accounts.

The gross amount of the interest on the Loan Notes will form part of the recipient's income for the purposes of UK income tax, credit being allowed for the tax withheld. Individuals who are taxable at the higher rate will have further tax to pay in respect of the interest. In certain cases, a holder of Loan Notes may be able to recover an amount in respect of the tax withheld at source.

A disposal of Loan Notes may give rise to a tax liability for holders of Loan Notes on an amount representing interest accrued on the Loan Notes at the date of disposal.

3. ***Other tax matters***

Special tax provisions may apply to Church House Trust Shareholders who have acquired or who acquire their Church House Trust Shares by exercising options or awards under a Church House Trust Share Scheme, including provisions imposing a charge to income tax. Church House Trust Shareholders to whom this may apply are advised to consult their own professional tax advisers.

4. ***Stamp duty and stamp duty reserve tax***

a. *Acceptance of the Offer*

No stamp duty or stamp duty reserve tax will be payable by Church House Trust Shareholders as a result of accepting the Offer or the Loan Note Alternative.

b. *Loan Notes*

Stamp duty or stamp duty reserve tax will not be payable on a transfer on sale of (or an agreement to transfer or sell) Loan Notes.

**THE ABOVE SUMMARY IS INTENDED ONLY AS A GENERAL GUIDE TO THE TAXATION POSITION UNDER UK TAX LEGISLATION AND DOES NOT CONSTITUTE TAX OR LEGAL ADVICE. ANY PERSON WHO IS IN DOUBT AS TO HIS TAX POSITION OR WHO REQUIRES MORE DETAILED INFORMATION SHOULD CONSULT HIS OWN PROFESSIONAL TAX ADVISER.**

5. **Irrevocable Commitments**

- 5.1 Irrevocable undertakings to accept or procure acceptance of the Offer have been given for the following holdings of Church House Trust Shares, in respect of each of which a Church House Trust Director is the registered holder and beneficial owner (or in respect of which he is otherwise able to control the rights attaching thereto, including the ability to procure the transfer thereof):

<i>Name</i>	<i>Number of Church House Trust Shares</i>
David Batten	129,465
Graham Hughes	79,486
James Mahon	48,162
Andrew Martin Smith	30,000
Raymond Edwards	65,274

The undertakings provide that such Church House Trust Directors shall, as soon as possible, and in any event within five days of the posting of this document, accept or procure acceptance of the Offer in accordance with its terms. The undertakings also apply to any other Church House Trust Shares acquired after the date of the undertakings and any shares attributable to or derived from the Church House Trust Shares subject to the undertakings while the Offer remains open for acceptance. The Church House Trust Directors have also agreed not to withdraw any acceptance of the Offer.

The undertakings restrict such Church House Trust Directors, subject to their fiduciary duties, from soliciting or entering into discussions with any person (other than Virgin Money) regarding an offer for Church House Trust or taking any action which is prejudicial to the successful outcome of the Offer.

The undertakings above shall remain in effect until the Offer lapses or is withdrawn without it having become or been declared unconditional in all respects whether or not a competing offer is announced by a third party.

- 5.2 In addition to the irrevocable undertakings to accept the Offer referred to in paragraph 5.1 above, Virgin Money has received irrevocable undertakings from or on behalf of certain other Church House Trust Shareholders (or persons otherwise able to control the rights attaching to Church House Trust Shares, including the ability to procure the transfer thereof):

<i>Name</i>	<i>Number of Church House Trust Shares</i>
Timothy Whitmore Newton Guinness	30,000
William H Batten	5,110
Mrs Z Vaughan	59,085
Michael Blackmore	91,745
CHI as nominee for James Johnsen	41,546
The Cayzer Trust Company	220,500
Batten Friendly Society	125,869
Trustees of Church House Share Incentive Plan	58,770
Trustees of Goldcroft Group Pension Plan	32,136
Trustees of Church House SIPP Scheme	55,741
CHI as investment manager on behalf of Bank of New York (Nominees) Limited	20,000

Certain Church House Trust Directors hold the beneficial interests in a number of the Church House Trust Shares which are the subject of the irrevocable undertakings given by The Trustees of the Church House Share Incentive Plan, the Trustees of the Goldcroft Pension Plan and the Trustees of the Church House SIPP Scheme.

In particular the following Church House Trust Directors hold, in aggregate, beneficial interests in the following number of Church House Trust Shares.

<i>Name</i>	<i>Number of Church House Trust Shares</i>
David Batten	30,995
Graham Hughes	19,556
James Mahon	19,981
Raymond Edwards	1,282
Andrew Martin Smith	100
Michael Baines	6,479

The undertakings provide that each of the persons listed above shall, in relation to the Church House Trust Shares shown above, as soon as possible, and in any event within five days of the posting of this document, accept or procure acceptance of the Offer in accordance with its terms. The undertakings also apply to any other Church House Trust Shares acquired after the date of the undertakings and any shares attributable to or derived from the Church House Trust Shares subject to the undertakings while the Offer remains open for acceptance. The persons listed above have also agreed not to withdraw any acceptance of the Offer.

The undertakings above shall remain in effect until the Offer lapses or is withdrawn without it having become or been declared unconditional in all respects whether or not a competing offer is announced by a third party.

- 5.3 Undertakings to accept or procure acceptance of the Option Offer have been given for the following holdings of Church House Trust Options, in respect of each of which a Church House Trust Director is the holder:

<i>Name</i>	<i>Number of Church House Trust Options</i>
David Batten	110,000
Graham Hughes	110,000
James Mahon	110,000

The undertakings provide that such Church House Trust Director shall within five days of the posting of this document accept the Option Offer.

The Church House Trust Directors have also agreed that in relation to options granted under the Church House Trust Unapproved Share Option Scheme (**Unapproved Share Options**) they shall not withdraw their acceptance of the Option Offer.

The undertakings above shall cease to have effect if the Offer lapses or is withdrawn without it having become or been declared unconditional in all respects whether or not a competing offer is announced by a third party. In respect of any option granted under the Approved Option Scheme (**Approved Share Option**), a Church House Trust Director may by written notice revoke his or her undertaking to accept the Option Offer before the day before the Offer becomes or is declared unconditional in all respects.

- 5.4 In addition to the undertakings to accept the Option Offer referred to in paragraph 5.3 above, Virgin Money has received undertakings from the following Church House Trust Optionholders to accept the Option Offer:

<i>Name</i>	<i>Number of Church House Trust Options</i>
Carol Hooper	4,166

The undertaking provides that the person listed above shall within five days of the posting of this document accept the Option Offer.

The person listed above has also agreed that they shall not withdraw their undertaking to accept the Option Offer in relation to their Unapproved Share Options (being options over 1,666 Church House Trust Shares).

The undertaking above shall cease to have effect if the Offer lapses or is withdrawn without it having become or been declared unconditional in all respects whether or not a competing offer is announced by a third party. The person listed above may also by written notice revoke their undertaking in respect of any Approved Share Options held by them (being options over 2,500 Church House Trust Shares) before the Offer becomes or is declared wholly unconditional in all respects.

## **6. Service Agreements and letters of appointment of the Church House Trust Directors**

1. Church House Trust Directors constituting the executive members of the Church House Trust Board  
The following are summaries of the principal terms of the service agreements of the Church House Trust Directors constituting the executive members of the Church House Trust Board:

- a. by an agreement with Church House Trust dated 21 August 1998 David Batten was appointed as Executive Chairman of Church House Trust. His annual salary is £102,899.00, subject to review on 31 March in each year, and Mr Batten is eligible for participation in the Church House Trust executive bonus scheme, which is payable at the discretion of the remuneration committee of Church House Trust, and he participates in various of the Church House Trust Share Schemes. Church House Trust contribute 12 per cent. of Mr Batten's salary into his personal pension scheme together with a monthly sum of £1,182.50 which Mr Batten has opted to pay into his personal pension as a salary sacrifice. For the calendar year ended 31 December 2009 Mr Batten received a bonus of £23,500. The service agreement is terminable on either party giving not less than 12 months' written notice to the other. The service agreement contains restrictions on Mr Batten for a period of 12 months from the date of termination of his employment either from soliciting the custom of any client of Church House Trust or the Church House Trust Group during the 12 months preceding the date of termination of his employment or being engaged in any business which competes with the business of Church House Trust in an area of 20 miles of Church House Trust's registered office.
- b. by an agreement dated 31 March 2006 with CHI Graham Hughes was appointed as Chief Executive of CHI. On the Offer becoming or being declared unconditional in all respects Mr Hughes shall be employed by Church House Trust with continuity of employment since September 1976. His annual salary is £102,899.00, subject to review on 31 March in each year, and Mr Hughes is eligible for participation in the executive bonus scheme, which is payable at the discretion of the remuneration committee of Church House Trust and he participates in various of the Church House Trust Share Schemes. Church House Trust contributes 12 per cent. of Mr Hughes' salary into his personal pension scheme together with a monthly sum of

£1,182.50 which Mr Hughes has opted to pay into his personal pension as a salary sacrifice. For the calendar year ended 31 December 2009 Mr Hughes received a bonus of £23,500. The service agreement is terminable on either party giving not less than 12 months' written notice to the other. The service agreement contains restrictions on Mr Hughes for a period of 12 months from the date of termination of his employment either from soliciting the custom of any client of Church House Trust or the Church House Trust Group during the 12 months preceding the date of termination of his employment or being engaged in any business which competes with the business of Church House Trust in an area of 20 miles of Church House Trust's registered office. Mr Hughes' service agreement is in substitution of his former service agreement with CHI.

- c. by an agreement with CHI dated 19 June 2000 James Mahon was appointed as an executive director of CHI. His annual salary is £107,777.76, subject to review on 31 March in each year, and Mr Mahon is eligible for a cash bonus, which is payable at the discretion of the remuneration committee of Church House Trust, and he participates in various of the Church House Trust Share Schemes. On signature of the service agreement, Mr Mahon was issued 6,600 Church House Trust Shares, and a further 6,000 Church House Trust Shares on each of 1 July 2001, 1 July 2002, 1 July 2003 and 1 July 2004. Mr Mahon also receives a 12 per cent. contribution from Church House Trust into Mr Mahon's personal pension scheme. The service agreement is terminable on either party giving not less than 6 months written notice to the other. The service agreement contains restrictions on Mr Mahon for a period of 12 months from the date of termination of his employment either from soliciting the custom of any client of Church House Trust or the Church House Trust Group who was a client during the 12 months preceding the date of termination of his employment or from soliciting any employee with the role of fund manager or administrator of Church House Trust or the Church House Trust Group who was an employee during the 12 months preceding the date of termination of his employment or being engaged in any business which competes with the business of Church House Trust in an area of 20 miles of Church House Trust's registered office.

Each of Mr Batten, Mr Hughes and Mr Mahon has resigned as a director of Church House Trust conditional upon the Offer becoming or being declared unconditional in all respects.

## 2. Non-Executive Directors

The following are summaries of the principal terms of the letters of appointment of the non-executive Church House Trust Directors:

- a. by an agreement dated 6 February 2001 Michael Baines was appointed as a non-executive director of Church House Trust and he is also executive chairman of CHI with a combined annual fee of £45,000 payable monthly in arrears and subject to an annual review by the Church House Trust directors. The appointment is terminable by three months notice by either party.
- b. Raymond Edwards was appointed as a non-executive director of Church House Trust on 11 April 1991 with an annual fee of £6,622.92 payable monthly in arrears and subject to an annual review by the Church House Trust directors. The appointment is terminable by three months notice by either party.
- c. Dominic Gibbs was appointed as a non-executive director of Church House Trust on 23 August 2007 as representative of The Cayzer Trust Company on the Church House Trust Board. Mr Gibbs is not paid a fee by Church House Trust. The appointment is terminable by three months notice by either party.
- d. Andrew Martin Smith was appointed as a non-executive director on 23 August 2007 of Church House Trust with an annual fee of £11,377.56 payable monthly in arrears and subject to an annual review by the Church House Trust directors. The appointment is terminable by three months notice by either party.

Each of Mr Baines, Mr Edwards, Mr Gibbs and Mr Martin Smith has resigned as a director of Church House Trust conditional on the Offer becoming or being declared unconditional in all respects. None of these Directors shall receive any compensation for loss of office or other payment attributable to their resignations.

Save as disclosed in this paragraph, there are no service contracts between Church House Trust or a subsidiary of Church House Trust and any Church House Trust Director or proposed director of Church House Trust entered into or amended within the six months preceding the date of this document.

3. New service contracts

David Batten has resigned as a director of Church House Trust conditional on the Offer becoming or being declared unconditional in all respects but thereafter his existing service contract will remain in place. Upon the Offer being or being declared unconditional in all respects Graham Hughes will cease to be a director of Church House Trust, cease to be an employee of CHI and become an employee of Church House Trust under a contract on the same terms as his current contract with CHI described in paragraph 6(1)(b). above. Virgin Money has also indicated that from the date the Offer becomes or is declared unconditional in all respects (assuming that it does) it intends to offer every employee of Church House Trust a minimum period of employment (or payment in lieu) of 12 months (in the case of David Batten and Graham Hughes this is already the effect of their service contracts) from that date (subject to the usual provisions on summary dismissal), and in addition to entitle each of them to participate in Virgin Money's discretionary redundancy policy as amended from time to time. This would include David Batten and Graham Hughes for whom, in addition, Virgin Money have agreed that they would definitely apply Virgin Money's redundancy policy in its current form and that if their employment terminated by reason of redundancy in the first 3 years after Virgin Money acquires Church House Trust, they will receive a lump sum equal to the employer pension contributions they would have received for the period from the date of redundancy to the date falling 3 years after completion of the acquisition into their pension fund.

Europa Partners considers the variation to the terms of the service contracts with David Batten and Graham Hughes to be fair and reasonable.

## 7. Financing and Cash Confirmation

The Offer will be financed from Virgin Money's cash reserves.

Quayle Munro is satisfied that the necessary financial resources are available to Virgin Money to enable it to satisfy in full the consideration payable by Virgin Money under the terms of the Offer, including the amounts required to cash collateralise in full the Loan Note Alternative and the Contingent Loan Notes as described in this document.

## 8. Material contracts

1. Virgin Money

Save as disclosed below, there have been no contracts entered into by Virgin Money or any of its subsidiaries during the period commencing on 20 November 2007 (the date two years before the commencement of the Offer Period) and ended on 7 January 2010 (the latest practicable date before the date of this document) which are outside the ordinary course of business and which are material.

- (a) On 7 January 2010 Virgin Money entered into a warranty deed with David Batten and Graham Hughes (David Batten and Graham Hughes each a **Warrantor** and together the **Warrantors**) (the **Warranty Deed**) pursuant to which the Warrantors jointly and severally warrant to Virgin Money for itself and as trustee for its assignees that at the date of the Warranty Deed the warranties contained in the Warranty Deed are true, accurate and not misleading. The Warrantors acknowledged and accepted that Virgin Money is making the Offer in reliance upon the warranties. The warranties relate to matters including company information, accounts,

trading and contractual matters, litigation and regulatory matters, employees and pensions, taxation, property, insurance, financial information, data protection and intellectual property rights. The Warranty Deed contains a tax covenant from the Warrantors.

Pursuant to the Warranty Deed, the Warrantors undertake to notify Virgin Money in writing fully and promptly of any fact, matter or circumstance occurring after the date of this Warranty Deed but before the date the Offer becomes or is declared unconditional in all respects or is withdrawn or lapses which would have constituted a breach of any of the warranties had those warranties been repeated on every day during that period.

The Warrantors have no liability under the warranties or the tax covenant unless: (i) notice of the claim in writing is given by Virgin Money to either of the Warrantors on or before 31 December 2011 and (ii) proceedings in relation to claims capable of quantification are issued and served on the Warrantors within 6 months of notice being given. The aggregate liability of the Warrantors under the warranties and the tax covenant shall not exceed £25,000.

The Warranty Deed is supported by a policy of warranty insurance issued by Allied World Assurance Company (the **Warranty Insurance**). Virgin Money entered into the Warranty Insurance on 7 January 2010 and under the Warranty Insurance, subject to its terms, Virgin Money is entitled to claim for up to £8,000,000 with a retention of £100,000 in respect of a breach of any of the warranties or the tax covenant.

- (b) On 7 January 2010 Virgin Money entered into the Loan Note Escrow Agreement and the Contingent Loan Note Escrow Agreement with (1) David Batten and Graham Hughes; (2) The Registrar; and (3) The Escrow Agent, pursuant to which the Escrow Agent was appointed as escrow agent over the accounts established at the Escrow Bank respectively for the purposes of cash collateralising the Loan Notes and the Contingent Loan Notes (the **Escrow Accounts**). Subject to there being sufficient funds standing to the credit of the relevant Escrow Account, the Escrow Agent shall instruct the Escrow Bank to transfer to the Registrar the amounts payable from time to time to holders of Loan Notes and Contingent Loan Notes under the terms of the Loan Note Instrument and the Contingent Loan Note Instrument respectively after deduction of interest where appropriate which shall be paid to Virgin Money. The Loan Note Escrow Agreement is for a term of 5 years and three months and the Contingent Loan Note Escrow Agreement is for a term finishing in April 2012. Under each Virgin Money indemnifies the Escrow Agent for all claims and liabilities of the Escrow Agent incurred by the Escrow Agent in the course of, or in connection with, its work as escrow agent and the operation of the Escrow Accounts. The fee of the Escrow Agent in respect of the Escrow Accounts, which shall be borne by Virgin Money, is £16,650 (exclusive of VAT).
- (c) On 2 February 1996 Virgin Money (under its previous name of Virgin Direct Limited) and certain of its subsidiaries entered into a trade mark licence agreement, as amended (the **Trade Mark Licence**) with Virgin Enterprises Limited (**VEL**). On 17 October 1997 VEL and Challenger (Norwich) Limited (**Challenger**) entered into a Licence Agreement, as amended (the **Licence Agreement**) and on 24 November 1998 VEL, Challenger and Virgin Money Personal Financial Services Limited (**VMPFS**) entered into a sub-licence agreement (as amended) (the **Sub-Licence Agreement**) to use certain trade marks in connection with their business. The Licence Agreement was subsequently novated by Challenger to Virgin Money Limited (**VM**) and the Sub-Licence Agreement was subsequently novated by Challenger to VM.

On 23 November 2007 Virgin Money entered into a deed of variation with VEL allowing for, amongst other things, the rights granted under the Trade Mark Licence to be assigned to any third party without the prior written consent of VEL.

On 23 November 2007 Virgin Money, VM, Virgin Money Nominees Limited, VMPFS, Virgin Money Unit Trust Managers Limited, Challenger, Virgin Card Limited and Virgin Money Management Services Limited (the **Licensees**) entered into individual deeds of assignment

with Virgin Management Limited (**Virgin Management**) by which the Licensees assigned certain of their rights and obligations under the Trade Mark Licence to Virgin Management. By way of consideration, Virgin Management granted an undertaking to each Licensee that it would perform all obligations within the assigned rights and obligations and Virgin Management paid £48,850 to each Licensee (except in the case of Virgin Money Nominees Limited whereby Virgin Management paid £48,500).

On 23 November 2007 the Licensees each sent individual notices of assignment to VEL giving express notice of the assignment of their rights under the Trade Mark Licence to Virgin Management.

On 23 November 2007 VM entered into a deed of variation with VEL allowing for, amongst other things, the rights granted under the Licence Agreement to be assigned to any third party without the prior written consent of VEL.

On 23 November 2007 VM entered into a deed of assignment with Virgin Management by which VM assigned certain of its rights and obligations under the Licence Agreement to Virgin Management. By way of consideration, Virgin Management granted an undertaking to VM that it would perform all obligations within the assigned rights and obligations and Virgin Management paid £9,293,092 to VM.

On 23 November 2007 VM sent a notice of assignment to VEL giving express notice of the assignment of VM's rights under the Licence Agreement to Virgin Management.

On 23 November 2007 VM and VMPFS entered into a deed of variation with VEL allowing for, amongst other things, the rights granted under the Sub-Licence Agreement to be assigned to any third party without the prior written consent of VEL.

On 23 November 2007 VMPFS entered into a deed of assignment with Voyager Group Limited (**VGL**) by which VMPFS assigned certain of its rights and obligations under the Sub-Licence Agreement to VGL. By way of consideration, VGL granted an undertaking to VMPFS that it would perform all obligations within the assigned rights and obligations and VGL paid £12,603 to VMPFS.

On 23 November 2007 VMPFS sent a notice of assignment to VEL giving express notice of the assignment of VMPFS' rights under the Sub-Licence Agreement to VGL.

On 23 November 2007, Virgin Management sent letters to the Licensees (the **Virgin Management Letters**) which referred to the Trade Mark Licence (and the Licence Agreement in respect of VM) pursuant to which the Licensees are licensees and benefit from the right to exercise certain intellectual property rights in connection with their business. As part of a re-organisation regarding certain licences relating to the Virgin brand, all UK-related rights under the Trade Mark Licence and the Licence Agreement were assigned to Virgin Management. Under the Virgin Management Letters, in recognition of the need for the Licensees to continue to run their businesses, Virgin Management granted a licence to the Licensees (the **Virgin Management Licence**) (and VEL consents to it), effective from 23 November 2007, to use all of the rights to which they were entitled pursuant to the Trade Mark Licence and the Licence Agreement.

The consideration payable by the Licensees was 1 per cent. of their total turnover under the Trade Mark Licence and the Licence Agreement. Under the Virgin Management Letters, Virgin Management can terminate the Virgin Management Licence immediately on written notice in the event the Licensees undergo a change of control. The Virgin Management Licence in respect of the Trade Mark Licence is subject to automatic termination upon any assignment by Virgin Management of its UK-related rights under the Trade Mark Licence and the Licence Agreement.

On 23 November 2007, VGL sent a letter to VMPFS (the **VGL Letter**) which referred to the Sub-Licence Agreement in respect of VMPFS pursuant to which VMPFS is a licensee and benefits from the right to exercise certain intellectual property rights in connection with its business. As part of a re-organisation regarding certain licences relating to the Virgin brand, all UK-related rights under the Sub-Licence Agreement were assigned to VGL. Under the VGL Letter, in recognition of the need for VMPFS to continue to run its businesses, VGL granted a licence to VMPFS (the **VGL Licence**), effective from 23 November 2007, to use all of the rights to which it was entitled pursuant to the Sub-Licence Agreement.

The consideration payable by VMPFS was 1 per cent. of its total turnover under the Sub-Licence Agreement. Under the VGL Letter, VGL can terminate the VGL Licence immediately on written notice in the event VMPFS undergoes a change of control. The VGL Licence is subject to automatic termination upon any assignment by VGL of its UK-related rights under the Sub-Licence Agreement.

On 25 November 2007, VEL sent letters to the Licensees and VGL (the **VEL Letters**) which referred to the Trade Mark Licence (and the Licence in respect of VM and the Sub-Licence Agreement in respect of VM, VGL and VMPFS) (together, the **Agreements**) pursuant to which the Licensees and VGL are licensees and benefit from the right to exercise certain intellectual property rights in connection with their business. As part of a re-organisation regarding certain licences relating to the Virgin brand, all UK-related rights under the Agreements were assigned to VEL. Under the VEL Letters, in recognition of the need for the Licensees and VGL to continue to run their businesses, VEL granted a licence to the Licensees and VGL (the **VEL Licence**), effective from 25 November 2007, to use all of the rights to which they were entitled pursuant to the Agreements.

The consideration payable by the Licensees and VGL was 1 per cent. of their total turnover under the Agreements. Under the VEL Letters, VEL can terminate the VEL Licence immediately on written notice in the event the Licensees and VGL undergo a change of control. The VEL Licence is subject to termination by VEL provided VEL enters into a revised arrangement providing for the same rights in relation to the Virgin brand, but VEL shall have the right to amend such of the obligations as it sees fit.

2. Church House Trust

Save as disclosed below and in this paragraph 8 of this Appendix 6, there have been no contracts entered into by Church House Trust or any of its subsidiaries during the period commencing on 20 November 2007 (the date two years before the commencement of the Offer Period) and ending on 7 January 2010 (the latest practicable date before the date of this document) which are outside the ordinary course of business and which are material:

- a. An agreement dated 4 June 2008 entered into between CHC (1) and National Westminster Bank PLC (2) (**NatWest**) pursuant to which NatWest advanced an overdraft facility of £100,000 to CHC with an interest rate of 1.5 per cent. above the base rate of NatWest from time to time for borrowing up to the £100,000 limit and 4.5 per cent. over NatWest base rate for the borrowing over that limit.
- b. An agreement dated 31 December 2008 entered into between Dominic Gibbs and David Batten (1) (the **Lenders**) and Church House Trust (2) pursuant to which the Lenders have advanced a subordinated unsecured loan of £250,000 to Church House Trust with a further £250,000 available to be advanced to Church House Trust at any time on the same terms and conditions as the original loan. As at the date of this document, £300,000 has been drawn down by Church House Trust with a further £200,000 available under the facility. Interest is payable at the rate of 8 per cent. per annum above the bank rate from time to time of the Bank of England payable quarterly on 1 January, 1 April, 1 July and 1 October. Save with the prior consent of the FSA, no repayment or prepayment of the loan may be made prior to the earlier of 5 years from the date the loan was first made and 5 years from the date Church House Trust gives notice to both the Lenders and the FSA.

- c. The CHI Disposal agreement dated 19 November 2009 and made between Church House Trust, the CHI Buyers and the CHI Loan Buyers. Completion of the CHI Disposal agreement is subject to a number of conditions, each of which has been fulfilled at the date of this document, save for the condition that the Offer becomes or is declared unconditional in all respects. Under the CHI Disposal agreement 75 per cent. of the issued share capital of CHI is sold to the CHI Buyers, in consideration of the payment to Church House Trust of £1,499,400, equating to a price of 71.4 pence per CHI Share sold. Church House Trust has given limited warranties in the CHI Disposal agreement to the CHI Buyers in respect of its capacity to enter into the CHI Disposal agreement and its title to the CHI Shares to be sold. Pursuant to the terms of the CHI Disposal agreement the CHI Buyers will procure that CHI enters into a deed of indemnity (**Deed of Indemnity**) as soon as practicable after completion of the CHI Disposal, the terms which are that CHI will, subject to certain limitations, indemnify Church House Trust:
- in respect of any liability suffered by Church House Trust or any member of its group resulting from any failure by CHI to discharge any of its obligations, or to make any payment due, to any person. Under the terms of this indemnity, a claim may only be made where the aggregate liability of CHI exceeds £10,000; and
  - in respect of any liability suffered by Church House Trust or any member of its group (a) resulting from any alleged failure by CHI to discharge any of its obligations, or to make any payment due, to any person or (b) as a result of any business and other activities undertaken by CHI and/or any actions or omissions of CHI undertaken or occurring before or after the date of the deed of indemnity. Under the terms of this indemnity, a claim may only be made where the aggregate liability of CHI exceeds £75,000. Where a claim is made by Church House Trust under either of these indemnities, CHI is liable for the full amount of any such claim and not just the excess above the stated thresholds of £10,000 and £75,000. Claims under the Deed of Indemnity must be brought within seven years from the date of the Deed of Indemnity.
- d. The CHI Loan Assignment dated 19 November 2009 and made between Church House Trust, the CHI Loan Buyers and CHI under which the CHI Loan is assigned by Church House Trust to the CHI Loan Buyers on completion of the CHI Disposal, in consideration of the payment by the CHI Loan Buyers to Church House Trust of the sum of £400,000.
- e. A trade mark licence dated 19 November 2009 and made between Church House Trust, CHC and CHI under which Church House Trust grants to each of CHC and CHI a non-exclusive licence to use the trade mark “Church House Trust” in relation to the creation, promotion, distribution and sale of investment services, the activities of an investment management firm, fund management, pensions administration and pensions advisory activity, wealth management and associated advisory activities in the case of CHI, and the provision of trust and tax consultancy services in the case of CHC. Each of CHI and CHC is also granted a non-exclusive licence to use the domain name [www.church-house.co.uk](http://www.church-house.co.uk). Under the terms of the licence each of CHI and CHC indemnify Church House Trust in respect of their activities and in respect of their infringement of the rights of any third parties arising out of their use of the trade mark. The licence is terminable by Church House Trust at any time on or after its third anniversary by the giving of 90 days written notice to either CHC or CHI.
- f. A deed of assignment dated 7 January 2010 and made between Church House Trust and CHC under which various contracts for the provision of disbursement and after the event insurance funding to personal injury claimants in respect of litigation in respect of works at Sandon Docks, Liverpool, were assigned by Church House Trust to CHC. Under the terms of the deed of assignment CHC indemnifies Church House Trust for any failure by CHC to perform the obligations under the assigned contracts.

## **9. Exclusivity**

Pursuant to a letter dated 26 May 2009 Church House Trust granted a subsidiary of Virgin Money, Virgin Money Limited (**VM**) a period of exclusivity in relation to the Offer from the date of VM's acceptance of that letter until 5pm on 30 June 2009 (the **Exclusivity Letter**). Pursuant to a letter dated 6 July 2009, the period of exclusivity was extended to 8 September 2009 and pursuant to a further letter dated 14 September 2009, the period of exclusivity was extended to the end of the Offer Period provided a 2.5 announcement is made in respect of the Offer by 12 January 2010 (the **Exclusivity Period**). During the Exclusivity Period, Church House Trust agrees that:

1. it would not (directly or indirectly), and it would not procure that the Church House Trust Board, and their professional advisers, would not (directly or indirectly) seek or solicit, enquires from any person or enter into any discussions or arrangements (subject to the duties of the Church House Trust Board to act in the best interests of Church House Trust and the Church House Trust Shareholders) with a view to any such person making a competing offer for the Church House Trust Shares; and
2. it would notify VM as soon as reasonably practicable in writing of any approach (together with, to the maximum extent possible, details of such approach) made to Church House Trust by a third party with a view to entering negotiations in respect of a potentially competing Offer or any information provided to it by any third party (whether pursuant to Rule 20.2 of the Takeover Code or otherwise).

In addition, pursuant to the terms of the Exclusivity Letter VM granted a costs indemnity to Church House Trust under which VM indemnified Church House Trust against all reasonable fees, costs and expenses incurred by Church House Trust in connection with the Offer which would have had effect in the event that VM had withdrawn from negotiations towards making the Offer in certain specified circumstances. The aggregate liability of VM under this indemnity was £100,000 (including VAT).

The Exclusivity Period terminates immediately in the event that Church House Trust informs VM that in Church House Trust's reasonable opinion, VM has sought to amend the terms and conditions envisaged by the Exclusivity Letter.

On 7 January 2010, VM assigned its rights, title, interest and benefit in and to the Exclusivity Letter to Virgin Money by a deed of assignment.

## **10. Material change**

Save as disclosed in this document the Church House Trust Board are not aware of any material change in the financial or trading position of Church House Trust since 31 December 2008, being the date to which the last published audited accounts for Church House Trust were prepared.

Save as disclosed in this document the directors of Virgin Money are not aware of any material change in the financial or trading position of Virgin Money since 31 December 2008, being the date to which the last published audited accounts for Virgin Money were prepared.

## **11. Other Information**

1. Except as disclosed in this document, no agreement, arrangement or understanding (including any compensation arrangement) exists between Virgin Money or any person acting in concert with Virgin Money for the purposes of the Offer and any of the directors, recent directors, shareholders or recent shareholders of Church House Trust or any person interested or recently interested in shares of Church House Trust having any connection with or dependence or which is conditional on the outcome of the Offer.
2. Except as disclosed in this document, no agreement, arrangement or understanding of whatever nature whether formal or informal (including indemnity or option arrangements) relating to relevant securities which may be an inducement to deal or refrain from dealing exists between Virgin Money or any associate (as defined in the Takeover Code) of Virgin Money and any other person.

3. There is no agreement, arrangement or understanding by which any securities acquired in pursuance of the Offer will be transferred to any other person but Virgin Money reserves the right to transfer any Church House Trust Shares to any member of the Virgin Money Group.
4. Each of Quayle Munro and Europa Partners has given and not withdrawn its written consent to the issue of this document with the references to its name and its respective advice in the form and context in which they appear.
5. Save as disclosed in this document no proposal exists in connection with the Offer for any payment or benefit to be made or given to any Church House Trust Director, as compensation for loss of office or as consideration for or in connection with his retirement from office.

## **12. Documents available for inspection**

Copies of the following documents are available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Denton Wilde Sapte LLP until the end of the Offer Period:

1. this document and the Form of Acceptance;
2. the Memorandum and Articles of Association of Virgin Money;
3. the Memorandum and Articles of Association of Church House Trust;
4. the published audited consolidated accounts of Church House Trust for the three financial years ended 31 December 2006, December 2007 and 31 December 2008;
5. the published audited consolidated accounts of Virgin Money for the three financial years ended 31 December 2006, 31 December 2007 and 31 December 2008;
6. the rules of the Dryfield Share Option Scheme, Approved Option Scheme, the Unapproved Option Scheme and the Executive Option Scheme and the rules of the Share Incentive Plan;
7. the service contracts and other arrangements referred to in paragraph 6 of Appendix 6 to this document above;
8. the irrevocable undertakings to accept the Offer and Option Offer referred to in paragraph 5 of Appendix 6 to this document above;
9. the material contracts referred to in paragraph 8 of Appendix 6 to this document;
10. the written consents referred to in paragraph 7 of Appendix 6 to this document above;
11. the Letter of Intent referred to in paragraph 12 of Part 2 of this document containing the exclusivity arrangements referred to in paragraph 9 of this Appendix 6;
12. the offer letter to Church House Trust Optionholders detailing the Option Offer; and
13. the valuation by Quayle Munro of the Loan Notes and the Contingent Loan Notes

## Appendix 7 – Definitions

The following definitions apply throughout this document unless the context otherwise requires:

<b>2006 Act</b>	the Companies Act 2006, as amended from time to time
<b>Announcement</b>	the announcement of the Offer dated 8 January 2010 issued by Virgin Money pursuant to Rule 2.5 of the Takeover Code
<b>Approved Option Scheme</b>	the Church House Trust Plc Approved Share Option Plan
<b>Authorisations</b>	authorisations, orders, grants, recognitions, confirmations, consents, licences, clearances, certificates, permissions or approvals
<b>Business Day</b>	any day (excluding Saturdays, Sundays) when clearing banks are open for business in the City of London for the transaction of normal banking business
<b>Capita Registrars</b>	a trading name of Capita Registrars Limited
<b>CHC</b>	Church House Consultants Limited
<b>CHC Distribution</b>	the distribution <i>in specie</i> of the entire issued share capital of CHC to Qualifying Shareholders conditional upon the Offer becoming or being declared unconditional in all respects
<b>CHC Share</b>	ordinary shares of £1 each in the capital of CHC each of which will be subdivided into 1,000 ordinary shares of 0.1 penny each
<b>CHI</b>	Church House Investments Limited
<b>CHI Buyers</b>	a group of individual parties all of whom are Church House Trust Shareholders or beneficially entitled to Church House Trust Shares, and some of whom are members of the Church House Trust Board, who have agreed to acquire 75 per cent. of the issued share capital of CHI pursuant to the CHI Disposal
<b>CHI Disposal</b>	the disposal of 75 per cent. of the issued share capital of CHI, in consideration of the payment to Church House Trust of £1,499,400, to the CHI Buyers
<b>CHI Distribution</b>	the distribution <i>in specie</i> of 25 per cent. of the issued share capital of CHI to Qualifying Shareholders conditional upon the Offer becoming or being declared unconditional in all respects
<b>CHI Loan</b>	the loans by Church House Trust to CHI in an aggregate amount equal to £400,000 and qualifying as Tier 2 capital as classified by the FSA
<b>CHI Loan Assignment</b>	the assignment by Church House Trust of the benefit of the CHI Loan, in consideration of the payment to Church House Trust of £400,000 being the amount of the CHI Loan, to the CHI Loan Buyers
<b>CHI Loan Buyers</b>	a group of individual parties who are all Church House Trust Shareholders or beneficially entitled to Church House Trust Shares, and some of whom are members of the Church House Trust Board, who have agreed to acquire the CHI Loan conditional upon the Offer becoming or being declared conditional in all respects

<b>CHI Share</b>	ordinary shares of £1 each in the capital of CHI each of which will be subdivided into 10 ordinary shares of £0.10 each
<b>Church House Trust Circular</b>	the circular issued by Church House Trust to its Shareholders dated 20 November 2009 convening the Church House Trust General Meeting
<b>Church House Trust</b>	Church House Trust Plc
<b>Church House Trust Board or Church House Trust Directors</b>	Michael Baines, David Batten, Raymond Edwards, Dominic Gibbs, Graham Hughes, James Mahon and Andrew Martin Smith
<b>Church House Trust General Meeting</b>	the general meeting of Church House Trust held on 11 December 2009
<b>Church House Trust Group</b>	Church House Trust and its subsidiary undertakings and where the context permits, each of them
<b>Church House Trust Options</b>	any options granted under the Church House Trust Option Schemes
<b>Church House Trust Optionholders</b>	holders of any Church House Trust Options
<b>Church House Trust Option Schemes</b>	the Church House Trust Share Schemes other than the Share Incentive Plan
<b>Church House Trust Shareholder(s)</b>	holders of Church House Trust Shares
<b>Church House Trust Share(s)</b>	the existing unconditionally allotted or issued and fully paid ordinary shares of 100 pence each in the capital of Church House Trust and any further shares which are unconditionally allotted or issued before the date on which the Offer closes (or such earlier date or dates, not being earlier than the date on which the Offer becomes unconditional as to acceptances or, if later, the First Closing Date, as Virgin Money may, subject to Takeover Code, decide)
<b>Church House Trust Share Schemes</b>	the Approved Option Scheme, the Church House Trust Unapproved Share Option Schemes and the Share Incentive Plan
<b>Church House Trust Unapproved Share Option Schemes</b>	the Dryfield Share Option Scheme, the Unapproved Share Option Scheme and the Executive Share Option Scheme
<b>Contingent Loan Note Escrow Agreement</b>	the escrow agreement between (1) the Escrow Agent; (2) Virgin Money; and (3) David Batten and Graham Hughes in relation to the Contingent Loan Notes detailed in paragraph 8(1)(b) of Appendix 6
<b>Contingent Loan Notes</b>	the contingent loan notes of Virgin Money to be issued pursuant to the Offer as part of the Offer Price as further described in Part B of Appendix 2
<b>Contingent Loan Note Instrument</b>	the instrument pursuant to which the Contingent Loan Notes are to be issued, a summary of which is contained in Appendix 2, Part B of this document
<b>Distribution</b>	the CHC Distribution, the CHI Distribution and warrants in aggregate over a further 700,000 Shares in CHI exercisable at a price of 89.25 pence in the event of an offer for CHI being made before the expiry of two years from the date on which the Offer becomes or is declared unconditional in all respects

<b>Dryfield Share Option Scheme</b>	the share option scheme operated by Church House Trust and known as the Dryfield Trust Share Option Scheme
<b>Escrow Account</b>	the escrow accounts established by the Escrow Agent with the Escrow Bank belong to respectively the escrow arrangements relating to the Loan Notes and the Contingent Loan Notes
<b>Escrow Bank</b>	Lloyds TSB Bank plc
<b>Escrow Agent</b>	The Law Debenture Trust Corporation p.l.c.
<b>Executive Share Option Scheme</b>	the Church House Trust Plc Executive Share Option Scheme
<b>Europa Partners</b>	Europa Partners Limited
<b>Final Contingent Consideration Date</b>	6 April 2012
<b>First Closing Date</b>	29 January 2010
<b>First Contingent Consideration Date</b>	30 March 2012
<b>Form of Acceptance</b>	the form of acceptance, election and authority for use by Church House Trust Shareholders in connection with the Offer
<b>FSA</b>	Financial Services Authority
<b>FSA Handbook</b>	the handbook of rules made by the FSA as amended from time to time
<b>Independent Directors</b>	David Batten, Graham Hughes and Raymond Edwards
<b>LIBOR</b>	the British Bankers' Association Interest Settlement Rate for Sterling for periods of six months displayed on the appropriate page of the Reuters Screen as at 11.00 a.m. London time on the first day of the relevant period. If the agreed page is replaced or service ceases to be available, Virgin Money may specify another page or service displaying the appropriate rate
<b>Loan Notes</b>	the loan notes of Virgin Money to be issued pursuant to the Loan Note Alternative
<b>Loan Note Alternative</b>	the alternative under the Offer whereby Church House Trust Shareholders validly accepting the Offer may elect to receive Loan Notes instead of some or all of the cash consideration to which they would otherwise be entitled under the Offer, as further described in Part A of Appendix 2
<b>Loan Note Escrow Agreement</b>	the escrow agreement between (1) the Escrow Agent; (2) Virgin Money; and (3) David Batten and Graham Hughes in relation to the Loan Notes detailed in paragraph 8(1)(b) of Appendix 6
<b>Loan Note Instrument</b>	the instrument pursuant to which the Loan Notes are to be issued, a summary of which is contained in Appendix 2 Part A of this document
<b>November Accounts</b>	management accounts of Church House Trust prepared to 30 November 2009

<b>Offer</b>	the recommended offer by Virgin Money to acquire all the Church House Trust Shares on the terms and subject to the conditions to be set out in this document and the Form of Acceptance and including, where the context so requires, any subsequent revision, variation, extension or renewal of such offer
<b>Offer Document</b>	this document
<b>Offer Period</b>	the period commencing on (and including) 20 November 2009 and ending at 1.00 p.m. on Day 21 of the Offer or, if this is later, the date on which the Offer becomes or is declared unconditional as to acceptances or lapses
<b>Offer Price</b>	509.2 pence in cash and the issue of 1.0294 Contingent Loan Notes per Church House Trust Share
<b>Option Offer</b>	the offer to Church House Trust Optionholders to exercise their Church House Trust Option(s) and accept the Offer in respect of the Church House Trust Shares they are allotted pursuant to such exercise as further described in paragraph 9 of Part 1 and paragraph 10 of Part 2 of this document
<b>Option Shares</b>	Church House Trust Shares allotted to Church House Trust Optionholders pursuant to the exercise of their Church House Trust Option(s)
<b>Panel</b>	the Panel on Takeovers and Mergers
<b>Pre-Completion Church House Trust Group</b>	Church House Trust and associated undertakings and any other body corporate, partnership, joint venture or person in which Church House Trust and such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent
<b>Qualifying Shareholders</b>	Church House Trust Shareholders registered in the register of members of Church House Trust on 11 December 2009 as the holders of Church House Trust Shares
<b>Quayle Munro</b>	Quayle Munro Limited
<b>Receiving Agent</b>	Capita Registrars Limited
<b>Registrar</b>	Capita Registrars Limited
<b>Regulatory Information Service</b>	an information service that is approved by the FSA as meeting the Criteria for Regulated Information Services and that is on the FSA's list of Regulated Information Services
<b>relevant securities</b>	as the context requires, Church House Trust Shares, other Church House Trust share capital and any securities convertible into or exchangeable for, and rights to subscribe for, any of the foregoing
<b>Restricted Jurisdiction</b>	the United States, Australia, Canada and Japan and any other jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Offer is sent or made available to Church House Trust Shareholders in that jurisdiction
<b>Share Incentive Plan</b>	the Church House Trust All Employee Share Ownership Plan

<b>Share Incentive Plan Trustees</b>	David Batten, Graham Hughes and Carol Hooper
<b>subsidiary, subsidiary undertaking and undertaking</b>	shall be construed in accordance with the 2006 Act
<b>Takeover Code</b>	the City Code on Takeovers and Mergers
<b>UK or United Kingdom</b>	United Kingdom of Great Britain and Northern Ireland
<b>Unapproved Share Option Scheme</b>	the Church House Trust Plc Unapproved Share Option Scheme
<b>Wider Church House Trust Group</b>	Church House Trust and associated undertakings and any other body corporate, partnership, joint venture or person in which Church House Trust and such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent but excluding CHI, CHC and any such undertakings in which they are interested
<b>Virgin Money</b>	Virgin Money Holdings (UK) Limited
<b>Virgin Money Board or Virgin Money Directors</b>	Jayne-Anne Gadhia, David Dyer, Patrick McCall and Gordon McCallum
<b>Virgin Money Group</b>	Virgin Money Holdings (UK) Limited and its subsidiaries
<b>VGHL</b>	Virgin Group Holdings Limited
<b>VM</b>	Virgin Money Limited

All times referred to are UK time unless otherwise stated. Words in this document importing the singular shall include the plural and *vice versa*.

All references to legislation in this document are to English legislation unless the contrary is indicated. Any reference to any provision of any legislation shall include amendment, modification, extension or re-enactment thereof.



