

**IMPORTANT:** You must read the following disclaimer before continuing. This electronic transmission applies to the attached prospectus (the “**Prospectus**”), which has been prepared solely in connection with the application to the London Stock Exchange plc (the “**London Stock Exchange**”) and the Financial Conduct Authority (“**FCA**”) for all of the ordinary shares (the “**Shares**”) of Shawbrook Group plc (the “**Company**”) to be admitted to the premium listing segment of the Official List of the FCA and to trading on the London Stock Exchange’s main market for listed securities and the offer of Shares to certain institutional and professional investors (the “**Offer**”). You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the attached Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached Prospectus is confidential and intended for you only and you agree you will not forward, reproduce or publish this electronic transmission or the attached Prospectus to any other person and in particular to any U.S. address. Failure to comply with this notice may result in a violation of the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and/or the applicable laws of other jurisdictions.

ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. NOTHING IN THIS ELECTRONIC TRANSMISSION AND THE ATTACHED PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT (1) IN THE UNITED STATES TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (“**QIB**”) AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) THAT IS ACQUIRING SUCH SHARES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS; (2) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT; (3) PURSUANT TO AN EXEMPTION TO REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT, IF AVAILABLE; (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; OR (5) PURSUANT TO ANOTHER EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Shares, in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase any offered Shares are reminded that any such subscription or purchase may only be made on the basis of the information contained in the Prospectus.

This electronic transmission and the attached Prospectus and the Offer are only addressed to and directed at persons in member states of the European Economic Area who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU to the extent implemented in a relevant EEA Member State) (“**Qualified Investors**”). In addition, in the United Kingdom, this electronic transmission and the attached Prospectus are each being distributed only to, and are directed only at, Qualified Investors (i) who are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”), or who are high net worth entities falling within Article 49(2)(a) to (d) of the Order and (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This electronic transmission and the attached Prospectus must not be acted on or relied on (a) in the United Kingdom, by persons who are not relevant persons and (b) in any member state of the European Economic Area other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this Prospectus relates is available only to relevant persons in the United Kingdom and Qualified Investors in any member state of the European Economic Area other than the United Kingdom, and will be engaged in only with such persons.

**Confirmation of Your Representation:** This electronic transmission and the attached Prospectus are delivered to you on the basis that you are deemed to have represented to Goldman Sachs International, Merrill Lynch International, Macquarie Capital (Europe) Limited and Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods) (together, the “**Banks**”) and the Company that (i) you have understood and agreed to the terms set forth herein; (ii)(a) you are a QIB acquiring such securities for your own account or for the account of another QIB or (b) you are acquiring such securities in “offshore transactions” as defined in, and in reliance on, Regulation S under the Securities Act, (iii) if you are in the United Kingdom, you are a relevant person, and/or a relevant person who is acting on behalf of relevant persons in the United Kingdom and/or Qualified Investors to the extent you are acting on behalf of persons or entities in the United Kingdom or the European Economic Area, (iv) if you are in any member state of the European Economic Area other than the United Kingdom, you are a Qualified Investor and/or a Qualified Investor acting on behalf of Qualified Investors or relevant persons, to the extent you are acting on behalf of persons or entities in the European Economic Area or the United Kingdom; (v) you are an institutional investor that is eligible to receive this Prospectus and, in your jurisdiction, this offer of securities can lawfully be made without contravention of any unfulfilled registration or other legal requirements; and (vi) you consent to delivery by electronic transmission.

You are reminded that you have received this electronic transmission and the attached Prospectus on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus, electronically or otherwise, to any other person. Nothing in this electronic transmission and the attached Prospectus constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so.

None of the Banks nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this Prospectus or for any statement made or purported to be made by it, or on its behalf, in connection with the Company or the Offer. Each of the Banks and each of their respective affiliates accordingly disclaims all and any liability whether arising in tort, contract or otherwise which they might otherwise have in respect of such Prospectus or any such statement. No representation or warranty, express or implied, is made by any of the Banks or any of their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this Prospectus. You are reminded that a document transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, neither the Company, the Banks nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version. By accessing the attached Prospectus, you consent to receiving it in electronic form. A hard copy of the attached Prospectus will be made available to you only upon request to the Company or a Bank.

You are responsible for protecting against viruses and other destructive items. Your receipt of the attached Prospectus via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Banks are acting exclusively for the Company and no one else in connection with the Offer. They will not regard any other person (whether or not a recipient of the Prospectus) as their client in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offer or any transaction or arrangement referred to herein.

The Banks and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Company and the Selling Shareholders (as defined in the Prospectus) for which they would have received customary fees. The Banks and any of their respective affiliates may provide such services to the Company and the Selling Shareholders and any of its respective affiliates in the future.



PROSPECTUS

1 APRIL 2015

SHAWBROOK  
B A N K



This document comprises a prospectus (the “**Prospectus**”) prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (“**FCA**”) made under section 73A of the Financial Services and Markets Act 2000 (“**FSMA**”). The Prospectus has been approved by the FCA in accordance with section 87A of FSMA and made available to the public as required by Rule 3.2 of the Prospectus Rules.

The Directors, whose names appear on page 39 of this Prospectus, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and this Prospectus does not omit anything likely to affect the import of such information.

Application has been made to the FCA for all of the Ordinary Shares of the Company, issued and to be issued, to be admitted to the premium listing segment of the Official List maintained by the FCA and to the London Stock Exchange for such Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. Conditional dealings in the Ordinary Shares are expected to commence at 8.00 a.m. on 1 April 2015. It is expected that admission to listing and trading will become effective, and that unconditional dealings will commence, at 8.00 a.m. on 8 April 2015. The Ordinary Shares to be made available pursuant to the Offer will, on Admission, rank equally in all respects with all other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares after Admission. **All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a "when issued" basis and of no effect if Admission does not take place and will be at the sole risk of the parties concerned. No application has been, or is currently intended to be, made for the Ordinary Shares to be admitted to listing or trading on any other stock exchange.**

Prospective investors should read the entire Prospectus and, in particular, Part II (*Risk Factors*) for a discussion of certain factors that should be considered in connection with an investment in the Ordinary Shares. Prospective investors should be aware that an investment in the Company involves a degree of risk and that, if certain of the risks described in the Prospectus occur, investors may find their investment materially adversely affected. Accordingly, an investment in the Ordinary Shares is only suitable for investors who are particularly knowledgeable in investment matters and who are able to bear the loss of the whole or part of their investment.

SHAWBROOK & K

Shawbrook Group plc

(Incorporated under the Companies Act 2006 and registered in England and Wales with registered number 07240248)

**Offer of 75,000,000 Ordinary Shares of £0.01 each at an Offer Price of 290 pence per Ordinary Share  
and admission to the premium listing segment of the Official List  
and to trading on the London Stock Exchange**

**Joint Sponsors, Joint Global Coordinators and Joint Bookrunners**  
BofA Merrill Lynch Goldman Sachs International

**Joint Bookrunner**  
Macquarie Capital (Europe) Limited

**Co-Lead Manager**  
Keefe, Bruyette & Woods  
A Stifel Company

**ISSUED ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION**  
Issued and fully paid Ordinary Shares of £0.01 each

### Number of Ordinary Shares

### **Nominal Value of Issued Ordinary Shares**

250.000.000

£2,500,000

This Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy or to subscribe for, Ordinary Shares to any person in any jurisdiction to whom or in which jurisdiction such offer or solicitation is unlawful and, in particular, is not for distribution in Australia, Canada, Japan or South Africa. Neither the Company nor any of the Banks accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions. No action has been, or will be, taken by the Company or the Banks in any jurisdiction other than the UK that would permit a public offering of the Ordinary Shares or the possession, circulation or distribution of this Prospectus or any other material relating to the Company or the Ordinary Shares in any jurisdiction where action for that purpose is required.

The offer, sale and/or issue of the Ordinary Shares has not been, and will not be, qualified for sale under any applicable securities laws of Australia, Canada, Japan or South Africa. Subject to certain exceptions, the Ordinary Shares may not be offered, sold or delivered within Australia, Canada, Japan or South Africa or to, or for the benefit of, any national, resident or citizen of Australia, Canada, Japan or South Africa. The Ordinary Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "US Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act. Accordingly, the Ordinary Shares are only being offered and sold (i) in the United States to persons reasonably believed to be qualified institutional buyers ("QIBs") as defined in Rule 144A under the US Securities Act ("Rule 144A") pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act or (ii) outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act ("Regulation S"). Prospective investors in the United States are hereby notified that the Company may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A thereunder. There will be no public offering of Offer Shares in the United States. Any offer or sale of shares in the United States will be made by broker dealers who are registered as such under the US Securities Exchange Act of 1934, as amended (the "US Securities Exchange Act"). The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Offer Shares or the accuracy or completeness of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

For a description of these and certain further restrictions on the offer, sale and transfer of the Ordinary Shares and distribution of this document, see Section 16 of Part XVII (*Details of the Offer*) of this document. Please note that by receiving this document, purchasers shall be deemed to have made certain representations, acknowledgements and agreements set out herein including, without limitation, those set out in Section 16 of Part XVII (*Details of the Offer*) of this document.

Investors should rely only on the information contained in this Prospectus when making a decision as to whether to purchase Offer Shares. No person has been authorised to give any information or to make any representations other than those contained in this Prospectus in connection with the Offer and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors, the Major Shareholder or any of the Banks. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G(1) of FSMA and Rule 3.4 of the Prospectus Rules, neither the delivery of this Prospectus nor any issue or sale made under this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Company and its subsidiaries taken as a whole (the "**Group**") since the date of this Prospectus or that the information contained herein is correct as at any time subsequent to the date of this Prospectus.

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult its own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to the purchase of Ordinary Shares.

Recipients of this Prospectus are authorised to use it solely for the purpose of considering the acquisition of Offer Shares and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in Offer Shares. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

Goldman Sachs International and Merrill Lynch International, who each in the UK are authorised by the Prudential Regulatory Authority ("PRA") and regulated in the UK by the FCA and the PRA, and Macquarie Capital (Europe) Limited and Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods) who each in the UK are authorised and regulated by the FCA, are advising the Company and no one else and will not regard any person other than the Company (whether or not a recipient of this Prospectus) as their client in relation to Admission and the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offer or any transaction or arrangement referred to in this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Banks by FSMA or the regulatory regime established thereunder, none of the Banks accepts any responsibility whatsoever, and makes no representation or warranty, express or implied, with respect to the contents of this Prospectus, including with respect to its accuracy, verification or completeness or with respect to any other statement made or purported to be made by or on behalf of the Company, the Directors, or any other person or in connection with the Company, the Ordinary Shares or the Offer, and nothing in this Prospectus shall be relied upon as a promise or representation in this respect, whether as to the past or the future. Each of the Banks accordingly disclaims all and any liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

In connection with the Offer, each of the Banks and any of their respective affiliates, acting as an investor for its or their own account(s), may acquire Ordinary Shares, and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in Ordinary Shares and other securities of the Company or related investments in connection with the Offer or otherwise. Accordingly, references in this Prospectus to the Ordinary Shares being offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, dealing or placing by, each of the Banks and any of their respective affiliates acting as an investor for its or their own account(s). In addition, in connection with the Offer, certain of the Banks (or their affiliates) may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements with investors in connection with which such Banks (or their affiliates) may from time to time acquire, hold or dispose of Ordinary Shares. None of the Banks intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

The Banks and their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to, the Company and/or the Major Shareholder for which they would have received customary fees. In addition, the Banks and any of their respective affiliates may provide such services to the Company and/or the Major Shareholder and any of their respective affiliates in the future.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES, ANNOTATED ("RSA") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF OR RECOMMENDED OR GIVEN APPROVAL TO ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

The date of this Prospectus is 1 April 2015.

## TABLE OF CONTENTS

PART I	— SUMMARY .....	1
PART II	— RISK FACTORS .....	17
PART III	— DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS .....	39
PART IV	— EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND OFFER STATISTICS .....	41
PART V	— PRESENTATION OF INFORMATION .....	43
PART VI	— INDUSTRY OVERVIEW .....	48
PART VII	— INFORMATION ON THE COMPANY AND THE GROUP .....	63
PART VIII	— DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE .....	91
PART IX	— SUPERVISION AND REGULATION .....	98
PART X	— SELECTED FINANCIAL INFORMATION AND KEY PERFORMANCE INDICATORS .....	105
PART XI	— OPERATING AND FINANCIAL REVIEW .....	115
PART XII	— SELECTED STATISTICAL DATA .....	142
PART XIII	— RISK MANAGEMENT .....	147
PART XIV	— CAPITALISATION AND INDEBTEDNESS .....	158
PART XV	— HISTORICAL FINANCIAL INFORMATION .....	159
PART XVI	— UNAUDITED PRO FORMA FINANCIAL INFORMATION .....	214
PART XVII	— DETAILS OF THE OFFER .....	217
PART XVIII	— TAXATION .....	229
PART XIX	— ADDITIONAL INFORMATION .....	238
PART XX	— DEFINITIONS .....	284

## PART I — SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A-E (A.1 — E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element might be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of the words "not applicable".

Section A — Introduction and warnings	
<u>Element</u>	
A.1	<b>Introduction and warnings</b>  This summary should be read as an introduction to the Prospectus. Any decision to invest in the Offer Shares should be based on consideration of the Prospectus as a whole by the investor.  Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of a Member State, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.  Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	<b>Subsequent resale of securities or final placement of securities through financial intermediaries</b>  Not applicable: the Company is not engaging any financial intermediaries for any resale of securities or final placement of securities after publication of this Prospectus.
Section B — Issuer	
<u>Element</u>	
B.1	<b>Legal and commercial name</b>  Shawbrook Group plc.
B.2	<b>Domicile/Legal Form/ Legislation/ Country of incorporation</b>  The Company is a public limited company, incorporated in the UK with its registered office situated in England and Wales. The Company operates under the Companies Act.
B.3	<b>Current operations/ principal activities and markets</b>  The Group is an independent specialist lending and savings bank serving UK SMEs and consumers. The Group's lending divisions are focused on carefully selected sub-sectors of the lending market, providing commercial mortgages, asset finance, business credit,

		<p>secured lending and consumer lending products to customers. The Group is funded primarily by individual and SME deposits with additional funding from the Funding for Lending Scheme.</p> <p>The Group had £2.8 billion of assets, over 100,000 customers and over 460 employees as at 31 December 2014.</p>
B.4a	<b>Recent trends</b>	<p>The UK retail and business lending market is one of the largest in Europe and comprises one of the largest sectors of the UK economy. Strengthening UK macroeconomic conditions and improving appetite for credit have led to increases in cumulative gross lending by monetary financial institutions ("MFIs"). Gross advances of loans by MFIs to households and non-financial businesses were £529 billion for the 12 months to 30 September 2014, an increase of 11 per cent. on flows for the 12 months to 30 September 2013. Net lending in the UK was positive in 2013 for the first time since the beginning of the global financial crisis in 2008 and, while it returned to being slightly negative in 2014, remains above pre-crisis levels. In the three months to 30 November 2014, lending by MFIs to small businesses rose by £286 million, which is the biggest quarterly increase since the Bank of England began recording these data in May 2011.</p> <p>The Group and its peers have recently benefited from a number of positive dynamics affecting the markets to which they provide lending and savings products.</p> <p><i>Signs of recovery in the UK economy</i></p> <p>The overall performance of the UK economy drives SME performance, employment levels, property prices and aggregate savings balances, all of which can impact the Group's performance. The UK economy continues to recover from the low point experienced during 2009, and this trend is expected to continue throughout 2015. GDP grew by 2.6 per cent in 2014, the fastest pace since 2007 and up from 1.7 per cent. in 2013.</p> <p><i>Structural changes in large high street banks</i></p> <p>Industry and regulatory changes following the financial crisis have resulted in large high street banks seeking to simplify their often overly complex business models. This has led them to focus on the largest sectors of the lending market, prioritising lending high volumes of commoditised products, rather than offering products that require bespoke underwriting or high levels of customer service. Large high street banks have sought to leverage their large branch networks, comparatively low cost of funding and efficiencies of their large scale central underwriting and risk functions. In addition, increased compliance monitoring costs have made it more difficult for large high street banks to address specialist areas of the lending market that require complex underwriting and more detailed knowledge of their counterparties.</p>

	<p><i>Regulatory developments</i></p> <p>Higher capital requirements under Basel III and CRD IV have resulted in capital shortfalls at many large high street banks, which have further resulted in a requirement for significant deleveraging across the banking industry. UK banks deleveraged by a total of £1.7 trillion in the five years to 2013.</p> <p><i>Evolving customer preferences</i></p> <p>In recent years, customers within the UK banking market have become increasingly discerning, with increased focus on customer service, ease of access, timely delivery and product offerings that utilise technological advances. SME customers increasingly perceive that these large high street banks are not willing to lend to SMEs seeking finance and are not maintaining support for their existing borrowers. Customers are also experiencing dissatisfaction with the depersonalisation of service and a general perception that large high street banks are product-led and increasingly disengaged from the needs of customers.</p> <p>Greater customer awareness of the complexities of financial products has also led to an increased role for intermediaries in the market as customers increasingly seek the advice of experts who are able to offer them a range of products from alternative providers. As a result the market environment has evolved in recent years from one where large high street banks could rely on brand, incumbency, customer inertia and cross-selling to dominate, to one where customers are more willing to engage directly with specialists or intermediaries to find products better suited to their requirements.</p> <p><i>Growth in specialist lending markets</i></p> <p>Many of the lending markets addressed by the Group have experienced recent growth and the Directors expect this trend to continue. The Group's lending divisions have either kept pace with, or significantly exceeded, overall growth in their markets.</p>																	
B.5	<p><b>Description of Issuer's group</b></p> <p>The Company is the holding company of the Group and has one principal subsidiary, Shawbrook Bank Limited ("Shawbrook Bank"), which is registered in England and Wales. Shawbrook Bank is a UK deposit-taking institution, which is authorised by the PRA and regulated by the PRA and the FCA. Until Admission, the Company will be owned by the Selling Shareholders.</p>																	
B.6	<p><b>Shareholders</b></p> <p>At the date of this Prospectus, insofar as is known to the Company, the following will, on Admission, be directly or indirectly interested in 3 per cent. or more of the Company's capital:</p> <table border="1"> <thead> <tr> <th rowspan="2">Shareholder</th> <th colspan="2">Interests in Ordinary Shares Immediately following Admission</th> </tr> <tr> <th>Number of shares</th> <th>% of total issued</th> </tr> </thead> <tbody> <tr> <td>Major Shareholder .....</td> <td>147,727,975</td> <td>59.1</td> </tr> <tr> <td>JPMorgan Asset Management .....</td> <td>10,000,000</td> <td>4.0</td> </tr> <tr> <td>Fidelity Management &amp; Research Co .....</td> <td>8,000,000</td> <td>3.2</td> </tr> <tr> <td>Funds and accounts under management by investment management subsidiaries of BlackRock, Inc .....</td> <td>7,520,000</td> <td>3.0</td> </tr> </tbody> </table>	Shareholder	Interests in Ordinary Shares Immediately following Admission		Number of shares	% of total issued	Major Shareholder .....	147,727,975	59.1	JPMorgan Asset Management .....	10,000,000	4.0	Fidelity Management & Research Co .....	8,000,000	3.2	Funds and accounts under management by investment management subsidiaries of BlackRock, Inc .....	7,520,000	3.0
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		<p>The Major Shareholder holds its Ordinary Shares in the Company through its nominee, SOF Annex Nominees Limited, whose ultimate parent is SOF Holdings Limited. The voting rights attaching to the Ordinary Shares are exercisable by the Major Shareholder.</p> <p>Other than the interests of the Major Shareholder referred to above, the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or, immediately following the Offer could exercise, control over the Company.</p> <p>All Ordinary Shares have the same voting rights.</p>																																																																																																								
B.7	<b>Selected historical key financial information</b>	<p>The selected historical key financial information set out below has been extracted without material adjustment from the audited consolidated financial statements of the Group as at and for the years ended 31 December 2014, 2013 and 2012.</p> <p style="text-align: center;"><b>Consolidated Income Statement</b></p> <table> <thead> <tr> <th></th> <th style="text-align: right;">2014</th> <th style="text-align: right;">2013</th> <th style="text-align: right;">2012</th> </tr> <tr> <th></th> <th style="text-align: right;">(£m)</th> <th style="text-align: right;">(£m)</th> <th style="text-align: right;">(£m)</th> </tr> </thead> <tbody> <tr> <td>Interest income and similar income .....</td> <td style="text-align: right;">156.7</td> <td style="text-align: right;">93.3</td> <td style="text-align: right;">48.4</td> </tr> <tr> <td>Interest expense and similar charges .....</td> <td style="text-align: right;">(54.0)</td> <td 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(54.0)	(38.4)	(27.4)	Net interest income .....	102.7	54.9	21.0	Operating lease rentals .....	15.7	17.1	15.1	Other income .....	1.1	1.1	0.3	Depreciation on operating leases .....	(13.1)	(13.8)	(12.1)	Net income from operating leases .....	3.7	4.4	3.3	Fee and commission income .....	7.6	0.8	0.5	Fee and commission expense .....	(1.7)	—	(0.1)	Net fee and commission income .....	5.9	0.8	0.4	Fair value (losses) on financial instruments .....	(0.1)	—	—	<b>Net operating income</b> .....	<b>112.2</b>	<b>60.1</b>	<b>24.7</b>	Administrative expenses .....	(59.1)	(39.8)	(29.0)	Impairment losses on financial assets .....	(6.7)	(3.5)	(2.7)	Provisions for liabilities and charges .....	(1.1)	(0.7)	(0.1)	<b>Profit / (Loss) before taxation</b> .....	<b>45.3</b>	<b>16.1</b>	<b>(7.1)</b>	Income tax (charge) / credit .....	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**Consolidated Statement of Financial Position**

	As at 31 December		
	2014	2013	2012
	(£m)		
<b>Assets</b>			
Cash and balances at central banks .....	313.1	206.6	0.2
Loans and advances to banks .....	36.6	23.8	117.2
Loans and advances to customers .....	2,284.8	1,346.9	683.5
Derivative financial assets .....	3.7	—	—
Investment securities — available for sale .....	—	—	144.9
Property, plant and equipment .....	49.7	53.8	61.1
Intangible assets .....	49.5	22.2	21.3
Deferred tax asset .....	9.8	8.6	11.2
Other assets <sup>(1)</sup> .....	6.8	6.1	10.9
<b>Total assets</b> .....	<b>2,754.0</b>	<b>1,668.0</b>	<b>1,050.3</b>
<b>Liabilities</b>			
Customer deposits .....	2,421.0	1,463.0	923.7
Due to banks .....	41.0	24.6	—
Provisions for liabilities and charges .....	0.6	0.4	0.1
Other liabilities <sup>(2)</sup> .....	41.9	16.9	21.6
Subordinated debt .....	30.8	27.6	—
<b>Total liabilities</b> .....	<b>2,535.3</b>	<b>1,532.5</b>	<b>945.4</b>
<b>Equity</b>			
Share capital .....	185.3	138.0	120.2
Share premium .....	1.3	—	—
Retained earnings .....	32.1	(2.5)	(15.3)
<b>Total equity</b> .....	<b>218.7</b>	<b>135.5</b>	<b>104.9</b>
<b>Total equity and liabilities</b> .....	<b>2,754.0</b>	<b>1,668.0</b>	<b>1,050.3</b>

(1) Other assets comprise other debtors, prepayments, corporation tax recoverable and amounts due from Group companies.

(2) Other liabilities comprise other creditors, corporation tax payable, accruals and amounts due to Group companies.

		Consolidated Statement of Cash Flows		
		2014	2013	2012
		(£m)		
<b>Cash flows from operating activities:</b>				
Profit / (Loss) for the year before taxation .....	45.3	16.1	(7.1)	
Adjustments for non-cash items .....	23.8	17.6	15.9	
<b>Cash flows from operating activities before changes in operating assets and liabilities ...</b>	<b>69.1</b>	<b>33.7</b>	<b>8.8</b>	
<b>Increase/decrease in operating assets and liabilities:</b>				
Decrease/(increase) in investment securities — available for sale .....	—	82.0	(63.5)	
Increase in mandatory balances with central banks .....	(1.0)	(0.5)	(0.2)	
Increase in loans and advances to customers .....	(749.0)	(665.6)	(312.3)	
Increase in derivatives .....	(3.7)	—	—	
Decrease/(increase) in other assets .....	0.7	6.9	(3.7)	
Increase in customer deposits .....	958.1	539.3	743.3	
Increase in provisions for liabilities and charges ...	0.2	0.3	0.1	
(Decrease)/increase in other liabilities .....	12.0	(4.7)	3.4	
	<b>217.3</b>	<b>(42.3)</b>	<b>367.1</b>	
Purchase of Group tax losses .....	—	(0.6)	—	
Tax paid .....	(4.6)	(2.2)	—	
<b>Net cash flow generated from operating activities .....</b>	<b>281.8</b>	<b>(11.4)</b>	<b>375.9</b>	
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment .....	(11.0)	(11.2)	(12.5)	
Sale of property, plant and equipment .....	2.2	3.8	3.7	
Purchase of intangible assets .....	(3.9)	(1.1)	—	
Investment in subsidiaries net of cash and cash equivalents acquired .....	(76.3)	—	(12.6)	
<b>Net cash used by investing activities .....</b>	<b>(89.0)</b>	<b>(8.5)</b>	<b>(21.4)</b>	
<b>Cash flows from financing activities</b>				
Due to banks .....	16.4	24.6	—	
Repayment of third party funding .....	(138.2)	—	(325.1)	
Issue of subordinated debt .....	—	27.1	—	
Proceeds from the issue of ordinary share capital .....	47.3	17.8	75.0	
<b>Net cash generated from / (used by) financing activities .....</b>	<b>(74.5)</b>	<b>69.5</b>	<b>(250.1)</b>	
<b>Net increase in cash and cash equivalents .....</b>	<b>118.3</b>	<b>49.6</b>	<b>104.4</b>	
Cash and cash equivalents at 1 January .....	229.7	180.1	75.7	
<b>Cash and cash equivalent at 31 December .....</b>	<b>348.0</b>	<b>229.7</b>	<b>180.1</b>	
Certain significant changes to the Group's financial condition and results of operations occurred during the FY 2014, FY 2013 and FY 2012 periods. These changes are set out below.				
<p>The size of the Group's loan book has grown significantly, following the acquisitions of Singers Asset Finance Holdings ("Singers Asset Finance") in March 2012, and Centric Commercial Finance Limited ("Centric") in June 2014, each of which are described in more detail elsewhere in this Prospectus. The Group's loans and advances to customers (including operating leases within property, plant and equipment) increased from £111.3 million as at 1 January 2012 to £743.2 million as at 31 December 2012. The Group's Asset Finance division, established following its acquisition of Singers Asset Finance, accounted for £348.5 million of this growth. The Group's loans and advances to customers further increased to £1,398.8 million as at 31 December 2013 and to £2,331.0 million as at 31 December 2014. The Group's Business Credit division, established following its acquisition of Centric, accounted for £169.8 million of this growth.</p>				

		<p>As a result of the foregoing acquisitions and significant organic growth, the Group's results of operations have improved substantially. The Group's net interest income has increased from £21.0 million in FY 2012 to £54.9 million in FY 2013 and £102.7 million in FY 2014, its net operating income has increased from £24.7 million in FY 2012 to £60.1 million in FY 2013 and to £112.2 million in FY 2014, and its profits/(losses) for the year have increased from £(6.8) million in FY 2012 to £12.8 million in FY 2013 and to £34.5 million in FY 2014.</p> <p><b>Recent developments</b></p> <p>Since 31 December 2014, the Group has continued to focus on its carefully selected sub-sectors of the lending market and has seen a strong level of organic originations, which exceeded £270 million for the period ended 28 February 2015, with the loan book increasing to £2,491 million as at 28 February 2015. The Group is focused on organic origination as its core growth strategy, but it also added to its Commercial Mortgages loan book in February 2015 with the acquisition of a portfolio of loans for £11 million, and it will continue to consider inorganic opportunities in the future as they arise.</p>																																																			
B.8	<b>Selected key pro forma financial information</b>	<p>The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effects of the Offer on the net assets of the Group, had the Offer taken place on 31 December 2014. The pro forma net asset statement is based on the audited historical financial information of the Group for the year ended 31 December 2014 contained in Part XV (<i>Historical Financial Information</i>) of this prospectus and has been prepared in a manner consistent with the accounting policies adopted by the group in preparing its financial statements for the year ended 31 December 2014.</p> <p>The unaudited combined pro forma statement of net assets has been prepared for illustrative purposes only, and by its nature addresses a hypothetical situation and, therefore, does not reflect the Group's actual financial position or results and does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006. The unaudited consolidated pro forma statement of net assets is compiled on the basis set out in the notes below and in accordance with the requirements of items 1 to 6 of Annex II to the Prospectus Rules.</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th rowspan="3"></th> <th colspan="3">Adjustments</th> </tr> <tr> <th rowspan="2">As at 31 December 2014<sup>(1)</sup></th> <th rowspan="2">Gross Proceeds from the Offer<sup>(2)</sup></th> <th rowspan="2">Unaudited pro forma as at 31 December 2014</th> </tr> <tr> <th>Expenses<sup>(3)</sup></th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td style="text-align: right;">(£m)</td> </tr> <tr> <td><b>Cash and balances at central banks</b></td> <td>313.1</td> <td style="text-align: right;">—</td> <td style="text-align: right;">313.1</td> </tr> <tr> <td>Other assets</td> <td>2,440.9</td> <td style="text-align: right;">90.0</td> <td style="text-align: right;">(8.0)</td> </tr> <tr> <td><b>Total assets</b></td> <td><b>2,754.0</b></td> <td style="text-align: right;"><b>90.0</b></td> <td style="text-align: right;"><b>(8.0)</b></td> </tr> <tr> <td><b>Liabilities</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Customer deposits</td> <td>2,421.0</td> <td style="text-align: right;">—</td> <td style="text-align: right;">2,421.0</td> </tr> <tr> <td>Other liabilities</td> <td>114.3</td> <td style="text-align: right;">—</td> <td style="text-align: right;">114.3</td> </tr> <tr> <td><b>Total liabilities</b></td> <td><b>2,535.3</b></td> <td style="text-align: right;"><b>—</b></td> <td style="text-align: right;"><b>—</b></td> </tr> <tr> <td>Total equity</td> <td>218.7</td> <td style="text-align: right;">90.0</td> <td style="text-align: right;">(8.0)</td> </tr> <tr> <td><b>Total equity and liabilities</b></td> <td><b>2,754.0</b></td> <td style="text-align: right;"><b>90.0</b></td> <td style="text-align: right;"><b>(8.0)</b></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><b>2,836.0</b></td> <td style="text-align: right;"><b>2,836.0</b></td> </tr> </tbody> </table>		Adjustments			As at 31 December 2014 <sup>(1)</sup>	Gross Proceeds from the Offer <sup>(2)</sup>	Unaudited pro forma as at 31 December 2014	Expenses <sup>(3)</sup>			(£m)	<b>Cash and balances at central banks</b>	313.1	—	313.1	Other assets	2,440.9	90.0	(8.0)	<b>Total assets</b>	<b>2,754.0</b>	<b>90.0</b>	<b>(8.0)</b>	<b>Liabilities</b>				Customer deposits	2,421.0	—	2,421.0	Other liabilities	114.3	—	114.3	<b>Total liabilities</b>	<b>2,535.3</b>	<b>—</b>	<b>—</b>	Total equity	218.7	90.0	(8.0)	<b>Total equity and liabilities</b>	<b>2,754.0</b>	<b>90.0</b>	<b>(8.0)</b>			<b>2,836.0</b>	<b>2,836.0</b>
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		<p>Notes:</p> <p>(1) The financial information as at 31 December 2014 has been extracted, without material adjustment, from the Financial Information set out in Part XV (<i>Historical Financial Information</i>) of this Prospectus. The accounting policies adopted in preparing the pro forma balance sheet as at 31 December 2014 are consistent with the accounting policies adopted in preparing the Financial Information. No account has been taken of actual changes in the results, trading or financial position of the Group since 31 December 2014.</p> <p>(2) This adjustment reflects the receipt of the gross proceeds from the Offer by the Company. See paragraph 3 of Part XVII (<i>Details of the Offer</i>) for further details of the Company's intended use of the proceeds.</p> <p>(3) The expenses in relation to the Offer to be borne by the Company are estimated at approximately £8 million (inclusive of VAT). These expenses will be paid by the Company out of cash resources during the year ending 31 December 2015.</p>
B.9	<b>Profit forecast / estimate</b>	Not applicable.
B.10	<b>Audit report — qualifications</b>	Not applicable
B.11	<b>Insufficient working capital</b>	Not applicable: the Company is of the opinion that, taking into account the net proceeds of the Offer receivable by the Company, the Group has sufficient working capital for its present requirements, that is, for the next 12 months following the date of this Prospectus.

## Section C — Securities

Element		
C.1	<b>Description of type and class of securities being offered</b>	<p>75,000,000 Ordinary Shares in Shawbrook Group plc (the “Offer Shares”) excluding any Over-allotment Shares.</p> <p>The nominal value of the total issued Ordinary Share capital of the Company immediately following Admission will be £2,500,000 divided into 250,000,000 Ordinary Shares of £0.01 each, which are issued fully paid.</p> <p>When admitted to trading, the Ordinary Shares will be registered with ISIN GB00BWDPMF43 and SEDOL number BWDPMF4.</p>
C.2	<b>Currency of issue</b>	The Offer Shares are denominated in British Pounds Sterling.
C.3	<b>Number of Ordinary Shares issued and par value</b>	<p>There are at the date of this Prospectus 250,000,000 Ordinary Shares (all of which are fully paid).</p> <p>The Ordinary Shares have a par value of £0.01.</p>
C.4	<b>Rights attaching to the Ordinary Shares</b>	<p>The Ordinary Shares rank equally for voting purposes.</p> <p>On a show of hands each Shareholder has one vote, and on a poll each Shareholder has one vote per Ordinary Share held.</p> <p>Each Ordinary Share ranks equally for any dividend declared. Each Ordinary Share ranks equally for any distributions made on a winding up of the Company.</p>

		Each Ordinary Share ranks equally in the right to receive a relative proportion of shares in case of a capitalisation of reserves.
C.5	<b>Restrictions on transfer</b>	The Offer Shares are freely transferable and there are no restrictions on transfer in the UK.
C.6	<b>Admission to trading</b>	<p>Application has been made for the Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.</p> <p>The London Stock Exchange's main market is a regulated market.</p>
C.7	<b>Dividend policy</b>	<p>The Directors believe the Group's attractive long-term growth prospects will support a dividend policy which reflects the strength of the Group's capital position and business. Based on the Directors' anticipated growth profile for the Group, the Directors are targeting a modest maiden dividend in respect of the financial year ending 31 December 2016, rising to a target of 30 per cent. of post-tax statutory profits in respect of the financial year ending 31 December 2017, with a progressive policy thereafter.</p> <p>The ability of the Company to pay dividends is dependent on a number of factors and there is no assurance that the Company will pay dividends or, if a dividend is paid, what the amount of such dividend will be.</p>

Section D — Risks	
Element	
D.1	<p><b>Key information on key risks that are specific to the Issuer or its industry</b></p> <ul style="list-style-type: none"> <li>The Group's operations are based entirely in the UK and its revenue is derived from UK-based customers. In the event of a disruption to the UK credit markets or general economic conditions in the UK or macroeconomic conditions generally (including increased interest rates and/or unemployment in regions where the Group has significant presence), this concentration of credit risk could cause the Group to experience a deterioration in earnings.</li> <li>Disruptions in the UK credit markets or general economic conditions in the UK could have a negative impact on the financial circumstances of borrowers in a variety of ways, including, among other potential impacts, reduced rental yields for borrowers of the Group's Commercial Mortgages products, negative impacts on the businesses and growth prospects of SME customers of the Group's Asset Finance and Business Credit divisions and increased unemployment and decreased discretionary purchases among customers of the Group's Secured Lending and Consumer Lending divisions. Such disruptions could increase default levels among customers, which could in turn lead to an increase in non-payment, forbearance and arrears as well as an increase in the Group's impairment charges. Higher impairment charges could reduce the Group's profitability and capital and negatively impact the</li> </ul>

	<p>Group's ability to engage in lending activities. In addition, such disruptions can reduce potential customers' appetites for the Group's products, reducing the Group's new lending opportunities.</p> <ul style="list-style-type: none"> <li>Within the financial services industry, the default of any one institution could lead to defaults by other institutions. This may adversely affect financial intermediaries, such as clearing agencies, clearing houses and banks with whom the Group interacts on a daily basis. Systemic risk could have a material adverse effect on the Group's ability to raise new funding and on its business, financial condition, results of operations, liquidity and/or prospects.</li> <li>The Group's limited operating history and recent significant loan book growth increase the difficulty it faces in predicting certain trends with respect to its loan book. The ability of borrowers under the Group's loans to continue to meet their payment obligations in the event of a downturn in the UK economy or in a high interest-rate environment has also not been tested. In addition, the performance and loan losses of any new loan products that the Group introduces in the future will be similarly difficult to predict.</li> <li>The competitive environment in which the Group operates may negatively affect the Group's ability to continue to source loan originations in line with its targeted volumes or rates.</li> <li>Any failure by one of the Group's Business Partners has the potential to cause: (i) negative pressure on the Group's loan originations; (ii) deterioration in customer service; and (iii) a negative impact on customer confidence. If Business Partners are found to have acted inappropriately or violated applicable conduct regulations or standards in the sale of the Group's loan products, the Group's brand and/or reputation could be harmed as a result.</li> <li>If the Group is unable to access sufficient deposit funding on reasonable terms for a prolonged period of time, the Group may not have sufficient funds for its growth strategy and its cost of funding could increase. If the Group is unable to pass on any such increase to its lending customers through increased pricing on loans, the Group's business, financial condition, results of operations or prospects could suffer a material adverse effect.</li> <li>The loss of service of any of the Group's senior management or other key personnel, or an inability of the Group to attract new personnel, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.</li> <li>The Group's business is exposed to operational risks related to its IT systems. While the Group has a robust IT infrastructure and information security</li> </ul>
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		<p>controls, a failure in such infrastructure or controls could result in significant financial losses and a material adverse impact on the Group's operational performance and reputation.</p> <ul style="list-style-type: none"> <li>Failure to comply with the wide range of laws and regulations which apply to the Group could result in the FCA and PRA imposing fines, sanctions or cancelling or restricting the Group's regulatory authorisations altogether, thereby preventing it from carrying on its business.</li> <li>Following Admission, the Major Shareholder will be interested in approximately 59 per cent. of the Company's issued share capital (assuming no exercise of the Over-allotment Option). The Major Shareholder has entered into the Relationship Agreement. The interests of the Major Shareholder may not always be aligned with those of the other Shareholders.</li> </ul>
D.3	<b>Key information on key risks relating to the Ordinary Shares</b>	<ul style="list-style-type: none"> <li>Prior to the Offer, there has been no public trading market for the Ordinary Shares. The Offer Price has been determined by the Company and the Major Shareholder in agreement with the Global Coordinators and may not be indicative of the market price for the Ordinary Shares following Admission.</li> <li>The price of the Ordinary Shares may fluctuate significantly and investors could lose all or part of their investment.</li> <li>There is no guarantee to Shareholders of the payment of dividends. As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, including the receipt of sufficient dividends from its subsidiaries, the underlying performance and growth of the Group, restrictions under the Group's current and future external debt financing arrangements and regulation.</li> </ul>

## Section E — Offer

<b>Element</b>	
E.1	<p><b>Net proceeds/ expenses</b></p> <p>The Directors expect to receive net proceeds of approximately £82 million (after deducting estimated underwriting commissions and other fees and expenses of the Offer (including VAT) payable by the Company, which are currently expected to be £8 million) from the issue of Ordinary Shares in the Offer.</p> <p>The net proceeds (after deducting underwriting commissions and applicable taxes) from the Offer of 43,965,517 Existing Ordinary Shares by the Selling Shareholders will be £124.1 million (excluding the Over-allotment Option).</p> <p>The Company will not receive any portion of the proceeds resulting from the sale of Existing Ordinary Shares by the Selling Shareholders in the Offer.</p>

		No expenses will be charged by the Company or the Selling Shareholders to the purchasers of the Ordinary Shares.
E.2a	<b>Reasons for the Offer/Use of proceeds</b>	<p>The Directors believe that the Offer and Admission will support prudent capital ratios. The Directors intend to use the net proceeds from the Offer to support further controlled growth within the Group's existing market segments and possible expansion into new market sectors and for general corporate purposes.</p> <p>In addition, the Directors believe that Admission will benefit the Company by:</p> <ul style="list-style-type: none"> <li>improving the financing options available to the Group in the future, providing it with access to a wide range of institutional investors and a stronger capital markets profile; and</li> <li>assisting in recruiting, retaining and incentivising key management and employees.</li> </ul> <p>The Selling Shareholders are also looking to realise part of their investment in the Company by way of the Offer.</p>
E.3	<b>Terms and conditions of the Offer</b>	<p>The “<b>Offer Shares</b>” are Ordinary Shares which are the subject of the Offer, comprising:</p> <ul style="list-style-type: none"> <li>31,034,483 New Ordinary Shares to be issued by the Company; and</li> <li>the Secondary Offer of: <ul style="list-style-type: none"> <li>43,965,517 Existing Ordinary Shares that are beneficially owned by the Selling Shareholders and will be sold in the Secondary Offer; and</li> <li>up to 11,250,000 Over-allotment Shares (which will be sold by the Major Shareholder to the extent that the Over-allotment Option is exercised).</li> </ul> </li> </ul> <p>All Offer Shares will be sold at the Offer Price. The Offer is made by way of an institutional private placing. Under the Offer, Ordinary Shares will be offered to: (i) certain institutional and professional investors in the UK and elsewhere outside the United States in reliance on Regulation S; and (ii) to QIBs in the United States in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.</p> <p>Admission is expected to become effective, and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange, at 8.00 a.m. on 8 April 2015.</p> <p>The Offer is subject to the satisfaction of certain conditions, which are customary for transactions of this type, contained in the Underwriting Agreement, including Admission becoming effective no later than 8.00 a.m. on 15 April 2015 and the Underwriting Agreement not having been terminated prior to Admission.</p>

		<p>The Underwriting Agreement has been entered into between the Company (for itself and as agent for the Other Employee Shareholders and Sir Brian Ivory CBE and on behalf of the Management Selling Shareholders pursuant to the Sale Elections), the Directors, the Investor Selling Shareholders and the Banks. The Underwriting Agreement provides for the Banks to be paid a commission in respect of the Offer Shares sold. Any commissions received by the Banks may be retained and any Ordinary Shares acquired by them may be retained or dealt in, by them, for their own benefit.</p> <p>None of the Ordinary Shares may be offered for subscription, sale, purchase or delivery, and neither this Prospectus nor any other offering material in relation to the Ordinary Shares may be circulated, in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.</p>
E.4	<b>Material interests</b>	<p>The Company considers that the Major Shareholder has interests that are material to the Offer by virtue of the size of its shareholding in the Company. The Major Shareholder holds its shareholding in the Company through its nominee, SOF Annex Nominees Limited, whose ultimate parent is SOF Holdings Limited.</p> <p>The Company does not consider that these are conflicting interests, or that there are any other interests, including conflicts of interest, that are material to the Offer.</p>
E.5	<b>Selling shareholders</b>	43,965,517 Existing Ordinary Shares (representing no more than 18 per cent. of the enlarged share capital of the Company) will be sold in the Offer by or on behalf of the Selling Shareholders.

The interests in Ordinary Shares of the Selling Shareholders (certain of which include the interests of persons connected with the Selling Shareholders) immediately prior to Admission, together with the interests in Ordinary Shares immediately following Admission, are set out in the table below.

Selling Shareholder	Interests in Ordinary Shares immediately prior to Admission		Ordinary Shares to be sold pursuant to the Offer		Interest in Ordinary Shares immediately following Admission	
	No.	% of total issued <sup>(9)</sup>	No.	% of total issued	No.	% of total issued
The Major Shareholder <sup>(1)(2)</sup> ...	184,297,158	84.2	36,569,183	14.6	147,727,975	59.1
Cabot Square Capital Nominee Limited <sup>(3)</sup> .....	6,749,473	3.1	1,339,265	0.5	5,410,208	2.2
Stephen Johnson <sup>(4)</sup> .....	5,128,333	2.3	1,280,904	0.5	3,847,429	1.5
Tom Wood <sup>(4)</sup> .....	2,742,841	1.3	685,710	0.3	2,057,131	0.8
Philip George <sup>(4)</sup> .....	2,755,032	1.3	688,758	0.3	2,066,274	0.8
Nick McAuliffe <sup>(4)</sup> .....	1,237,873	0.6	309,623	0.1	928,250	0.4
Sir George Mathewson CBE <sup>(4)(5)</sup> .....	1,237,874	0.6	309,468	0.1	928,406	0.4
Richard Pyman <sup>(4)</sup> ...	1,181,164	0.5	295,291	0.1	885,873	0.4
Sir Brian Ivory CBE <sup>(4)(6)</sup> .....	1,061,034	0.5	265,259	0.1	795,775	0.3
Robin Ashton <sup>(4)(6)</sup> ....	795,776	0.4	198,944	0.1	596,832	0.2
Nick Ellis-Calcott <sup>(4)</sup> .....	397,888	0.2	99,559	0.0	298,329	0.1
Jim Cannon <sup>(4)</sup> .....	353,678	0.2	88,464	0.0	265,214	0.1
Daniel Rushbrook <sup>(4)</sup> .....	253,185	0.1	122,795	0.0	130,390	0.1
Paul Hedges <sup>(4)</sup> .....	176,839	0.1	106,634	0.0	70,205	0.0
John Onslow <sup>(4)</sup> .....	152,755	0.1	38,251	0.0	114,504	0.0
Simon Furnell <sup>(4)</sup> .....	132,630	0.1	16,579	0.0	116,051	0.0
Tommy Wight <sup>(4)</sup> .....	84,395	0.0	21,124	0.0	63,271	0.0
Other Employee Shareholders <sup>(7)</sup> ...	6,505,737	3.0	1,529,706	0.6	4,976,031	2.0
<b>TOTAL</b> .....	<b>215,243,665</b>	<b>98.3</b>	<b>43,965,517</b>	<b>17.6</b>	<b>171,278,148</b>	<b>68.5</b>

- (1) For the purposes of the Offer, the business address of the Major Shareholder is 8 Hanover Street, London W1S 1YQ.
- (2) The Major Shareholder holds its Ordinary Shares in the Company through its nominee, SOF Annex Nominees Limited, whose ultimate parent is SOF Holdings Limited. The voting rights attaching to the Ordinary Shares are exercisable by the Major Shareholder.
- (3) For the purposes of the Offer, the business address of Cabot Square Capital Nominee Limited is One Connaught Place, W2 2ET, London.
- (4) For the purposes of the Offer, the business address of the Other Employee Shareholders and each of Sir George Mathewson CBE, Sir Brian Ivory, Robin Ashton, Richard Pyman, Tom Wood, Stephen Johnson, Nick McAuliffe, Simon Furnell, Philip George, Jim Cannon, Nick Ellis- Calcott, Tommy Wight, Daniel Rushbrook and John Onslow is Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, CM13 3BE, Essex.
- (5) Sir George Mathewson CBE and Robin Ashton's Ordinary Shares are held by family members.
- (6) Sir Brian Ivory CBE served as a Non-Executive Director of Shawbrook Bank from 4 March 2011 until 31 March 2015.
- (7) The Other Employee Shareholders are Shareholders who are employees and former employees of the Group (other than the Directors and permanent Senior Managers) and hold beneficial interests in certain Ordinary Shares that are held by SOF Annex Nominees Limited as nominee. There are over 50 Other Employee Shareholders.

	<p><b>Lock-up arrangements</b></p>	<p>Each of the Company, the Directors, the Senior Managers and the other Selling Shareholders has agreed to certain lock-up arrangements.</p> <p>Pursuant to the Underwriting Agreement, the Company has agreed with the Banks that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not directly or indirectly, without the prior written consent of the Global Coordinators, issue, lend, offer, sell or contract to sell, issue options in respect of or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction (including through derivatives) with the same economic effect as, or agree to do, any of the foregoing.</p> <p>Each of the Directors and Senior Managers has agreed that, subject to certain exceptions, he or she will not, directly or indirectly, without the prior written consent of the Global Coordinators, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing:</p> <ul style="list-style-type: none"> <li>(A) during the period to and including the first anniversary of Admission, with this restriction applying in respect of such Director's or Senior Manager's entire holding of Ordinary Shares following Admission;</li> <li>(B) during the period from the first anniversary of Admission to and including the second anniversary of Admission, with this restriction applying in respect of two thirds of such Director's or Senior Manager's holding of Ordinary Shares following Admission; and</li> <li>(C) during the period from the second anniversary of Admission to and including the third anniversary of Admission, with this restriction applying in respect of one third of such Director's or Senior Manager's holding of Ordinary Shares following Admission.</li> </ul> <p>If a Non-Executive Director ceases to be a Director then, in certain circumstances, the restrictions described above will cease to apply 12 months later.</p> <p>Each of the Investor Selling Shareholders has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it, he or she will not, directly or indirectly, without the prior written consent of the Global Coordinators, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.</p>
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		<p>The Other Employee Shareholders have agreed that, subject to certain exceptions, he or she will not, directly or indirectly, without the prior written consent of the Company, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing:</p> <p>(A) during the period to and including the first anniversary of Admission, with this restriction applying in respect of such Other Employee Shareholder's entire holding of Ordinary Shares following Admission;</p> <p>(B) during the period from the first anniversary of Admission to and including the second anniversary of Admission, with this restriction applying in respect of two thirds of such Other Employee Shareholder's holding of Ordinary Shares following Admission; and</p> <p>(C) during the period from the second anniversary of Admission to and including the third anniversary of Admission, with this restriction applying in respect of one third of such Other Employee Shareholder's holding of Ordinary Shares following Admission.</p> <p>Sir Brian Ivory CBE has agreed that, subject to certain exceptions, during the period of 12 months from the date of Admission, he will not, directly or indirectly, without the prior written consent of the Global Coordinators, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.</p>
E.6	<b>Dilution</b>	31,034,483 New Ordinary Shares will be issued pursuant to the Offer. The Existing Ordinary Shares will represent 88 per cent. of the total issued Ordinary Shares immediately following Admission.
E.7	<b>Estimated expenses charged to investors</b>	Not applicable: there are no commissions, fees or expenses to be charged to investors by the Company under the Offer.

## PART II — RISK FACTORS

*Any investment in the Offer Shares is subject to a number of risks. Prior to investing in the Offer Shares, prospective investors should consider carefully the factors and risks associated with any such investment, the Group's business and the industry and macroeconomic environment in which it operates, together with all other information contained in this Prospectus including, in particular, the risk factors described below.*

*Prospective investors should note that the risks relating to the Group's macroeconomic environment, business and industry and the Offer Shares summarised in the section of this Prospectus entitled "Summary" are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Offer Shares. However, as the risks which the Group faces relate to events, and depend on circumstances, that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this Prospectus entitled "Summary" but also, among other things, the risks and uncertainties described below.*

*The risks and uncertainties described below represent those that the Directors consider to be material as at the date of this Prospectus. However, these risks and uncertainties are not the only ones facing the Group. Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that the Group currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, financial condition, results of operations and prospects and, if any or a combination of such risks should occur, the price of Ordinary Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Offer Shares is suitable for them in the light of the information in this Prospectus and their personal circumstances.*

### 1. RISKS RELATED TO THE MACROECONOMIC ENVIRONMENT IN WHICH THE GROUP OPERATES

#### 1.1 The Group faces concentration risks relating to the macroeconomic environment in the UK and, in particular, Greater London and South East England.

The Group's operations are based entirely in the UK and its revenue is derived from UK-based customers, in particular in England and, to a lesser extent, Wales, Scotland and Northern Ireland. In the event of a disruption to the UK credit markets or general economic conditions in the UK or macroeconomic conditions generally (including increased interest rates and/or unemployment in regions where the Group has significant presence), this concentration risk could cause the Group to experience a deterioration in earnings and reduced business activity.

Further, the Group faces particular concentration risks due to a majority of its loan portfolio being secured against properties in Greater London and South East England. As at 31 December 2014, 60 per cent. of the Group's Commercial Mortgages division's loan portfolio and 54 per cent. of its Secured Lending division's loan portfolio were secured against properties in Greater London and South East England. Falling property prices in the UK (particularly Greater London and South East England) may lead to increased loan losses for the Group which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Although the Group regularly monitors its credit portfolios to assess potential concentration risk, efforts to manage the Group's credit portfolio against concentration risks may not be successful, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

#### 1.2 Adverse economic and market conditions may negatively impact the Group's lending divisions and overall business and financial performance, which could result in higher impairment charges, increased loan losses and reduced lending opportunities for the Group.

The Group's business is subject to general macroeconomic conditions in the UK and volatility in the global economic and financial markets, both generally and as they specifically affect financial institutions. Since the start of the global financial crisis in 2008, the UK economy has experienced significant turbulence and a period of recession, which has adversely affected, among other things,

business activity, consumer confidence, spending and demand for and supply of credit, asset values, corporate capital investment levels, corporate insolvency rates, conditions in the housing market and the commercial real estate sector, levels of employment, the cost and availability of credit and liquidity in the capital markets. The UK economy is also affected by prevailing economic conditions in the Eurozone and globally, including the possibility of further macroeconomic deterioration and/or financial market instability, which may also negatively affect consumer confidence, spending and demand for credit and retail and wholesale funding markets. While certain economic indicators in the UK have exhibited signs of improvement, the outlook for the UK economy remains somewhat uncertain. In the future, the UK economy may experience further volatility due to the uncertainty of the outcome of the UK Government election on 7 May 2015, speculation about the UK continuing to remain a member of the EU and a variety of other factors.

A deterioration of economic and market conditions and/or prolonged volatility could have an overall material adverse effect on the Group's business, financial condition, results of operations and prospects. Conversely, improving economic and market conditions could also adversely affect the Group as improved financial circumstances of SMEs or individuals to whom the Group provides loans may lead to borrowers repaying or refinancing their loans sooner than expected. Any improvement in the Group's lending opportunities as a result of improved economic and market conditions may not offset the effects of early repayments and, as a result, the Group's loan book may become smaller than anticipated. A small loan book may adversely impact the ability of the Group to achieve its growth targets, which in turn could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition to the overall impact on the Group of adverse economic and market conditions, the impact of adverse economic and market conditions on each of the Group's five lending divisions, which have different products and customers and as such are impacted in different ways, is described in more detail below:

#### *Commercial Mortgages*

The Group's Commercial Mortgages division focuses on mortgages for professional property investors, short-term loans for property professionals and commercial property loans for seasoned investors and SME owner-occupiers.

As at 31 December 2014, the Commercial Mortgages division had a loan book of £968.9 million, a weighted average LTV of 64.8 per cent. (with 0.01 per cent. of its loans having an LTV ratio above 75 per cent.). 0.2 per cent. of outstanding balances were more than 90 days past due or impaired. The division's weighted average Debt Service Coverage Ratio stood at 2.0x as at 31 December 2014.

Disruptions in the UK credit markets or general economic conditions in the UK could have a negative impact on the financial circumstances of borrowers to whom the Commercial Mortgages division provides loans, such as through reduced rental receipts if an economic downturn leads to decreases in rents being charged on properties or increased inability of tenants to pay rents. Reduced rental receipts or higher interest rates may affect borrowers' ability to repay their loans, which could increase default levels, non-payment, arrears and forbearance as well as the Group's impairment charges. Higher impairment charges could reduce the Group's profitability, capital and ability to engage in lending. In addition, adverse economic and market conditions could lead potential investors to be less willing or unable to complete new property purchases. Any of the foregoing results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Further, as certain of the Group's Commercial Mortgages are provided on an interest-only basis, where the customer repays interest during the term of the mortgage loan with the principal balance being repaid in full at maturity, or on a part capital repayment basis and a part interest-only basis ("part and part loans"), adverse market and economic conditions may mean that these customers are unable to repay their loans in full at the contractual maturity date. In those circumstances, the Group may extend such loans on a capital plus interest basis but there is a risk that, at the maturity of the loan, the customer does not have sufficient amount or quality of rental income to support a refinancing of the loan. This may lead to an increase in impairment charges on the Group's Commercial Mortgages portfolio and thus could have a material adverse effect on its profitability. As at 31 December 2014,

capital repayment loans comprised 13.3 per cent. of the Group's Commercial Mortgages loan portfolio, interest-only loans comprised 76.5 per cent. and part and part loans comprised 10.2 per cent.

#### *Asset Finance*

The Group's Asset Finance division provides financing secured against what are typically hard assets of the borrower. The Group provides corporate asset finance (lending against principally wheeled assets, but also light aircraft, commercial marine vessels, yellow plant, machine tools and other assets with low rates of depreciation), block discounting (lending to SME finance companies secured against receivables within their portfolios, with the security given by the ultimate borrower taking the form of a variety of different assets including vehicles, plant and equipment and property), wholesale finance (lending to smaller specialist lenders secured against a pool of loan receivables) and healthcare finance (operating leases for healthcare equipment to NHS trusts and finance leases or hire purchase agreements for private healthcare operators).

As at 31 December 2014, the Asset Finance division had a loan book (including operating leases within property, plant and equipment) of £564.1 million. 0.8 per cent. of the division's loans were more than 90 days past due or impaired.

Adverse economic and market conditions could negatively impact the businesses of the Asset Finance division's customers. This impact may affect their ability to repay their loans, increasing the likelihood that such borrowers could default, which could in turn lead to an increase in non-payment, arrears and forbearance and could increase the Group's impairment charges. Higher impairment charges could reduce the Group's profitability, capital and ability to engage in lending activities. In addition, SMEs are less likely to experience growth in a weak economic climate, which could reduce demand for capital expenditure and hence new lending opportunities for the Asset Finance division. Any of the foregoing results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Adverse economic and market conditions could also negatively affect the value of the underlying assets provided as collateral for loans granted by the Asset Finance division, which means the Group may not be able to recover the estimated value of the collateral assets upon repossession following an event of default by the borrower, and, in the case of medical equipment leases in the healthcare area, at the end of the lease, the residual value assigned to the asset being less than any value achieved on sale. Any such reduction may result in increased impairments for the Group which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

#### *Business Credit*

The Group's Business Credit division provides funding to SMEs, which is mainly secured against invoices to support a number of business operations, including working capital, growth opportunities, mergers and acquisitions, refinancings, restructurings, management buy-outs and buy-ins and turnarounds. As at 31 December 2014, the Business Credit division had a loan book of £169.8 million with a weighted average advance rate (calculated as the average loan balance divided by average gross collateral/receivables) of 47 per cent. 0.2 per cent. of the division's loans were impaired.

Adverse economic and market conditions could negatively impact the businesses of the Business Credit division's customers. This impact may affect borrowers' revenue and viability and result in more borrowers breaching loan covenants and entering administration. In the event of a default by a borrower, the Group may enforce its rights under the loan agreement and collect the borrower's receivables directly from the borrower's debtors. Where a borrower's debtors have also been negatively impacted by adverse economic and market conditions, they may also default on their payment obligations, and the Group may not be able to realise the full value of the invoices over which it has security, which could lead to an increase in impairment charges. In addition, SMEs are less likely to experience growth in a weak economic climate, reducing the level of invoices on which they can raise financing and, in turn, reducing the demand for funding and hence new lending opportunities for the Business Credit division. Any of the foregoing results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

### *Secured Lending*

The Group's Secured Lending division provides loans secured against homes through second charge mortgages. As at 31 December 2014, the Secured Lending division had a loan book of £401.3 million, with a weighted average LTV of 61.4 per cent. (taking into account the LTV of the first charge mortgage) and with 15.8 per cent. of the division's loan book having LTV ratios above 75 per cent. 1.4 per cent. of the division's loans were more than 90 days past due or impaired. Adverse economic conditions in the UK could have a negative impact on the financial circumstances of borrowers to whom the Secured Lending division provides loans, such as through increases in unemployment, rising interest rates and increasing inflation. Any of these impacts could negatively affect a customer's ability to repay debt, increasing the likelihood that it could default, which could in turn lead to an increase in non-payment, arrears and forbearance as well as an increase in the Group's impairment charges. Higher impairment charges could reduce the Group's profitability, capital and ability to engage in lending activities, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition adverse economic and market conditions could also negatively affect residential property prices in the UK (or in a particular region in the UK to which the Group has significant exposure, such as Greater London and South East England), reducing the value of the collateral for loans and potentially limiting the Group's ability to fully recover the estimated value of the property securing loans upon repossession following an event of default by the borrower. In addition, lower property values or sustained volatility in property prices could reduce homeowners' equity in their homes and discourage or prevent potential borrowers from taking out second charge loans, thereby reducing the Secured Lending division's new lending opportunities. Any of the foregoing results may result in increased loan losses for the Group which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

### *Consumer Lending*

The Consumer Lending division provides a range of unsecured personal loans for a variety of purposes, primarily focused on home improvement and holiday ownership. The division also offers unsecured personal loans to customers. As at 31 December 2014, the Consumer Lending division had a loan book of £226.9 million. 2.8 per cent of the division's loans were more than 90 days past due or impaired.

Adverse economic conditions in the UK could have a negative impact on the financial circumstances of borrowers to whom the Consumer Lending division provides loans, such as through increased unemployment, which may affect borrowers' ability to repay their loans, increasing the likelihood that they could default, which could in turn lead to an increase in non-payment, arrears and forbearance as well as an increase in the Group's impairment charges. Higher impairment charges could reduce the Group's profitability, capital and ability to engage in lending activities. In addition, prospective customers may be less likely to borrow to fund discretionary purchases such as home improvements or holiday ownership during periods of economic decline, reducing the Consumer Lending division's new lending opportunities. Any of the foregoing results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

### **1.3 The Group's existing customers may be negatively affected by interest rate movements, which could in turn reduce demand for the Group's loan products and have a material adverse effect on the Group.**

Interest rates on the loan products offered by the Group are either fixed-rate, linked to base rates, linked to LIBOR or, in the case of the Group's Secured Lending division, determined by the Group depending on a range of factors, including interest rate movements ("administered rate"). As at 31 December 2014, 53 per cent. of the Group's loan book comprised products linked to base rates or LIBOR and 17 per cent. were administered rate products.

Increases in base rates, LIBOR and administered rates may result in larger monthly repayments for the Group's borrowers, which may in turn lead to increased defaults and therefore impairment charges. These increased impairment charges may more than offset any increases in interest income, resulting in lower than expected profitability.

Increases in base rates, LIBOR and administered rates may also negatively affect the Group's new lending opportunities by reducing demand for loan products. Individuals and SMEs are often less able, and may be less willing, to borrow when interest rates are high. The foregoing may have a material adverse effect on the Group's business, financial condition, results of operation and prospects.

**1.4 Fluctuations in interest rates may negatively impact the net interest margin and profitability of the Group.**

Fluctuations in interest rates are influenced by factors outside of the Group's control (such as the fiscal and monetary policies of governments, central banks and UK and international political and economic conditions) and can affect the Group's results and profitability in a number of ways.

Changes in interest rates, along with changes in the demand and supply of credit and funding, affect the Group's net interest income and margin. While the Group seeks to minimise the interest rate mismatch between assets and liabilities in a falling rate environment, 53 per cent. of the Group's lending portfolio is linked to LIBOR and base rates (of this 79 per cent. have an interest rate floor of 0.75 per cent.). Further, if interest rates fall it may not be possible to re price the Group's deposits to match falling interest rates, which would lead to reduction in the Group's net interest income and margin.

**1.5 The Group could be negatively affected by any actual or perceived deterioration in the soundness of other financial institutions and counterparties.**

Given the high level of interdependence between financial institutions, the Group is and will continue to be subject to the risk of actual or perceived deterioration in the commercial and financial soundness of other financial services institutions. Within the financial services industry, the default by any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, as was the case after the insolvency of Lehman Brothers in 2008, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a financial institution may lead to market-wide liquidity problems and losses or defaults by the Group or by other institutions. This risk is sometimes referred to as "systemic risk" or "contagion" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses and banks with whom the Group interacts on a daily basis. Systemic risk could have a material adverse effect on the Group's ability to raise new funding and on its business, financial condition, results of operations, liquidity and/or prospects.

Any actual or perceived deterioration in the soundness of other independent specialist banks may also affect perceptions of the commercial and financial soundness of the independent specialist banking sector as a whole, including the Group. This could have a material adverse effect on the Group's ability to raise new funding and on its business, financial condition, results of operations, liquidity or prospects.

**2. RISKS RELATED TO THE GROUP'S BUSINESS**

**2.1 The Group's limited operating history and recent significant loan book growth increase the difficulty it faces in predicting certain trends with respect to its loan book.**

The Group's Commercial Mortgages, Consumer Lending and Secured Lending divisions were established relatively recently (in February 2011, April 2011 and March 2010, respectively) and have grown in relatively benign economic conditions in a low interest rate environment. Through steady and controlled growth in originations, the size of these divisions' loan books has increased significantly in recent years: the Commercial Mortgages loan book increased from £202.2 million as at 31 December 2012 to £968.9 million as at 31 December 2014, the Secured Lending loan book increased from £163.1 million as at 31 December 2012 to £401.3 million as at 31 December 2014 and the Consumer Lending loan book increased from £29.4 million as at 31 December 2012 to £226.9 million as at 31 December 2014. As the loan books for these divisions are relatively unseasoned, estimating loan losses is more difficult.

While the Group conducts stress tests on its loan products, neither the ability of borrowers of these loans to continue to meet their payment obligations, nor the overall demand by borrowers for the

Group's lending products, has been tested in a downward economic cycle or in a high interest rate environment (although in the Group's Commercial Mortgages and Secured Lending divisions affordability assessments based on a stressed interest rate are carried out to confirm that the borrower has the financial resources to maintain the commitment entered into).

In addition, the performance and loan losses of any new loan products that the Group introduces in the future will be similarly difficult to predict. Any materially inaccurate estimates of loan losses could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## **2.2 The competitive environment in which the Group operates may negatively affect the Group's ability to continue to source loan originations in line with its targeted volumes and rates.**

A core element of the Group's business strategy is to continue to source loan originations in line with targeted volumes and rates by addressing customers and Business Partners who may be poorly served by other banks and by providing them with high quality service. If other competitors target the same markets as the Group, the Group may lose its differentiating position and be unable to originate loans in line with projected volumes and rates.

The Group faces competition from established providers of financial services, including banks, building societies, other existing specialist lenders and other financial institutions, many of which have greater scale and financial resources, stronger brand recognition, broader product offerings and more extensive distribution networks than the Group. While the Directors believe that high street banks may be less willing or able to address the same lending market sub-sectors as the Group, and that customer preferences (particularly with respect to SMEs) have created significant opportunities in these sub-sectors, these factors are subject to change, which could adversely affect the Group's business.

The Group also faces potential competition from new market entrants, including other specialist lenders, which may have an appetite for higher risk and/or may be willing to accept lower yields than the Group and may therefore offer products which are chosen by potential customers in preference to the Group's product offerings.

Competitors may also engage in enhanced marketing activities which may result in the Group's customers refinancing their loans and mortgages with them.

Any of the above factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## **2.3 The Group's hedging strategy may not be effective.**

Fluctuations in interest rates are influenced by factors outside of the Group's control and can adversely affect the Group's results of operations and profitability in a number of ways. There are three key risks relating to the effectiveness of the Group's hedging strategy:

### *Execution risk*

The Group's hedging strategy involves managing the interest rate and basis mismatch it has in respect of liabilities on its deposit book, on the one hand, and the income generated from its lending activities and investments, on the other. There can be no assurance that the Group's strategy of hedging blocks of its deposit and lending activities will be effective, particularly in unusual or extreme market conditions.

### *Overhedging risk*

In order to implement its hedging strategy, the Group uses derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates. In particular, the Group will enter interest rate swaps to hedge mismatches between its liability to pay interest on fixed rate deposits and income generated from mortgages and loans with floating rates. Should a significant number of mortgages or loans be prepaid early then the Group could incur significant losses on its associated hedges if it is required to unwind them at a time when they have a negative fair value.

### *Counterparty risk*

The Group is also exposed to counterparty risk in relation to its hedging strategy. Although the Group's hedging arrangements are collateralised to mitigate the Group's exposure to the failure of its counterparties, any failure by the Group's hedging counterparties to discharge their obligations, particularly in circumstances where they fail to provide adequate collateral for their obligations, could have a material adverse effect on the Group's results of operations and financial condition.

### **2.4 The Group is exposed to risks relating to its Business Partners.**

The distribution model for the Group's Commercial Mortgages, Business Credit, Secured Lending and Consumer Lending businesses relies on a number of Business Partners (e.g. brokers, professional introducers, home improvement suppliers and retailers). In general, any failure by a Business Partner has the potential to: (i) put negative pressure on originations; (ii) lead to a deterioration in customer service and (iii) have a negative effect on the Group's reputation.

Although the Group undertakes initial accreditation and ongoing reviews of its Business Partners, it does not have complete oversight of their interactions with prospective customers and, consequently, the Group faces certain risks related to the conduct of its Business Partners. If Business Partners are found to have acted inappropriately or violated applicable conduct regulations or standards in the sale of the Group's loan products, the Group's brand and/or reputation could be harmed as a result. In addition, in the Group's Asset Finance and Consumer Lending divisions, by virtue of section 75 of the Consumer Credit Act 1974 (the "CCA"), customers who wish to bring a claim against a supplier for breach of contract or misrepresentation (e.g. being provided with a faulty product) may be able to bring a like claim against the Group, as creditor, who, together with the supplier, is jointly and severally liable to the customer. While sections 75(2) and (5) of the CCA entitle the creditor to be indemnified by the supplier for any loss, this indemnity may not be enforceable if a supplier does not have the financial means to pay any such compensation to the creditor.

In addition, the Group may fail to develop products that are attractive to its Business Partners or otherwise not succeed in developing relationships with Business Partners. Furthermore, the Group could lose the services of its Business Partners, for example, as a result of market conditions or regulatory developments causing their closure or having their businesses acquired by the Group's competitors. Any of these factors could have a negative impact on the Group's ability to meet its strategic objectives and, consequently, a material adverse effect on its business, financial condition, results of operations and prospects.

### **2.5 The Group is reliant on its reputation and the appeal of its brand to its Business Partners and customers. Any damage to the Group's reputation and appeal could harm the Group and its business prospects.**

The success of the Group's strategy relies significantly on the reputation of the Group and its senior management, and on its Business Partners and customers associating its brand with fast decisions, transparency, fairness, meeting customer needs and delivering value to those customers.

Any circumstance that causes real or perceived damage to the Group's brand may negatively affect the Group's relationships with its Business Partners and customers, which would have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Potential reputational issues include, but are not limited to:

- breaching or facing allegations of having breached legal and regulatory requirements (including, but not limited to, conduct requirements, money laundering, CCA laws and regulations, anti-terrorism financing requirements and data protection laws);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices; see "*The Group's business is subject to changing laws and regulations*" below);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping;
- failing to appropriately address potential conflicts of interest;
- experiencing technology failures that impact customer services and accounts;

- failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered; and
- changing the terms of the Group's product offerings or pricing that may result in outcomes for customers which are unfair, or perceived to be unfair.

A failure to address these or any other relevant issues appropriately could make Business Partners and customers unwilling to do business with the Group which could have a material adverse effect on its business, financial condition, results of operations and prospects and could damage its relationships with its employees and regulators.

**2.6 The Group is subject to risks relating to fraudulent activity carried out by Business Partners and customers and inaccurate or misleading information provided by Business Partners and customers.**

Due to the nature of the Group's business, it has exposure to many different customers and Business Partners. The Group's selection and screening processes with respect to its Business Partners and lending customers, as well as its internal relationship management processes, may be ineffective if the Group's customers or Business Partners engage in fraudulent activity.

Examples of such activity may include customers or Business Partners providing the Group with falsified or fictitious information in order to secure financing or receive sales commissions. Further examples of possible fraudulent activity include borrowers of invoice discounting provided by the Group's Business Credit team raising falsified or fictitious invoices or diverting payments owed to the Group from the underlying customer into the borrowers' own bank account, and borrowers in the Group's Asset Finance division obtaining financing from more than one lender secured against the same collateral assets or obtaining financing on assets which do not exist. Such fraudulent activity could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The Group is also reliant on the accuracy and completeness of information it receives from its Business Partners, credit reference agencies and customers. If the Group receives inaccurate or misleading financial statements, credit reports or other financial information relating to its borrowers, such borrowers may be more likely to default on their obligations to the Group, which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

**2.7 The Group's risk management framework, systems and processes, and related guidelines and policies, may prove inadequate to manage its risks, and any failure to properly assess or manage such risks could harm the Group.**

The Group's approach to risk management requires senior management to make complex judgements, including decisions (based on assumptions about economic factors) about the level and types of risk that the Group is willing to accept in order to achieve its business objectives. These also include the maximum level of risk the Group can assume before breaching constraints determined by regulatory capital and liquidity needs and its regulatory and legal obligations, including, among others, from a conduct and prudential perspective. Given these complexities, and the dynamic environment in which the Group operates, the decisions made by senior management may not be appropriate or yield the results expected. In addition, senior management may be unable to recognise emerging risks for the Group quickly enough to take appropriate action in a timely manner.

The Group's risk management also involves the use of risk models which are mathematical representations of business systems designed to help predict, experiment with or optimise decisions and scenarios used throughout the business. Negative outcomes could occur as a direct result of weaknesses or failures in the design or use of any such model.

Furthermore, the Group has a limited operating history and, consequently, does not have a long track record on which it can assess the performance of its systems and processes or the analysis of those systems' outputs. There is a risk that the Group's "Three Lines of Defence" model for managing risk may not be deployed correctly or used as intended, resulting in financial loss or increased expense to the Group. While the Group has guidelines, policies and contingency plans to manage such risks, they may not prove to be adequate in practice.

If the Group is unable to effectively manage the risks it faces, its reputation, business, financial condition, results of operations and prospects could be materially adversely affected.

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

Financial institutions such as the Group are subject to liquidity risk as an inherent part of their business. The Group is currently funded by a mixture of individual and SME deposits, and the UK Government's Funding for Lending Scheme ("FLS"), which is described below. The Group's ability to continue to access a sufficient level of deposit funding on reasonable terms or at all may be negatively affected by, among other things:

- the availability and extent of deposit guarantees — if the UK Government were to withdraw the Financial Services Compensation Scheme ("FSCS"), or lower the amount of deposits which are guaranteed (currently £85,000 per person per institution), this could reduce the confidence of retail savers in the UK banking system and, in particular, in independent specialist banks like the Group; and
- any increase in regulatory constraints imposed on the Group and other businesses in the financial services industry or changes to the credit markets in general which makes wholesale funding less attractive, thereby increasing competition in the market for retail deposits.

In addition, the Group's funding needs may increase and/or its existing or planned funding structure may not continue to be efficient. The Group intends to access wholesale funding in the future, but the availability of wholesale funding depends on a variety of factors including market conditions, the general availability of credit (in particular to the financial services industry), the volume of trading activities, competition and the wholesale funding markets' assessment of the Group's asset quality and systems credit strength. These and other factors may limit the Group's ability to raise funding in wholesale markets on reasonable terms, which could result in an increase in the Group's cost of funding and have a material adverse effect on the Group's prospects.

If the Group does not price its savings products effectively, it may not be able to meet its funding requirements (in terms of both volume and duration) on reasonable terms. If the Group is unable to access sufficient deposit funding on reasonable terms for a prolonged period of time, the Group may not have sufficient funds for its growth strategy and its cost of funding could increase. If the Group is unable to pass on any such increase to its lending customers through increased pricing on loans, the Group's business, financial condition, results of operations or prospects could suffer a material adverse effect. A continued inability to access sufficient liquidity either from deposits or wholesale funding sources would cause further negative impacts on the Group, including the Group failing to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements and to fulfil its commitments to lend. Though the Directors believe that the Group has adequate liquidity headroom and a prudent term structure of funding, in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support and any inability to access such support could have a material adverse effect on the Group's solvency.

**2.9 Any significant reduction or withdrawal of the FLS could increase competition for other sources of funding, which could negatively impact the Group.**

As noted above, the Group is currently funded by a mixture of individual and SME depositors and drawings under the FLS. The Group received permission to participate in the FLS in August 2013. As at 31 December 2014, the Group had raised £163.1 million of UK Treasury Bills under the scheme. The Group may not be able to take advantage of the FLS to the same extent as some of its competitors because certain collateral taken by some of the Group's divisions is ineligible for exchange under the FLS.

The Bank of England and HM Treasury announced an extension to the FLS on 24 April 2013, which was amended on 28 November 2013 and on 2 December 2014. This extension will allow participants to access new lending from the FLS until 29 January 2016, after which participants (including the Group) will need to find alternative sources of funding. As a result, the Group may face increased competition for funding in the future. Any such increase in competition for funding may result in an

increase in the Group's funding costs and reduce the Group's net interest margin, which could have material adverse effect on the Group's results of operations and financial condition.

If the Group were to fail to meet any of the terms and conditions which apply to its participation in the FLS, the Bank of England could increase the cost of the Group's continued participation in the FLS or reduce the benefit the Group derives from its participation. In addition, and in certain extreme circumstances (e.g. where the Group has failed to comply with a material obligation under the terms and conditions of the FLS), an event of default could be triggered, which would give the Bank of England the right to terminate the Group's participation in the FLS and would require early repayment of the Group's borrowings under the scheme. Any such result would require the Group to find replacement funding and this could have an adverse impact on the Group's financial position and performance. Such a scenario could result in an increase in funding costs and reduction in net interest margin and could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

## **2.10 The Group could fail to attract or retain its senior management or other key employees.**

The successful management and operations of the Group are reliant upon the contributions of its senior management and other key personnel, including origination, underwriting and risk employees, who are key to the Group's bespoke approach to lending products. In addition, the Group's future success depends in part on its ability to continue to recruit, motivate and retain highly experienced and qualified employees who fit with the Group's culture. There is intense competition in the financial services industry for skilled personnel and there can be no assurance that the Group will be able to hire or retain a sufficient number of qualified personnel to meet its requirements or that it will be able to do so at salary, benefit and other compensation costs that are acceptable to it and/or would allow it to achieve operating results that are consistent with its historical results. Although the Group takes steps to protect itself in relation to the loss of key personnel (such as the inclusion of restrictive covenants and/or 'gardening leave' provisions in the employment contracts of key personnel), the loss of service of any of the Group's senior management or other key personnel, or an inability of the Group to attract new personnel, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## **2.11 The Group is subject to risks relating to the credit quality, conduct and operations of its third party service providers.**

In addition to its Business Partners, the nature of the Group's business exposes it to a number of different third parties whose failure to perform could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In particular, the Group's business is reliant on the major UK banks which act as clearing banks and payment services providers. The Group has encountered situations where, as a result of a clearing bank failing to meet its agreed service levels, borrowers have not received funds lent by the Group, causing such borrowers, in some instances, to be unable to complete property purchases. There can be no assurance that these failures will not occur in the future or that the general level of service provided by such clearing banks or payment services providers will not deteriorate in the future. Such failures in service levels have given rise to, and could in the future give rise to, reputational damage which could cause harm to the Group and its business prospects. In addition, there can be no assurance that the fees which the clearing banks and payment services providers charge the Group will not rise. Any such outcome could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group also relies on the services of Target Servicing Limited ("Target"), an affiliate of the Major Shareholder, to provide certain account administration, customer servicing and arrears management, for the Group's Commercial Mortgages, Secured Lending and Consumer Lending portfolios. These services include the provision of certain notices and forms to the Group's customers in accordance with regulatory requirements (although this does not affect the Group's own obligations in respect of regulatory compliance). Failures by Target to properly deliver these services, including ensuring the proper delivery, format and content of communications that are required to be sent to the Group's customers and ensuring proper customer data and funds management, could negatively affect the Group's reputation and customer relationships and also expose the Group to potential liability under

applicable regulations or require remediation to customers (for example, see note 39 to the Group's historical financial information contained in Part XV (*Historical Financial Information*)). Such potential liability could include regulatory enforcement action, the award of financial remuneration and/or other remedies to affected customers and a range of other negative outcomes, and the Group may not be able to recover from Target in respect of any or all such liabilities. A failure by Target to properly deliver contracted services to the Group could also damage the Group's reputation and cause significant operational issues. Any of the foregoing outcomes could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## **2.12 The Group is dependent on its IT systems, which are subject to potential disruption or failure.**

The Group's operations are dependent on its IT systems, which could potentially suffer significant disruptions or even failure. Although the Group believes its IT systems have been developed to allow the Group to scale its business, there can be no assurance that such IT systems are or will continue to be able to support a significant increase in business, including online traffic as the Group's customer base grows. Although the Group has in place business continuity procedures and security measures in the event of IT failures or disruption, including backup IT systems for business critical systems, these backup systems are not, and are not intended to be, a full duplication of the Group's operational systems. Should any of these procedures and measures not anticipate, prevent or mitigate a network failure or disruption, or should an incident occur for which there is no duplication, the Group could experience a material adverse effect on its business, financial condition, results of operations and prospects.

In addition, the Group's cybersecurity measures may not detect or prevent all attempts to compromise its systems, including denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardise the security of information stored in and transmitted by the Group's systems or that the Group otherwise maintains. Breaches of the Group's cybersecurity measures could result in any of the following: unauthorised access to the Group's systems; unauthorised access to and misappropriation of information or data, including confidential or proprietary information about the Group, third parties with whom the Group does business or its customers or the Group's proprietary systems; viruses, worms, spyware or other malware being placed in the Group's systems; deletion or modification of intermediary or customer information; or denial-of-service or other interruptions to the Group's business operations. Because techniques used to obtain unauthorised access to or sabotage systems change frequently and may not be known until launched against the Group or its third party service providers, the Group may be unable to anticipate these attacks or to implement adequate preventative measures. While the Group has not suffered any material breach of its cybersecurity, any actual or perceived breach could damage the Group's reputation, expose it to a risk of loss, fine or litigation and possible liability, require the Group to expend significant capital and other resources to alleviate problems caused by such breaches and otherwise have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## **2.13 The Group may be subject to privacy or data protection failures and cyber-theft.**

The Group is subject to regulation regarding the use of personal customer data. The Group processes personal customer data (including name, address and bank details) as part of its business and therefore must comply with strict data protection and privacy laws. Such laws restrict the Group's ability to collect and use personal information relating to customers and potential customers including the use of that information for marketing purposes. The Group is also at risk of cyber-theft. The Group seeks to ensure that procedures are in place to ensure compliance with the relevant data protection regulations by its employees and any third party service providers, and also implements security measures to help prevent cyber-theft. Notwithstanding such efforts, the Group is exposed to the risk that these data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection regulations. If the Group or any of the third party service providers on which it relies fails to store or transmit customer information in a secure manner, or if any loss of personal customer data were otherwise to occur, the Group could face liability under data protection laws. Any of these events could also result in the loss of the goodwill of its customers and deter new customers, which could have a material adverse effect on the Group's business, financial condition and results of operations.

**2.14 The Group's accounting policies and methodologies are important to ensure accurate reporting, and they require management to make estimates about matters that are uncertain.**

Accounting policies and methodologies are fundamental to how the Group records and reports its financial condition and results of operations, and management must exercise judgement in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

The Group has identified certain accounting policies in Part XI (*Operating and Financial Review*) and in the notes to the financial statements in respect of which significant judgement is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. A number of these judgements are also identified in note 1 to the Group's historical financial information contained in Part XV (*Historical Financial Information*). Such judgements and associated assumptions and estimates are based on historical experience and various other factors that are considered by management under the circumstances at the time, and may prove to be incorrect, which could lead to inaccuracies in the reported financial position and performance of the Group that could be material.

The Group has established detailed policies and control procedures that are intended to ensure that these judgements (and the associated assumptions and estimates) are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. However, because these policies and methods require management to make estimates about matters that are uncertain, the Group cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future. Any such changes or restatements could be material in nature.

**2.15 The Group's insurance coverage may not be adequate to cover all possible losses that it could suffer, and its insurance costs could increase in the future.**

The Group's insurance policies do not cover all types of potential losses and liabilities and are subject to limits and excesses. There can be no assurance that the Group's insurance will be sufficient to cover the full extent of all losses or liabilities for which it is ultimately responsible and the Group cannot guarantee that it will be able to renew its current insurance policies on favourable terms, or at all.

**2.16 The Group is subject to risks associated with its exposure to a number of large value loans.**

While the Group seeks to have a broad portfolio of lending rather than a small group of significantly sized loans, as at 31 December 2014, the Group had 43 loans with exposures at default of greater than £4.0 million and an aggregate exposure at default of £352.5 million and an outstanding balance of £269.2 million, representing 12 per cent. of the Group's overall loan book at that date. While all of these large loans have significant asset backing and in the majority of cases very granular and diversified pools of collateral, the default of any of these loans could have a material adverse effect on the Group's profitability.

**2.17 The Group may not realise its anticipated benefits from past and future acquisitions.**

The Group was formed in 2011 through the acquisition of the banking platform of Whiteaway Laidlaw Bank ("WLB") and further acquisitions of certain assets and people of Commercial First Mortgages Limited ("Commercial First") and the entire issued share capital, key assets, people and the historical loan of Link Loans Limited ("Link Loans"). Since then, the Company has completed four further acquisitions and may make further strategic and bolt-on acquisitions in the future. The success of acquisitions depends on, among other things, the Group's ability to integrate the businesses of the acquired companies in a manner that permits growth without materially disrupting customer relationships or diverting management's attention. If the Group is not able to achieve these objectives, the anticipated benefits of acquisitions may take longer to realise than expected or may not be realised fully or at all. Additionally, if the integration efforts following the Group's acquisitions are not successfully managed, including the occurrence or assumption of unknown or unanticipated liabilities or contingencies with respect to, among other things, customers, employees, suppliers, government authorities or other third parties, such acquisitions could result in loan losses, liabilities, loss of key

employees, a loss of focus on business strategy, disruption of the Group's ongoing business and management attention or inconsistencies in standards, controls, procedures and policies which could negatively impact the Group's ability to maintain relationships with customers and employees or to achieve the anticipated benefits of acquisitions. Any of these results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group may also be exposed to liabilities within its acquired businesses. Singer & Friedlander Finance Limited ("SFFL") (a subsidiary of the Group which is now in members' voluntary liquidation on a solvent basis) was acquired by the Group in March 2012. Until January 2005, SFFL sold insurance (including payment protection and "gap" insurance) as agent for an insurer in relation to its motor finance division operations. The relevant agency agreements provide for indemnification of the insurer in respect of certain losses which may be incurred by the insurer in connection with these arrangements but do not give the Group control over the management of the claims giving rise to such losses. The Group has been informed that the insurer has received a small number of complaints in relation to the misselling of certain insurance policies to customers of SFFL's motor finance division prior to January 2005. These or other complaints that may arise in the future may result in the Group having to indemnify the relevant insurer under the terms of the relevant agreements, however the Group is not currently aware of, and does not have access to, any information which establishes that the Group has such an obligation or, that if any such obligation arose, that it would be material. If the Group is required to make substantial payments to the relevant insurer under the terms of this indemnity, this could have a material adverse effect on the Group's financial condition, financial returns or results of operations.

## **2.18 After the Offer, certain Shareholders will continue to be able to exercise significant influence over the Group, its management and its operations.**

Following the Offer, the maximum percentage of Ordinary Shares that the Major Shareholder will own (assuming no exercise of the Over-allotment Option) will be 59 per cent. The Major Shareholder will, through the votes it will be able to exercise at general meetings of the Company, be able to exercise a significant degree of influence over the Company's operations and over its shareholders' meetings, such as in relation to the declaration of dividends, the appointment and removal of Directors, the approval of significant transactions entered into by the Company and changes in the Company's capital structure. This concentration of ownership and voting power may delay, defer or even prevent an acquisition by a third party or other change of control of the Group and may make some transactions more difficult or impossible without the support of the Major Shareholder, even if such events are in the best interests of other Shareholders. In addition, it could have a negative impact on the price of Ordinary Shares.

## **3. RISKS RELATING TO THE LEGAL AND REGULATORY ENVIRONMENT IN WHICH THE GROUP OPERATES**

### **3.1 The Group's business is subject to substantial and changing laws and regulation.**

In addition to the substantial and changing prudential regulation framework described below under the risk factor entitled "*The Group's business is subject to substantial and changing prudential regulation*", the Group is subject to licensing and regulation by governmental and regulatory bodies in the UK (see Part IX (*Supervision and Regulation*)). Although the Directors are not currently aware of any material failure to comply with applicable laws, regulations, rules and other conduct guidance, were such a failure to occur it could result in investigations, enforcement or licensing actions that may lead to fines or suspension or termination of the Group's licences. In addition, such failure to comply, revocation of a licence or any actions by the Group may damage the reputation or increase the compliance risk and conduct risk for the Group. Any of these developments could have a material adverse effect on the Group's ability to conduct business and on the Group's financial condition, financial returns or results of operations.

Further, the Group faces risks associated with an uncertain and changing legal and regulatory environment. At both a national and European level, existing laws and regulations may be amended, or new laws and regulations may be introduced, which could affect the Group by:

- resulting in the need for increased operational and compliance resources to ensure compliance with the new or amended laws and regulations;

- restricting the customer base to which the Group's products or services can be offered; or
- restricting the products or services which the Group can provide.

Any of these results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The outcome of the UK Government election on 7 May 2015 may lead to further changes in laws and regulations which could negatively affect the Group.

In addition, changes to the regulatory authorities' approaches and expectations may result in increased scrutiny of the Group's compliance with existing laws and regulation, which may further result in the Group needing to change its internal operations, at increased cost. For example, the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, by the press and politicians may continue and the FCA may continue to focus on retail conduct risk issues as well as conduct of business activities through its supervision activity which could result in higher expectations, or a different interpretation, of what is required to demonstrate compliance with conduct of business standards in certain markets.

Examples of recent or proposed legislative and regulatory changes and regulatory areas of focus include:

- In July 2013, the UK Government accepted the overall conclusions and the principal recommendations of a report issued by the Parliamentary Commission on Banking Standards on 19 June 2013, entitled "Changing Banking for Good". The subsequent Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**"), which received Royal Assent on 18 December 2013, creates a new regime for senior managers of certain authorised firms, including deposit-takers, as well as giving the FCA and the PRA the power to create a new set of banking conduct rules applying to a wider population of bank staff. It also provides for a new criminal offence for senior managers of reckless mismanagement causing certain financial institutions to fail. In addition, a certified persons regime is to be introduced for individuals not included in the senior managers regime but who are performing a role that involves, or might involve, a risk of significant harm to a firm or its customers. Such provisions could have a significant negative impact on the Group's operations, structure and costs.

Provisions of the Banking Reform Act have been brought into force for the purpose of allowing the FCA and the PRA to make rules to implement the new regimes; however, further provisions of the Banking Reform Act still need to be brought into force for the new regimes to fully take effect. The new regimes are anticipated to be implemented in stages from mid-2015.

- The Group is also subject to the consumer credit regime under the Consumer Credit Act 1974 and its related secondary legislation (the "**CCA**"), which regulates a wide range of credit agreements. The CCA contains very detailed and highly technical requirements. If requirements under the regime as to licensing of lenders or brokers or entering into and documenting a credit agreement are not or have not been met, the relevant agreement may not be enforceable against the borrower for the period in which the Group has not complied with the consumer credit regime. In 2014, the Group commissioned an external review of its compliance with the CCA. The Group has identified some areas of potential non-compliance, although these are not considered to be material. While the Group considers that no material present obligation in relation to non-compliance with the CCA is likely, there is a risk that an eventual outcome may differ.

The regulation of consumer credit pursuant to the CCA was transferred from the Office of Fair Trading (the "**OFT**") to the FCA in April 2014. CCA statutory regulations and OFT guidance have, therefore, been replaced by FCA general standards, rules, guidance and retained consumer protections in the CCA. The FCA has greater powers of enforcement than the OFT had previously and is anticipated to take a more interventionist approach to the regulation of consumer credit. Along with other consumer credit providers, the Group's compliance with the requirements applicable to the provision of consumer credit may be subject to greater scrutiny by the FCA as the new regulator and require additional costs to be dedicated to this aspect of the Group's operations. The Group will also be subject to the possibility of the FCA imposing penalties, requiring reimbursement to customers and imposing other sanctions if the FCA identifies non-compliance.

- On 28 February 2014, the text of the Mortgage Credit Directive was published in the Official Journal of the EU (“**OJ**”). Member States are required to transpose it into national legislation and regulation by 21 March 2016. The directive requires, among other things, standardised pre-contractual information, adherence to business conduct rules, calculation of the annual percentage rate of charge in accordance with a prescribed formula, a ban on certain tying practices (i.e. offering or selling a credit agreement in a package of products) and a right of the borrower to make early repayment. The directive is broader in scope than current UK mortgage regulation and applies a standard approach to certain niche mortgage markets that the FCA does not currently regulate, including residential investment mortgages. The implementation of the directive in the UK may lead to certain activities becoming subject to additional regulation and may mean that certain brokers and intermediaries (which may include certain of the Group’s Business Partners) are no longer able to carry out their businesses. The FCA published its consultation on the implementation of the directive on 5 September 2014. Until final rules on the implementation of the directive are published it will be difficult to assess any potential cost implications. Similarly, the requirements for second charge mortgagors will remain the same as those for other consumer credit for the time being but may be subject to change in the future as a result of the directive being transposed. The Group’s Commercial Mortgages and Secured Lending Businesses together accounted for 60.0 per cent. of the Group’s loan book as at 31 December 2014. As a result, the Group is exposed to regulatory developments in respect of mortgage lending. However, until the relevant provisions are in force, the full impact of the Mortgage Credit Directive on the Group cannot be ascertained.
- The FCA has a statutory objective to promote effective competition in the interests of consumers, and the PRA has a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised firms. Recent initiatives include the introduction of a mobilisation phase for new firms wanting to enter the banking sector, intended to make entrance into the market easier and less costly, and a thematic review into cash savings. In July 2014, the FCA launched a review of competition in the wholesale sector to identify any areas that might merit further investigation through an in-depth market study. In addition, the FCA will, in the future, assume concurrent powers with the Competition and Markets Authority (the “**CMA**”) to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively. Further, as a result of market studies conducted by the CMA in relation to SME banking and personal current accounts (the SME banking market study is a joint project with the FCA), in November 2014 the CMA announced its decision to conduct a joined up in-depth market investigation into the markets for personal current accounts and SME banking. The investigation is expected to last at least 18 months. The Group may therefore face increasing competition which may affect the Group’s ability to generate revenues and achieve the aims of its strategy. The Group may also face increased compliance costs if regulatory requirements relating to transparency, product disclosure or other conduct matters change.
- From time to time, the International Accounting Standards Board (the “**IASB**”) and/or the European Union change the international financial reporting standards (“**IFRS**”) that govern the preparation of the Group’s financial statements. These changes can be difficult to predict and could materially impact how the Group records and reports its financial condition and results of operations. In some cases, the Group could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. For example, IFRS 9 (Financial Instruments) (“**IFRS 9**”) is the new standard to replace IAS 39 (Financial Instruments: Recognition and Measurement) and will be effective for annual periods beginning on or after 1 January 2018. IFRS 9 will change the classification and measurement of some financial assets and the recognition and the financial impact of impairment and hedge accounting. Depending on its interpretation by the relevant regulators, IFRS 9 could lead to a substantial negative impact on the capital position of affected institutions, including the Group. The IASB may make other changes to financial accounting and reporting standards that govern the preparation of the Group’s financial statements, which the Group may be required to adopt or which the Group may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Directors. Any such change in the Group’s accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

- The directive and associated regulation on markets in financial instruments (together “**MiFID II**”) were adopted by the European Parliament and Council on 15 May 2014 (with the majority of provisions required to enter into force from 3 January 2017). MiFID II contains, among other things, requirements to enhance market transparency, increase regulatory oversight of certain markets and introduce stricter investor protection rules. These rules could have a significant impact on the markets in which and the counterparties with which the Group does business.
- On 25 January 2012, the European Commission published its draft EU Data Protection Regulation. The current form of the draft regulation proposes substantial changes to the EU data protection regime. If this draft regulation becomes law in its currently proposed form, it would impose a substantially higher compliance burden on the industry and impair the Group’s ability to use data, including through expanding the requirement for informed opt-in consent by customers to the processing of their personal data, granting customers a “right to be forgotten”, imposing restrictions on the use of personal data for profiling purposes, imposing disclosure requirements of data sources to customers and increasing the maximum levels of fines for compliance failures from its current level in the UK of £500,000 to 2 per cent. of annual turnover, among other requirements. If the proposed regulation is passed in its current form, it could have a material impact on the Group as well as other market participants.

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

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

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

There is currently a significant regulatory focus on the fairness of contract terms, sales practices and reward structures that financial institutions have used when selling financial products. Financial institutions (including the Group) may incur liability for past actions which are determined to have been inappropriate, and any such liability incurred could be significant and have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

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

### **3.2 The Group's business is subject to substantial and changing prudential regulation.**

The Group faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. Effective management of the Group's capital is critical to its ability to operate its business and to pursue its strategy. The Directors set the Group's internal target amount of capital by taking account of their own assessment of the risk profile of the business, market expectations and regulatory requirements. If regulatory requirements as to capital levels increase, driven by, for example, new regulatory measures or views that the regulator may have as to the amount of capital the Group should retain, the Group may be required to increase its capital ratios. The Group has in the past been required and may in the future be required to increase capital ratios following regulatory review, although the Company expects the substance and outcome of any such regulatory review will remain confidential. The Group may also need to increase its capital level in response to changing market conditions or expectations. If the Group is unable to so increase its capital, it may no longer comply with regulatory requirements or satisfy market expectations related to its capital strength and, as a result, its business, financial condition, results of operations and prospects could suffer a material adverse effect. Any change that limits the Group's ability to effectively manage its capital (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets, or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) could have a material adverse effect on its business, financial condition, results of operations, liquidity and/or prospects.

The Group's borrowing costs and capital requirements could be affected by prudential regulatory developments, which include: (i) the legislative package implementing the proposals of the Basel Committee (known as Basel III) in the European Union and amending and supplementing the existing Capital Requirements Directive and other regulatory developments impacting capital position ("CRD IV"); and (ii) the European Commission's directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, published in the Official Journal of the European Union on 12 June 2014 and commonly known as the Bank Recovery and Resolution Directive (the "BRRD"). The BRRD is discussed further in the risk factor entitled "*The Group's business is subject to the potential impacts of UK and European banking reform initiatives*" below. Any future unfavourable regulatory developments could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

CRD IV introduced significant changes in the capital adequacy regime applicable to banks with effect from 1 January 2014, including: (i) increased minimum levels of capital and additional minimum capital buffers; (ii) enhanced quality standards for qualifying capital; (iii) increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and (iv) the introduction of a minimum leverage ratio. Although CRD IV provides for some of these measures to be phased in over a transitional period to 2018, the majority of measures took effect in the UK from 1 January 2014. The Group's capital position under CRD IV, as at 31 December 2014, satisfied its minimum regulatory requirements.

CRD IV requirements adopted in the UK may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the European Banking Authority, changes to the way in which the PRA interprets and applies these requirements to UK banks (including as regards individual model approvals granted under CRD II and III), or otherwise. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the Group's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

In December 2014, the Basel Committee on Banking Standards published a consultation paper on revisions to the standardised approach for credit risk. The proposed revisions seek to strengthen the existing regulatory capital standard by reducing reliance on external credit ratings, enhancing granularity and risk sensitivity, updating risk weight calibrations, increasing comparability with the internal ratings-based approach and clarifying the application of the standards. For example, corporate exposures will no longer be risk-weighted by reference to the borrowing firm's external credit rating, but will instead be based on the firms' revenue and leverage; and similarly, bank exposures will no longer be risk-weighted by reference to the banks' external credit rating or that of its sovereign of incorporation, but will instead be based on two "risk drivers" (namely the banks' capital adequacy and its asset quality). The consultation period closed on 27 March 2015.

Depending on the outcome of the consultation, the Group may have to change or update its systems to ensure it is collecting the necessary data on borrowers and other counterparties and to calculate the new risk weights using the proposed risk drivers. Further, the Group may face higher capital requirements as a result of the proposals depending on the risk profile of the exposures and the proposed revised credit risk mitigation in place. These changes could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

A perceived or actual shortage of capital held by the Group could result in actions by regulatory authorities, including public censure and the imposition of sanctions. Any of these outcomes may also affect the Group's capacity to continue its business operations, generate a sufficient return on capital, pay variable remuneration to staff, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential. If, in response to any such shortage, the Group raises additional capital through the issuance of share capital or capital instruments, existing shareholders or holders of debt of a capital nature may experience a dilution of their holdings.

The Group may also experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this Part II.

### **3.3 The Group's business is subject to the potential impacts of UK and European banking reform initiatives.**

In recent years, the relevant regulatory authorities in the UK and Europe have proposed dramatic reforms to many aspects of the banking sector, including, among others, institutional structure, resolution procedures and deposit guarantees. While the final form and impact of these regulatory developments remain uncertain, the Directors expect that the evolution of these and future initiatives will have an impact on the Group's business.

The Banking Reform Act received Royal Assent on 18 December 2013. Drafts of relevant secondary legislation were published in June 2014 and the UK Government intends for all relevant secondary legislation to be completed by May 2015 and banks will be expected to have implemented the necessary reforms by 2019 at the latest. The Banking Reform Act introduces a number of measures, including: (i) a new bail-in option under the Banking Act 2009 (the "**Banking Act**") for resolving failing banks (in addition to the existing stabilisation options) whereby the Bank of England is given the power, in a resolution scenario, to cancel, reduce or defer the equity liabilities of a bank (including divesting shareholders of a bank of their shares), convert an instrument issued by a bank from one form or class to another (for example, a debt instrument into equity) and/or transfer some or all of the securities of a bank to an appointed bail-in administrator; (ii) powers for the PRA and HM Treasury to implement further detailed rules to give effect to the recommendations of the ICB on ring-fencing requirements for the banking sector; (iii) powers for the PRA and the FCA to require non-regulated qualifying parent undertakings of regulated entities to take actions to facilitate resolution; (iv) an increase to the loss-absorbing capacity (including by way of bail-in bonds) for certain systemically important or ring-fenced banks and (v) preferential ranking of insured depositors on a winding up to rank ahead of all other unsecured creditors.

Further, the BRRD provides for resolution authorities to have the power to require institutions and groups to make structural changes to ensure legal and operational separation of "critical functions" from other functions where necessary, or to require institutions to limit or cease existing or proposed activities in certain circumstances. It also includes certain powers provided to resolution authorities which overlap in part with those available under the Banking Act, including write-down powers to ensure relevant capital instruments absorb losses upon, among other events, the occurrence of the non-viability of the relevant institution or its parent company as well as a bail-in tool comprising a more general power for resolution authorities (in the UK, the PRA), to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. The BRRD was implemented by the UK Government on 1 January 2015. Use of bail-in powers by the UK authorities may result in the issuance of additional share capital or capital instruments, and existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

Given that implementation has only recently occurred, it is impossible to predict the financial obligations that may be imposed by the EU in relation to the BRRD or the effect that these proposed

changes will have on the Group's business, financial condition, result of operations or prospects or how any of the above proposals will be implemented. However, depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs and/or capital requirements.

The Group is responsible for contributing to the FSCS in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Further provisions in respect of these contributions may be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain.

While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants. Any such levies may be significant amounts that may, as a result, have a material effect on the Group's profits. In common with other financial institutions which are subject to the FSCS, the Group also has a potential exposure to future levies resulting from the failure of other financial institutions and claims which arise against the FSCS as a result of such failure. Historically, compensation scheme levies similar to the FSCS have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will not be any further claims against the FSCS and subsequent increased FSCS levies payable by the Group. Any such increases in the Group's costs and liabilities related to the levy may have a material adverse effect on its results of operations.

In Europe, the EU Deposit Guarantee Scheme Directive ("EU DGSD") required Member States to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD was reviewed and a new legislative proposal was published by the European Commission in July 2010 to recast and replace the current EU DGSD. The main aims of the recast EU DGSD are to restrict the definition of "deposit", to exclude deposits made by certain financial institutions and certain public authorities, to reduce time limits for payments of verified claims by depositors and to make provisions on how deposit guarantee schemes should be funded. In addition the recast EU DGSD allows for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a private residential property. The recast EU DGSD was published in the Official Journal of the EU on 12 June 2014 and Member States have until 3 July 2015 to transpose the majority of the EU DGSD into national law. The PRA published its consultation paper 20/14 in October 2014 setting out the proposed rules for implementing EU DGSD, which was open for consultation until 6 January 2015. It is possible, as a result of the new directive and subsequent UK implementation, that future FSCS levies on the Group may differ from those at present, and such reforms could result in the Group incurring additional costs and liabilities. In particular, the Group may have to update its IT systems to comply with the PRA's proposals for new system requirements, including requirements on firms to have systems that will allow accounts that do not contain eligible deposits to be frozen at the point of resolution while leaving marked deposits accessible and will be able to separate FSCS-covered and uncovered balances. This may have a material adverse effect on its profitability.

### **3.4 The Group is exposed to the risk of changes in tax legislation and its interpretation and to increases in the rate of corporate and other taxes.**

The Group's activities are subject to a range of UK taxes at various rates. Future actions by the Government (or relevant European bodies) to increase tax rates or to impose additional taxes would reduce the Group's profitability. Revisions to tax legislation or to its interpretation might also affect the Group's financial condition and results of operations in the future.

Although certain tax positions taken by the Group are based on customary industry practice, independent tax advice, tax authority guidance and application of the Group's facts and circumstances to those present in certain case law, it is possible that the tax authorities will not agree with the positions taken by the Group. In addition, the Group is subject to periodic tax audits which could result in additional tax assessments relating to the past. Any such assessments could be material and could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

### **3.5 Any failure to comply with anti-money laundering and anti-bribery regulations could have a material adverse effect on the Group.**

The Group is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit the Group and its employees and Business Partners from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the Bribery Act. Monitoring compliance with anti-money laundering and anti-bribery rules can put a significant financial burden on banks and other financial institutions and requires significant technical capabilities. The Group cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted. Although the Group believes that its current policies and procedures are sufficient to comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that such policies completely prevent situations of money laundering or bribery, including actions by the Group's employees, for which the Group might be held responsible. Any such event may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

### **3.6 The Group is exposed to risks relating to changes in the wider regulatory environment for its customers.**

As the Group offers products to customers in a number of industries which are regulated, any changes in the regulatory environment for those industries may have a material adverse effect on the Group's business, profitability, financial condition and prospects. For example, in the Asset Finance division, any deregulation of the taxi industry in any key regions where it provides taxi financing (i.e. Greater London, Manchester and Glasgow) could potentially reduce the income of taxi drivers and the value of taxi licences as an asset, which would in turn negatively impact the ability of the Group's taxi finance customers to service their loans and reduce the value of the underlying asset.

## **4. RISKS RELATING TO THE OFFER AND TO THE ORDINARY SHARES**

### **4.1 There has been no prior trading market for the Ordinary Shares.**

Prior to the Offer, there has been no public trading market for the Ordinary Shares. The Offer Price has been determined by the Company and the Major Shareholder in agreement with the Global Coordinators and may not be indicative of the market price for the Ordinary Shares following Admission.

Although the Company has applied to the FCA for Admission of the Ordinary Shares to listing on the Official List and to the London Stock Exchange for Admission of the Ordinary Shares to trading on its main market for listed securities, the Company can give no assurance that an active trading market for the Ordinary Shares will develop or, if developed, can be sustained following the closing of the Offer. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be materially adversely affected.

### **4.2 The value of the Ordinary Shares may fluctuate significantly.**

Following the Offer, the value of the Ordinary Shares may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in this Part II, as well as period-to-period variations in operating results or change in cost/income, return on equity, capital or dividend targets, change in revenue or profit estimates by the Group, industry participants or financial analysts. The value of the Ordinary Shares could also be affected by developments unrelated to the Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Company, speculation about the Company in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in any number of countries, whether or not the Group derives significant revenue therefrom.

The market price of the Ordinary Shares could also be negatively affected by sales of substantial amounts of Ordinary Shares in the public markets, including following the expiry of the lock-up restrictions applicable to the Selling Shareholders, the Directors, members of management, or the perception that these sales could occur.

Sales of a substantial number of Ordinary Shares by the Company, the Directors or the Selling Shareholders in the public market after these restrictions expire, or the knowledge that they will, or the perception that these sales may occur, could depress the market price of the Ordinary Shares and could impair the Company's ability to raise capital through the sale of additional equity securities.

#### **4.3 Shareholders may not receive dividends.**

The dividend policy described in Section 8 of Part VII (*Information on the Company and the Group*) should not be construed as a dividend forecast. The Group's results of operations and financial condition are dependent on its trading performance. There can be no assurance that the Company will pay dividends in the future. Any decision to declare and pay dividends in the future will be made at the discretion of the Directors and will depend on, among other things, the Group's trading performance and financial condition, applicable law, regulation, restrictions, the Group's financial position, regulatory capital requirements, working capital requirements, finance costs, general economic conditions and other factors which the Directors deem significant from time to time.

As a holding company, the Company's ability to pay dividends will also depend on the level of distributions, if any, received from its operating subsidiaries. Such operating subsidiaries may be precluded from paying dividends by various factors, such as their own financial condition, restrictions in financing documents to which they are party or applicable law. In addition, any change in the tax treatment of dividends or interest received by the Company may reduce the level of yield received by Shareholders.

Further, under English law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. The Company also may not pay dividends if the Directors believe this would cause the Company to be inadequately capitalised or if, for any other reason, the Directors conclude it would not be in the best interests of the Company.

Any of the foregoing could limit the payment of dividends to Shareholders or, if the Company does pay dividends, the amount of such dividends.

#### **4.4 The issue of additional shares in the Company in connection with future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings.**

The Company may seek to raise finance to fund future acquisitions and other growth opportunities. The Company may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, existing Shareholders would suffer dilution in their percentage ownership.

#### **4.5 The Group may become subject to the bail-in provisions under the Banking Act, which may result in Shareholders being divested of their shares.**

As noted above under "*The Group's business is subject to the potential impacts of UK and European banking reform initiatives*", as of 1 January 2015, the Bank of England is empowered, under the Banking Act, to cancel, reduce or defer the equity liabilities of a failing bank, including divesting shareholders of a bank of their shares. As a result, existing Shareholders of the Group may lose all or part of their rights to Ordinary Shares without compensation.

#### **4.6 Pre-emptive rights may not be available to US holders of the Ordinary Shares.**

US holders of the Ordinary Shares may not be able to receive (or trade) or exercise pre-emptive rights for new shares unless a registration statement under the US Securities Act is effective with respect to such rights or an exemption from the registration requirements of the US Securities Act is available. The Company does not plan to become a registrant under the US securities laws. If US holders of the Ordinary Shares are not able to receive (or trade) or exercise pre-emptive rights granted in respect of their Ordinary Shares in any pre-emptive offering by the Company, then they may not receive the economic benefit of such rights. In addition, their proportional ownership interests in the Company will be diluted.

**4.7 Investors may not be able to recover in civil proceedings for US securities law violations.**

The Directors and officers of the Company named herein are non-residents of the United States. A substantial proportion of the assets of these individuals are located outside the United States, and the Company's assets are all located outside of the United States. As a result, it may be difficult or impossible for investors to effect service of process upon such persons or the Company, or to enforce against them in US courts a judgment obtained in such courts. In addition, there is doubt as to the enforceability in the UK of original actions or actions for enforcement based on the federal or state securities laws of the United States or judgments of US courts, including judgments based on the civil liability provisions of the US federal or state securities laws. As a result, it may not be possible for an investor to serve process on such persons in the United States or to enforce judgments obtained in US courts against them based on the civil liability provisions of the securities laws of the United States or the securities laws of any state within the United States.

**4.8 Investors with a reference currency other than Pounds Sterling will become subject to foreign exchange rate risk when investing in the Ordinary Shares.**

The Ordinary Shares are, and any dividends to be paid in respect of the Ordinary Shares will be, denominated in Pounds Sterling. An investment in the Ordinary Shares by an investor whose principal currency is not Pounds Sterling exposes the investor to currency exchange rate risk that may impact the value of the investment in the Ordinary Shares or any dividends.

### **PART III — DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS**

<b>Directors</b>	Sir George Mathewson, CBE (Chairman and Non-Executive Director) Richard Pyman (Chief Executive Officer) Tom Wood (Chief Financial Officer) Graham Alcock (Non-Executive Director) Lindsey McMurray (Non-Executive Director) Robin Ashton (Non-Executive Director and SID) Roger Lovering (Non-Executive Director)
<b>Company secretary</b>	Daniel Rushbrook
<b>Registered and head office</b>	Lutea House Warley Hill Business Park The Drive Great Warley Brentwood Essex CM13 3BE

#### **ADVISERS:**

##### **Joint Sponsors and Global Coordinators:**

Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB	Merrill Lynch International Merrill Lynch Financial Centre 2 King Edward Street London EC1A 1HQ
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##### **Joint Bookrunners**

Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB	Merrill Lynch International Merrill Lynch Financial Centre 2 King Edward Street London EC1A 1HQ
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Macquarie Capital (Europe) Limited Ropemaker Place 28 Ropemaker Street London EC2Y 9HD
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##### **Co-Lead Manager**

Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods) 7th Floor One Broadgate London EC2M 2QS
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**Legal advisers to the Company**

*As to English law:*

Slaughter and May  
One Bunhill Row  
London  
EC1Y 8YY

*As to US law:*

Paul, Weiss, Rifkind, Wharton & Garrison LLP  
Alder Castle  
10 Noble Street  
London  
EC2V 7JU

**Legal advisers to the Banks**

*As to English law and US law:*

Freshfields Bruckhaus Deringer LLP  
65 Fleet Street  
London  
EC4Y 1HS

**Auditor and Reporting Accountants**

KPMG LLP  
15 Canada Square  
London  
E14 5GL

**Registrar**

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

## PART IV — EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND OFFER STATISTICS

### EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<i>Time and Date<sup>(1)(2)</sup></i>
Prospectus published .....	1 April 2015
Commencement of conditional dealings in Ordinary Shares on the London Stock Exchange .....	8.00 a.m. on 1 April 2015
Admission and commencement of unconditional dealings in Ordinary Shares on the London Stock Exchange .....	8.00 a.m. on 8 April 2015
CREST accounts credited with uncertificated shares .....	8.00 a.m. on 8 April 2015
Despatch of definitive share certificates (where applicable) <sup>(3)</sup> .....	From 8 April 2015

**Notes:**

- (1) It should be noted that if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.
- (2) The times and dates in the table above are indicative only and are subject to change. All references to time in this timetable are to London time.
- (3) No temporary documents of title will be issued.

## OFFER STATISTICS

Offer Price per Ordinary Share	290p
Number of New Ordinary Shares to be issued by the Company pursuant to the Offer	31,034,483
Number of Ordinary Shares to be sold by Selling Shareholders	43,965,517
Total number of Offer Shares	75,000,000
Number of Ordinary Shares subject to the Over-allotment Option <sup>(1)</sup>	11,250,000
Number of Ordinary Shares in issue immediately following Admission	250,000,000
Percentage of the enlarged Company's issued Ordinary Share capital to be sold pursuant to the Offer <sup>(2)</sup>	30.0
Estimated net proceeds of the Offer receivable by the Company <sup>(3)</sup>	£ 82 million
Estimated proceeds of the Offer receivable by the Selling Shareholders <sup>(2)(4)</sup>	£124.1 million
Expected market capitalisation of the Company at the Offer Price following Admission <sup>(5)</sup>	£725.0 million

**Notes:**

- (1) The maximum number of Ordinary Shares subject to the Over-allotment Option will be 15 per cent. of the total number of Offer Shares.
- (2) Assuming no exercise of the Over-allotment Option.
- (3) Net proceeds receivable by the Company are stated after bearing underwriting commissions, other estimated Offer-related fees and expenses and VAT of approximately £8 million. The Company will not receive any of the proceeds from any sale of Existing Ordinary Shares by the Selling Shareholders in the Offer.
- (4) Net proceeds receivable by the Selling Shareholders are stated after deduction of underwriting commissions (excluding discretionary commissions) and stamp duty.
- (5) The market capitalisation of the Company at any given time will depend on the market price of the Ordinary Shares at that time. There can be no assurance that the market price of an Ordinary Share will equal or exceed the Offer Price.

## PART V — PRESENTATION OF INFORMATION

### 1. General

Investors should rely only on the information in this Prospectus when deciding whether to invest in the Ordinary Shares. No person has been authorised to give any information or to make any representations in connection with the Offer other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors or any of the Banks. No representation or warranty, express or implied, is made by any of the Banks as to the accuracy or completeness of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any of the Banks or any selling agent as to the past, present or future. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and rule 3.4.1 of the Prospectus Rules, neither the delivery of this Prospectus nor any issue or sale of the Offer Shares pursuant to the Offer made under this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Group taken as a whole since the date hereof or that the information contained herein is correct as of any time subsequent to the earlier of the date hereof and any earlier specified date with respect to such information.

The Company will update the information provided in this Prospectus by means of a supplement hereto if a significant new factor, material mistake or material inaccuracy relating to this Prospectus occurs or arises prior to Admission that may affect the evaluation by prospective investors of the Offer to make an informed assessment of the Offer. Any supplement to this Prospectus will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules. If a supplement to the Prospectus is published prior to Admission, investors shall have the right to withdraw their subscriptions made prior to the publication of such supplement. Such withdrawal must be done within the time limits set out in the supplement (if any) (which shall not be shorter than two clear business days after publication of such supplement).

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Offer Shares. Each prospective investor should consult with such advisers as needed to make its investment decision and to determine whether it is legally permitted to hold Ordinary Shares under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

No person has been authorised to give any information or make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Company, the Directors or any of the Banks.

Prior to making any decision whether to purchase the Offer Shares, prospective investors should read this Prospectus in its entirety and, in particular, Part II (*Risk Factors*). In making an investment decision, prospective investors must rely upon their own examination, analysis and enquiry of the Company and the terms of this Prospectus, including the risks involved. Any decision to purchase Offer Shares should be based solely on this Prospectus.

Investors who purchase Offer Shares in the Offer will be deemed to have acknowledged that: (i) they have not relied on any of the Banks or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; (ii) they have relied solely on the information contained in this Prospectus; and (iii) no person has been authorised to give any information or to make any representation concerning the Group or the Ordinary Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Directors or any of the Banks.

None of the Company, the Directors or any of the Banks or any of their representatives is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment by such offeree or purchaser under the laws applicable to such offeree or purchaser.

## **2. Presentation of financial information**

Part XV (*Historical Financial Information*) of this Prospectus contains the Group's consolidated historical financial information, including audited consolidated financial statements for the years ended 31 December 2014, 2013 and 2012. These financial statements have been prepared in accordance with the requirements of the PD Regulation and the Listing Rules and in accordance with IFRS as adopted by the EU. The significant accounting policies are set out within note 1.1 of the Group's consolidated historical financial information in Part XV (*Historical Financial Information*).

## **3. Non-IFRS financial measures**

The Group has included certain underlying results and key performance indicators ("KPIs"), which represent non-IFRS financial measures, in this Prospectus on the basis that they are useful indicators of the Group's operating performance and financial condition. The Directors believe that these measures are useful for comparing the Group's operating performance and financial condition from period to period. However, because of the discretion that the Group and other banks have in defining and calculating these measures, care should be taken in comparing the Group's underlying results and KPIs with those of other banks, and such measures may not be directly comparable. See Part X (*Selected Financial Information and Key Performance Indicators*) of this Prospectus for more information.

## **4. Operational and statistical data**

The Group presents certain operational and statistical data in this Prospectus. These data have been included on the basis that they provide useful indicators of the Group's operating performance and financial condition. Accordingly, the Directors believe that these data are useful for comparing the Group's operating performance and financial condition from period to period. However, because of the discretion that the Group and other banks have in defining and calculating these data, care should be taken in comparing the Group's operational and statistical data with those of other banks, and such data may not be directly comparable. These operational and statistical data are derived from the Group's financial reporting and management information systems and are not part of the Group's financial statements, have not been audited or otherwise reviewed by outside auditors, consultants or experts and are not intended to be substitutes for any IFRS measures of performance.

## **5. Rounding**

Percentages and certain amounts included in this Prospectus have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be the precise sum of the figures that precede them.

## **6. Currencies**

The Group's financial information is presented in Pounds Sterling. The abbreviation "£m" represents millions of Pounds Sterling, and references to "pence" and "p" represent pence in Pounds Sterling.

## **7. Forward-looking statements**

Certain statements contained in this Prospectus, including those in Part II (*Risk Factors*), Part VI (*Industry Overview*), Part VII (*Information on the Company and the Group*) and Part XI (*Operating and Financial Review*) constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "forecasts", "plans", "prepares", "anticipates", "expects", "intends", "may", "will", "should" or "were to continue" and, in each case, their negative or other variations or comparable terminology. Such forward-looking statements are made based upon the Directors' expectations and beliefs concerning future events impacting the Group, including numerous assumptions regarding the Group's present and future business strategies, ability to replicate past performance and the environment in which it will operate going forward, which may prove to be inaccurate. As such, the forward-looking statements contained in this Prospectus involve known and unknown risks and uncertainties, which may cause the actual results, performance or achievements of the Group or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Certain factors that may affect the Group's results include, but are not limited to:

- general economic and business conditions in the UK and internationally;
- inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks;
- fluctuations in exchange rates, stock markets and currencies;
- changes to the Group's credit ratings;
- changing demographic developments, including consumer spending, saving and borrowing habits;
- changes in customer preferences;
- lack of historical operational data and growth management;
- the inability to hedge certain risks economically;
- legal and reputational risk with respect to the Group's Business Partners and lending customers;
- adequacy of the Group's internal risk management framework, systems and processes;
- the adequacy of loss reserves and access to liquidity;
- the ability to attract and retain senior management and other employees;
- changes to borrower or counterparty credit quality;
- dependency on IT systems and changing technological requirements;
- changes in laws, regulations, taxation, accounting standards or practices;
- adequacy of the Group's insurance coverage;
- the continued influence of existing Shareholders over the Group, its management and its operations;
- regulatory capital or liquidity requirements and similar contingencies outside the Group's control;
- the policies and actions of governmental or regulatory authorities in the UK, the European Union or elsewhere;
- exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, and potential regulatory sanctions or adverse judicial judgments as a result thereof; and
- changes in tax legislation.

See Part II (*Risk Factors*) of this Prospectus for more information.

It is strongly recommended that prospective investors read the section titled Risk Factors set out on pages 17 to 38 of this Prospectus for a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this document may not occur. The forward-looking statements referred to above speak only as at the date of this document. Subject to any obligations under applicable law, including the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules, the Company undertakes no obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of this document. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph.

## **8. Market, economic and industry data**

Unless the source is otherwise stated, the market, economic and industry data in this Prospectus constitute the Directors' estimates, using underlying data developed internally and by third parties. The Company obtained market data and certain industry forecasts used in this Prospectus from internal surveys, reports and studies, where appropriate, as well as third party market research, publicly available information and industry publications, including publications and data compiled by:

- the Asset Based Finance Association ("ABFA");

- the Bank of England;
- BDRC Continental;
- the British Bankers' Association ("BBA");
- the Council of Mortgage Lenders ("CML");
- Datamonitor;
- De Montfort University ("De Montfort");
- the Department for Business, Innovation & Skills ("BIS");
- Experian plc ("Experian");
- the Federation for Small Businesses;
- the Finance and Leasing Association ("FLA");
- GMI Energy ("GMI");
- KPMG;
- Mintel Market Research ("Mintel");
- Orbis;
- Oxford Economics;
- the Parliamentary Commission on Banking Standards;
- RBS Lending Review;
- Savills Research ("Savills");
- Standard & Poor's ("S&P");
- the UK Office for National Statistics ("ONS"); and
- the West One Bridging Index promulgated by West One Loans ("West One Index").

The Company confirms that all third party data contained in this Prospectus has been accurately reproduced and, so far as the Company is aware and able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading.

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

## 9. Over-allotment and stabilisation

In connection with the Offer, the Stabilising Manager or any of its agents or affiliates, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Ordinary Shares or effect other stabilisation transactions to support the market price of the Ordinary Shares, in each case at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such stabilisation transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period from the date of the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there is no obligation on the Stabilising Manager or any other person (or any of their agents or affiliates) to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents or affiliates intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

In connection with the Offer, the Stabilising Manager may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 15 per cent. of the total number of Offer Shares. To allow the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares effected by it during the stabilising period, the Major Shareholder has granted the Stabilising Manager the Over-allotment Option, pursuant to which the Stabilising Manager may purchase (or procure purchasers for) additional Ordinary Shares representing in aggregate up to a maximum of 15 per cent. of the total number of Offer Shares at the Offer Price (the "**Over-allotment Shares**"). The Over-allotment Option is exercisable, in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will rank equally in all respects with the other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares, will be sold on the same terms and conditions as the Ordinary Shares being offered pursuant to the Offer and will form a single class for all purposes with the other Ordinary Shares. Liability for UK stamp duty and SDRT on transfers of Existing Ordinary Shares pursuant to the Over-allotment Option is described in Part XVIII (*Taxation*) of this Prospectus.

## **10. No incorporation of website information**

The contents of the Company's or the Group's websites or any website directly or indirectly linked to the Company's or the Group's websites do not form part of this Prospectus and investors should not rely on them.

## **11. Enforcement of civil liabilities**

A Shareholder resident outside the UK (an "**Overseas Shareholder**") may not be able to enforce a judgment against the Company or some or all of the Directors and executive officers of the Company. The majority of the Directors and executive officers are and are anticipated to continue to be residents of the UK. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Company or the Directors and executive officers within the Overseas Shareholder's country of residence or to enforce against the Company or the Directors and executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than England against the Company or the Directors or executive officers who are residents of countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or executive officers in any original action based solely on foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

## PART VI — INDUSTRY OVERVIEW

*The following information relating to the UK banking market and certain sub-sectors thereof has been provided for background purposes only. Investors should read this Part VI (Industry Overview) in conjunction with the rest of this Prospectus including Part II (Risk Factors), Part V (Presentation of Information), Part VII (Information on the Company and the Group), Part IX (Supervision and Regulation), Part X (Selected Financial Information and Key Performance Indicators), Part XI (Operating and Financial Review) and Part XII (Selected Statistical Data), prior to investing in the Offer Shares.*

### 1. The Group within the UK lending and deposit market

The Group is an independent specialist lending and savings bank serving UK SMEs and consumers with tailored products designed to address a selection of high growth sub-sectors of the overall lending industry. The Group's lending activities are primarily funded by a stable retail deposit book consisting of variable rate long-dated notice accounts (mostly 95 - 120 days' notice) and fixed rate fixed term accounts (mostly one - five years).

The Group seeks to address markets where customers are poorly served by large high street banks and where the application of expertise, relationships, high quality service and specialist data analytics have the potential to generate attractive risk-adjusted margins. The Group lends to SMEs which by their nature tend to require more bespoke products and whose needs generally require a personal relationship, human skill and expertise. It also lends to individual borrowers in markets which require lenders to have a combination of specialist skills, deep relationships and advanced analytics to fully understand and price the associated risk. The Group currently addresses the Commercial Mortgage, Asset Finance, Business Credit, Secured Lending and Consumer Lending sectors within a wider array of specialist lending opportunities which are poorly served by large high street banks.

The Group offers lending products through a combination of strong customer service, an efficient underwriting process and long-term customer relationships to provide a compelling proposition to borrowers. It also seeks to develop tailored products to address customer needs, rather than competing on price to drive scale within its lending markets. In each of the sectors it addresses, the Group seeks to distribute its products using the most efficient route to market. Across its lending products, the Group often works with Business Partners to offer national coverage without the high fixed overheads resulting from a branch network.

The industry sectors that the Group addresses benefit from a number of positive dynamics. The overall market for lending to SMEs and consumers is large and volumes of originations are growing (*source: Bank of England and RBS Independent Lending Review*). Demand for credit from small businesses continues to exceed supply, presenting opportunities for lenders to increase total lending volumes (*sources: BIS, the Bank of England, British Bankers' Association and Orbis*). Many of the specialist sub-sectors addressed by the Group have experienced growth in excess of the overall market, a trend which is expected to continue. Trends in customer preferences and technology and the influence of changing regulation have led to a shift in distribution towards intermediaries and the internet, a development which favours specialist lenders who are not burdened by the cost and complexity of operating large branch networks. Many SME customers are seeking a return to the traditional values of strong customer service from their lenders, with preferences for human interaction, specialist underwriting and strong long-term customer relationships.

Within its chosen specialist lending sectors, the Group competes with a range of other lenders, including other specialist lending banks, non-bank specialist lenders and, to a lesser extent, large high street banks.

### 2. Overview of the UK lending market and key trends

The UK retail and business lending market is one of the largest in Europe and comprises one of the largest sectors of the UK economy (*source: Bank of England*).

Strengthening UK macroeconomic conditions and improving appetite for credit have led to increases in cumulative gross lending by monetary financial institutions ("MFIs"). Gross advances of loans by MFIs

to households and non-financial businesses totalled £529 billion for the 12 months to 30 September 2014, an increase of 11 per cent. on flows for the 12 months to 30 September 2013 (*source: Bank of England*). While net lending for the year to 30 November 2014 was slightly negative, it has improved significantly since the global financial crisis. Gross lending to SMEs as at 30 November 2014 remained above both year-end 2013 and year-end 2012 levels (*source: Bank of England*).

Participants in the UK lending market include large high street banks (e.g. Barclays PLC (“**Barclays**”), Lloyds Banking Group plc (“**Lloyds**”), HSBC Bank plc (“**HSBC**”), Santander UK plc (“**Santander**”) and The Royal Bank of Scotland Group plc (“**RBS**”)), medium-sized banks (e.g. Virgin Money plc and The Cooperative Bank plc), specialist lenders (e.g. the Group, Aldermore Bank plc (“**Aldermore**”), Secure Trust Bank plc (“**STB**”) and Close Brothers Group plc (“**Close Brothers**”)), building societies (e.g. Nationwide Building Society (“**Nationwide**”) and Yorkshire and Coventry Building Societies) and non-bank specialty lenders (e.g. Hitachi Capital UK plc (“**Hitachi**”) and Provident Financial plc).

Large high street banks often have a one-stop-shop approach to lending for both personal and corporate customers (*source: Parliamentary Commission on Banking Standards report “Changing Banking for Good”*). Their customer proposition involves offering a full suite of products, with distribution typically delivered through their extensive branch networks and via relationship banking. Cross-sale of multiple products to customers has historically been a core strategy.

Since the beginning of the global financial crisis, the UK banking market has experienced considerable structural change, which has created a compelling opportunity for specialist lenders. The large high street banks have responded to the financial crisis by simplifying their often overly complex business models, while changing market and regulatory conditions are also forcing them to reassess their traditional approach and shift their focus to scalable and commoditised markets.

The Directors believe that, as they have simplified their business models, these large high street banks have principally sought to leverage their scale efficiencies by addressing the largest sub-sectors of the lending market and have prioritised lending high volumes of commoditised products over offering products that require bespoke underwriting or high levels of customer service. As a result, many SME customers report significant dissatisfaction with the service offered by large high street banks and are increasingly seeking lenders that are better able to offer customised products which reflect their particular requirements. The Directors believe that the participation of the large high street banks has become relatively limited in lending areas that require specialist market knowledge or high standards of customer service, as well as in areas that are extensively distributed through intermediaries and, as a result, specialist lenders, including the Group, have been able to develop established positions in these specialised sub-sectors which are unsuited to the commoditised approach typical of the large high street banking model. Furthermore, the Directors believe that evolving customer preferences for more bespoke and personalised service has benefited specialist lenders, who do not need to rely on a centralised, volume-driven model to achieve efficiencies and are therefore able to develop long-term relationships with their customers built on trust and an in-depth understanding of their needs.

In addition, while legacy issues have generally impacted the banking industry as a whole, the Directors believe, based on prevailing industry data, that large high street banks are more significantly exposed to such issues (including PPI and other mis-selling claims) than specialist lenders such as the Group. The Directors further believe that this strength has combined with other trends in the UK banking market including tight credit conditions for SMEs and increased political support for specialist lenders, to create an attractive market environment for specialist lenders, targeting lending sectors that are poorly served by the large high street banks.

#### *Regulatory change*

As the standard of conduct required to provide financial products and services increases, the Directors believe that high street banks are facing increasing challenges in operating to the required standards across a broad range of products and distribution channels. The Directors further believe that, as a result, many high street banks have sought to exit those sub-sectors that are difficult to manage across large branch networks and those that do not benefit from the same scale advantages as other sub-sectors.

Higher capital requirements under Basel III and CRD IV have resulted in capital shortfalls at many large financial institutions, which has resulted in significant deleveraging across the banking industry. UK banks deleveraged by a total of £1.7 trillion in the five years to 31 December 2013 (*source: KPMG's "UK Banks Performance Benchmarking" report*). As a result, many high street banks have chosen to realign their businesses to reflect the new regulatory and capital environment by refocusing their business models on areas where they can leverage their large branch networks, comparatively low cost of funding and scale efficiencies, which has led them to refocus on commoditised lending products. In addition, increased compliance monitoring costs have made it more difficult for high street banks to address specialist areas of the lending market that require complex underwriting and more detailed knowledge of their counterparties, which the Directors believe has created significant opportunities for specialist lenders, including the Group. The Group is able to take advantage of these opportunities, while also achieving regulatory standards, through a combination of advanced data analytics, highly skilled and experienced staff with deep credit expertise and strong customer and intermediary relationships.

#### *Evolving customer preferences*

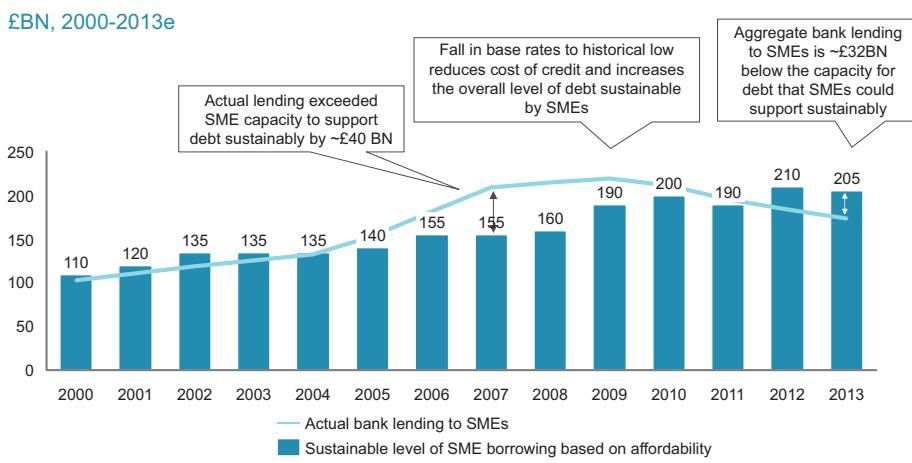
In recent years, customers within the UK banking market have become increasingly discerning, with increased focus on customer service, ease of access, timely delivery and product offerings that can utilise technological advances. Large high street banks have found challenges in addressing evolving customer preferences: according to Sir Andrew Large's report "RBS Independent Lending Review", large high street banks have moved away from a relationship management model for all SME customers towards more centralised coverage for certain customer groups in order to reduce costs, resulting in a perceived "service deficit". This shift has resulted in increasing discontent with the offerings provided by large banks within the SME sector. SME customers increasingly perceive that large banks are not willing to lend to SMEs seeking finance and are not maintaining support for their existing borrowers. Customers are also experiencing dissatisfaction with the depersonalisation of service and a general perception that large banks are product-led and increasingly disengaged from the needs of customers.

SME customers and consumers are also demonstrating evolving behaviour in the way they approach their financial services providers. The Directors believe that the erosion of trust in large scale financial institutions referenced in Sir Andrew Large's report has resulted in customers being more willing to consider alternative providers of financial products and to purchase products from multiple providers rather than relying on their clearing bank for all of their financial needs. Customers have demonstrated an increased willingness to 'self-serve' by arranging financial products directly, as illustrated by over 50 per cent. of all new deposit account openings occurring directly over the internet (*source: Datamonitor*). At the same time, greater customer awareness of the complexities of financial products has led to an increased role for intermediaries in the market as customers increasingly seek the advice of experts who are able to offer them a range of products from alternative providers. As a result the market environment has evolved in recent years from one where large institutions could rely on brand, incumbency, customer inertia and cross-selling to dominate, to one where customers are more willing to engage directly with specialists or intermediaries to find products better suited to their requirements.

## Lending to UK SMEs

The competitive and regulatory dynamics outlined above have contributed to a decrease in the total amount of bank lending to SMEs, falling from approximately £220 billion in 2009 to an estimated £174 billion in 2013 (source: *Bank of England*). This fall in lending supply has occurred despite evidence of significant SME demand for credit and a political environment supportive of increased availability of credit to smaller businesses (sources: *BIS*, *the British Bankers' Association*, *Orbis*). As a consequence, the Directors believe that aggregate bank lending to SMEs is approximately £32 billion below the capacity for debt that SMEs could support sustainably.

Chart 1: Sustainable levels of SME bank borrowing vs. actual bank lending



1. SME lending stocks are extrapolated backwards from 2011 using a range of sources including BBA Small Business Survey data, and BoE PNFC data, due to a lack of published data.
2. Stocks are measured as yearly averages.
3. Level of bank debt that total market could prudently support is based on Debt Service Coverage Ratio (by Net Cash Flows) of 1.5x, and pricing at economic cost

Sources: RBS Independent Lending Review; Department of Business, Innovation and Skills; Bank of England; British Bankers' Association; Orbis

This shortfall in lending to the sector and the associated political support for increased lending to SMEs have created a supportive environment for specialist lenders. The Directors believe that, through the application of the Group's core values of experienced underwriting and strong customer service, the Group and other specialist lenders have an opportunity to address the needs of SMEs in market sub-sectors from which large high street banks have been retreating.

A number of political and regulatory initiatives seek to support the increase of credit provision to underserved customers such as SMEs. As part of the 2014 Autumn Statement given by the Chancellor of the Exchequer, it was announced that the FLS (in which the Group already participates) will be refocused towards lending to SMEs in 2015, with participants being able to draw £5 in the FLS for every £1 of net lending to SMEs. The draw-down window for the FLS has been extended to 29 January 2016.

### 3. The Group's addressable lending market

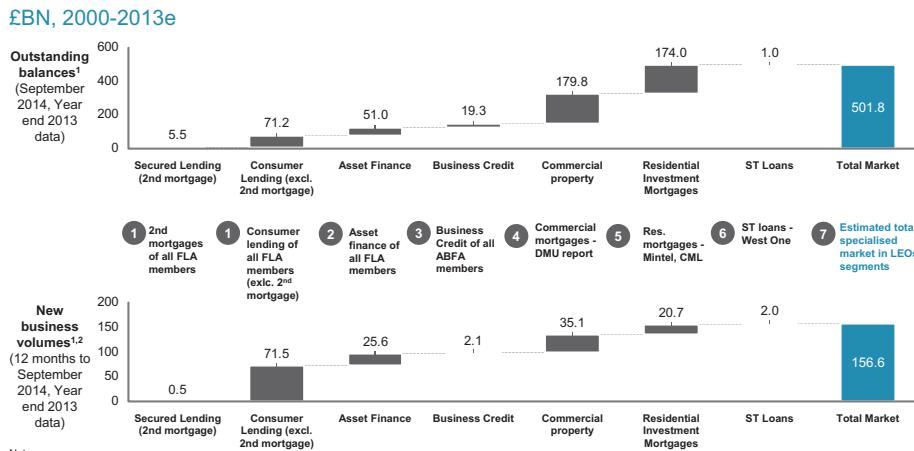
The overall UK lending market comprises total outstanding balances of £1.7 trillion and lending flows of £529 billion per annum (source: *Bank of England*). The dynamics of the UK lending market have led to SMEs and consumers being poorly served by large high street banks. As such, there are opportunities for specialist lenders including the Group to better address evolving customer requirements. The Directors anticipate the emergence of incremental opportunities to apply the Group's model of bespoke underwriting, advanced data analytics and strong customer service to new markets as large scale lending institutions continue to refocus their businesses on larger commoditised lending markets.

In the years since its inception, the Group has sought to develop lending products across a range of sectors that it considers to be well suited to its differentiated approach and which have the potential to deliver attractive risk-adjusted margins. The Group operates across five lending sectors comprising Commercial Mortgages, Asset Finance, Business Credit, Secured Lending and Consumer Lending.

The Directors consider these sectors to be complementary in nature, reflecting a common approach to underwriting, customer service, and long-term relationships with customers and distribution intermediaries. The estimated total size of the market for the sectors currently addressed by the Group

is approximately £500 billion of outstanding balances, with total new business volumes for the 12 months to 30 September 2014 of approximately £157 billion per annum (see Chart 2). Within this overall market the Group takes a selective approach to lending, with a focus on identifying sectors where the Group's differentiated approach to underwriting and customer service enables new loans to be written at attractive risk-adjusted margins. The Directors believe that there will be further opportunities to apply the Group's lending approach to other specialised lending sectors in the future, and the Group has a strong track record of developing profitable new lending propositions in new and adjacent sectors.

**Chart 2: Estimating total specialised lending market based on the Group's existing segments**



### 3.1 Commercial mortgages

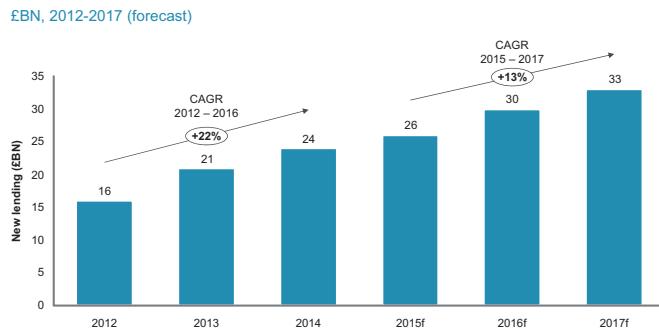
The commercial mortgages market comprises the provision of mortgages secured against commercial properties such as retail premises, offices, industrial units and commercial and residential investment properties.

The Group participates predominantly in the residential investment mortgages sector of the commercial mortgages market but also provides loans for commercial properties and short-term property loans. The size of the commercial mortgages market is significant, amounting to £353.8 billion in 2014, of which £174.0 billion was attributable to the residential investment mortgages market and £179.8 billion was attributable to the commercial property lending market (*sources: the Bank of England, De Montfort and ONS*). For the year ended 31 December 2013, the flow size for commercial property lending was £35.1 billion (*source: De Montfort*), while the flow size for residential investment mortgages was £20.7 billion (*source: Mintel*).

## Residential investment mortgages

The residential investment mortgages sub-sector consists of the provision of mortgages advanced on property that is, or is intended to be, let to tenants. Rates on residential investment mortgages tend to be higher than typical residential mortgages and product arrangement fees also tend to be higher in part reflecting the greater complexity of underwriting loans of this type. The Group's residential investment mortgage products typically target high net worth individuals and investment professionals.

Chart 3: UK residential investment mortgages new lending



Source: 2012 and 2013 – FCA residential mortgage statistics, 2014 to 2017 – Mintel report "Buy to let mortgages – UK March 2014".

The residential investment mortgages market has grown consistently since 2008, buoyed by rising confidence in property prices, more positive economic indicators and continued growth in the percentage of the population living in rented accommodation. In 2013, some 160,900 new residential investment mortgages were extended, representing an increase of 21 per cent. compared to 2012 (source: *Mintel*). Chart 3 shows the growth in UK residential investment mortgages flows since 2012. The total value of new lending in the residential investment mortgages sector in 2014 was estimated to be £24 billion, representing a 35 per cent. increase from 2012 (sources: *CML*, *Mintel*). From 2010 to 2013, the residential investment mortgages market achieved year-on-year growth both in volume and value terms, while the average residential investment mortgage advance increased from £101,960 in 2010 to £128,650 in 2013.

The UK residential investment mortgages market is expected to experience significant ongoing growth driven by a number of structural changes including an increasing UK population, declining owner occupation rates (driven by price and availability of mortgage finance), an ongoing trend towards properties of multiple tenancy and a limited supply of new housing stock. 27 per cent. of UK housing is expected to be rented by 2020 (currently 19 per cent.) (source: *Savills*) New originations were estimated to be approximately £24 billion in 2014, and are expected to grow to £33 billion in 2017 at a CAGR of 13 per cent. from 2015 to 2017 (see Chart 3).

The majority of residential investment mortgages are delivered through intermediaries (70 to 80 per cent.) (source: *Mintel*). The Directors believe this reflects the specialist nature of the market and the greater need for professional advice. Mortgage intermediaries in the UK are regulated by the FCA. Following its mortgage market review ("MMR"), the FCA introduced a number of new rules into its Handbook on 26 April 2014. These new rules require, in most cases, that customers be advised on the suitability of the mortgage products they are considering by a lender or intermediary authorised by the FCA. This change is expected to lead to longer mortgage application processes and greater intermediary involvement in the mortgage market as large high street banks withdraw from offering advised mortgage sales. The trend towards greater intermediary involvement in the residential investment mortgages market is positive for specialist lenders including the Group who rely on intermediaries to originate loans, as this increases the proportion of the market that is directly addressable.

Mainstream participants in the residential investment mortgages market include banks such as Barclays and Lloyds and building societies such as Nationwide and Coventry Building Society. The Group primarily targets professional and high net worth customers in this sub-sector, and considers its main competitors to be specialist lenders such as Aldermore, Handelsbanken UK, and The Paragon Group of Companies plc.

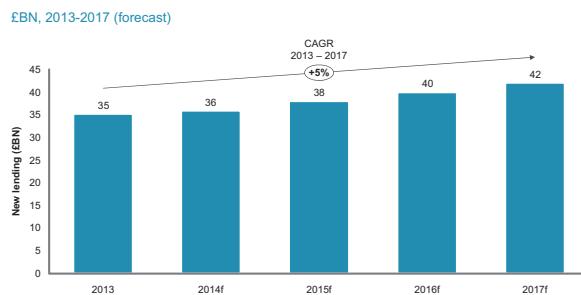
## Commercial property

The commercial property market consists of mortgages both for commercial investment and occupation of commercial property (e.g. retail premises). Typical security includes retail premises, offices, industrial units and commercial investment properties.

Customers in the Group's Commercial Mortgages division are predominantly high net worth investors and commercial property professionals, who constitute a large proportion of the customers in the market. Mortgages against commercial property tend to demand a bespoke approach to underwriting and specialist lender knowledge due to the requirements for lenders to understand a variety of collateral types and rental covenants across business lines.

The aggregated value of outstanding debt recorded in loan books and secured only on UK commercial property was £179.8 billion at the 2013 year-end (*source: De Montfort*). The total volume of originations in the commercial mortgage market was estimated to be approximately £36 billion in 2014 and is projected by the Directors to grow to £42 billion by 2017, at a CAGR of 5 per cent. per annum, as reflected in Chart 4. The main distribution channel for commercial property lending is direct distribution by the lender.

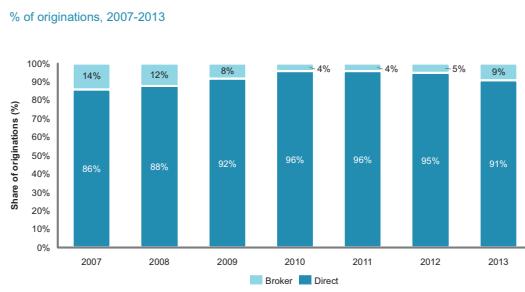
Chart 4: UK commercial mortgages new lending forecast



Source: 2013 - De Montfort University, 2014 to 2017 - forecasts based on De Montfort University, Datamonitor and Company Information.

Chart 5 shows the origination channels for the commercial property lending market in the UK. However, a significant and growing proportion of distribution is through brokers. The proportion of commercial mortgages arranged through brokers more than doubled from 4 per cent. of the total market in 2010 to 9 per cent. of the total market in 2013, resulting in an increasing share of the market which can be addressed by lenders focused on intermediary distribution (*source: De Montfort*).

Chart 5: UK commercial mortgages by distribution channel



Source: De Montfort University

In the commercial property market, the Group considers its key competitors to include Lloyds, Nationwide, Aldermore, and Handelsbanken UK.

## Short-term property loans

The Group has also developed lending products in the short-term secured property loans sub-sector, primarily targeting experienced property professionals by providing a more personalised offering to address the more specialised needs of such customers.

The Directors believe that this higher end of the short-term property loans market has typically been underserved by traditional lending participants. The Directors further believe that due to the nature of short-term loans, customers typically consider speed of underwriting and surety of funding as important criteria for selecting a lending provider. The Group primarily targets professional and high net worth customers in this sub-sector, and considers its main competitors to be specialist lenders such as Close Brothers, United Trust Bank and Precise Mortgages.

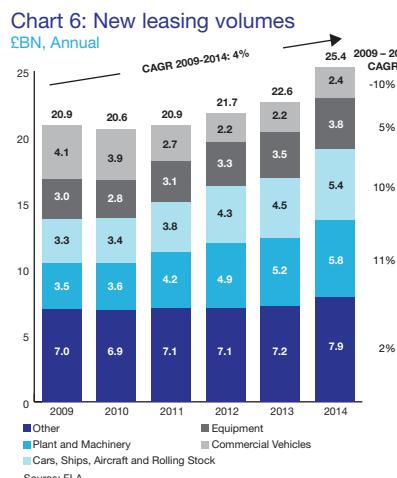
### 3.2 Asset Finance

Asset finance involves the provision of financing secured against the hard assets of the borrower. The Group provides corporate asset finance (lending against principally wheeled assets, taxis and commercial marine vessels), block discounting and wholesale finance (lending to SME finance companies secured against receivables within their portfolios, with the borrower's security taking the form of a vehicle or residential property) and healthcare finance (operating leases for healthcare equipment to NHS trusts and finance leases to private healthcare operators).

The total outstanding balance of the asset finance market was £51.0 billion as at 30 September 2014. The market has experienced significant recent growth, with loan balances increasing 8 per cent. compared to the outstanding balance as at 30 September 2013 (source: FLA). The total asset finance flow size was £18.5 billion for the nine months to 30 September 2014 (source: FLA). New business volumes in the year ended 31 December 2014 were £24.1 billion, compared with £22.4 billion for the year ended 31 December 2013 (source: FLA). Chart 6 provides further details on annual new business volumes in the asset finance market.

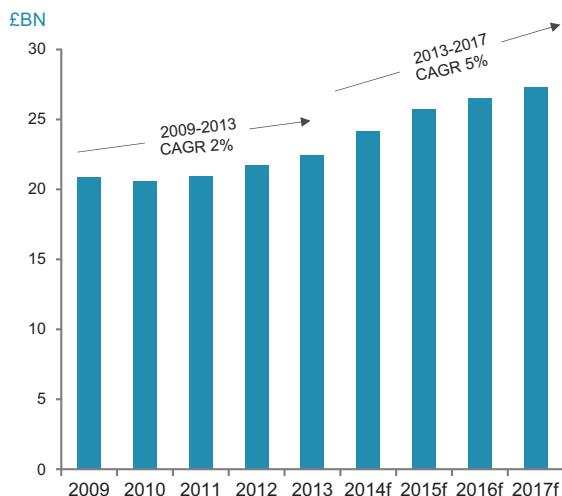
Asset finance is the third most common source of finance for businesses after bank overdrafts and loans and approximately 18 per cent. of SMEs that have any external borrowing use asset finance (source: BDRC Continental). Asset finance is predominantly relatively short-term in nature, with an average contractual term of approximately four to five years.

Asset finance agreements are generally secured against "hard assets" such as vehicles and manufacturing equipment or "soft assets" such as IT and office equipment. According to the FLA, cars and commercial vehicles are the most commonly used forms of security in asset finance. These forms of security are favoured among asset finance providers because they have well-established and liquid secondary markets. In common with other divisions of the business, the Group targets its lending at the more specialised sub-sectors of the asset finance market where there are greater benefits from applying specialist market knowledge and underwriting capability. The sub-sectors targeted by the Group have shown strong growth in recent years with commercial vehicles and plant and machinery originations growing by a CAGR of 10 per cent. and 8 per cent. respectively between 2009 and 2013 (source: FLA).



The Directors expect new lending for the asset finance market to increase from 2015 to 2017, at a CAGR of 5 per cent. (see Chart 7). This reflects an anticipated acceleration of business investment over the period, which is expected to exceed 6.0 per cent. per annum for both 2014 and 2015 (*source: Oxford Economics*). According to Manufacturing Advisory, 55 per cent. of SME manufacturers plan to increase their capital investment.

Chart 7: Total UK asset finance new lending (current and forecast)



Sources:

1. FLA data for 2009-2013. Forecast based on Company information
2. British Chamber of Commerce Business investment. Forecast based on Company information.

Forecast data taken using 5% CAGR based on historic trends and outlook

Distribution channels for asset finance include direct distribution (49 per cent. of business asset finance deal generation in 2014 excluding high value), broker distribution (19 per cent.) and finance from equipment suppliers (32 per cent.) (*source: FLA*). In the cars, ships, aircraft and rolling stock sub-sector and the commercial vehicles sub-sector, being the Asset Finance division's two main sub-sectors, direct sales to customers accounted for 64 per cent. and 53 per cent. of all distribution volume respectively.

Key participants in those sectors of the asset finance market in which the Group competes include Lloyds, RBS, Close Brothers and Aldermore.

### 3.3 Business Credit

The Group's business credit division operates within the invoice discounting and asset-based lending ("ABL") sectors of the broader business credit market. Invoice discounting involves lending directly against unpaid invoices which are acquired by the invoice financier, typically at an agreed percentage of their total value and involving a fee charged on the basis of turnover or total invoices. ABL involves lending against security including accounts receivables, inventory and/or other balance sheet assets. In addition to lending against accounts receivable, the Group's lending includes the provision of stock (inventory) finance, plant and machinery loans, property loans and cash flow loans. The business credit market also includes factoring, a market in which the Group does not operate.

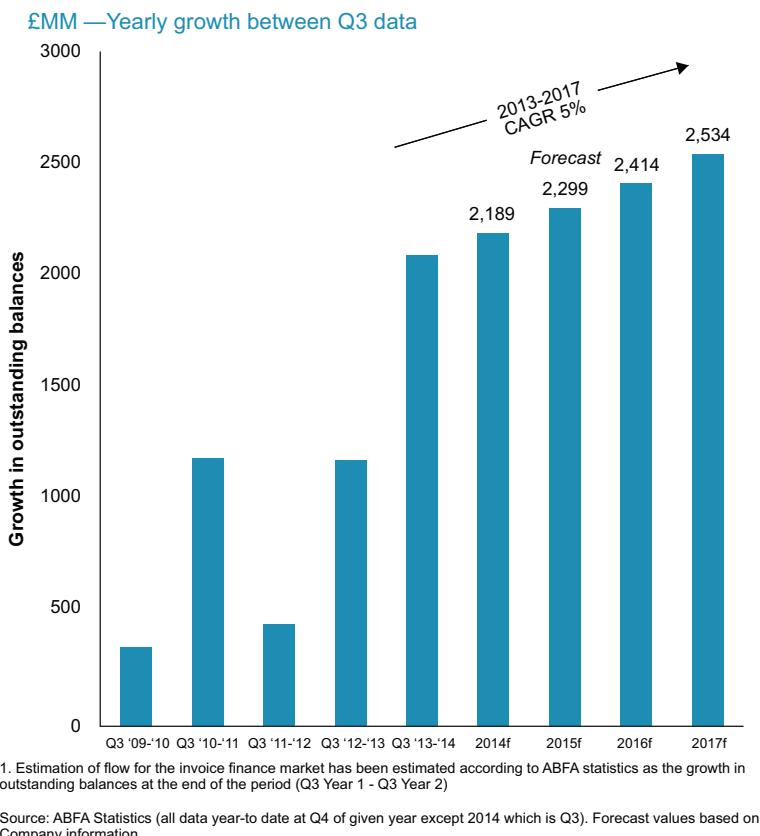
The size of the business credit market as at 30 September 2014 was approximately £19.2 billion, consisting of £15.5 billion of invoice discounting (including factoring) and £3.7 billion of ABL (*source: ABFA*). This represented 8.3 per cent. growth since 31 December 2013 (*source: ABFA*). Between 1997 and 2004, ABLs had a 15-month average life (*source: S&P*). Given the typically short duration of asset-based loans, annual originations significantly exceed lending stock outstanding at any given period (*source: ABFA*).

The Directors expect that the ABL market will continue to grow in the medium term, supported by the positive impacts of increasing SME confidence in their growth prospects, SMEs increasingly using ABL as a mainstream alternative to loans and overdrafts and the adoption of ABL structures as a regular part of the debt structure for private equity houses. However, the Directors believe this growth may be partially offset by the impact of greater availability of other forms of credit to SMEs (such as peer-to-peer lending, crowd sourcing and supply chain finance).

Outstanding balances in the overall asset- based finance market are projected to increase from £2,189 million in 2014 to £2,534 million in 2017, growing at a CAGR of 5 per cent. (see Chart 8). Invoice discounting is the largest and fastest-growing sub-sector within the asset-based finance market, with outstanding balances increasing by 349 per cent. from 30 September 2013 to 30 September 2014 and invoice discounting representing 82 per cent. of all outstanding balances in the asset-based finance market in 2014 (source: ABFA).

Invoice discounting and ABL typically involve highly tailored lending and specialist underwriting requiring detailed knowledge of the customer's business and industry. Distribution channels for business credit products include referrals by bank relationship managers, distribution by professional intermediaries and direct sales.

**Chart 8 - Total UK asset based finance - growth in outstanding balances**



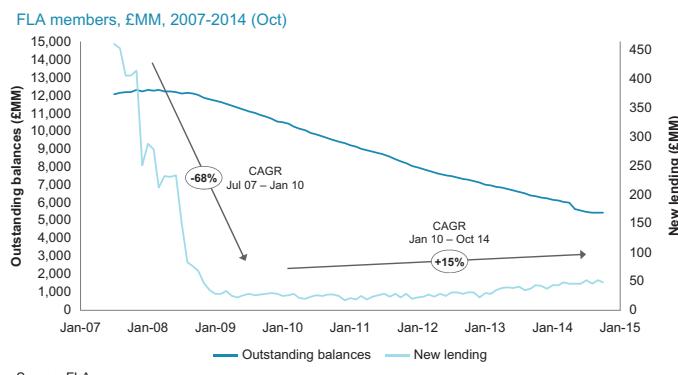
Competition within the business credit market differs according to the average deal size. Large high street banks such as Barclays, RBS, Lloyds and HSBC typically focus on deals with an average size of above £10 million. For deals with an average size of £1 million to £10 million, which is the market in which the Group predominantly operates, the key lending participants are the Group, ABN Amro UK, Aldermore, Leumi ABL and Close Brothers.

### 3.4 Secured lending

The secured lending market in which the Group operates is a sub-sector of the larger residential mortgage market. Lending against residential property is divided into first charge mortgages and second charge mortgages. The estimated market sizes for each of these sectors is approximately £1.3 trillion (source: Bank of England) and £5.5 billion respectively (source: FLA).

Within the significant UK residential secured lending market, the Group has identified the high growth second charge lending market as offering opportunities reflective of the Group's differentiated capabilities. The size of the second charge secured lending market was approximately £5.5 billion as at 31 October 2014 (source: FLA). During the global financial crisis, falling property prices led to a reduction in demand for second charge mortgages and many lenders withdrew products or exited the market, leading to a sharp decline in both lending stock and flow between July 2007 and January 2010 with annual originations falling to a small percentage of their historic levels.

Chart 9: UK second mortgage market outstanding balances and new lending



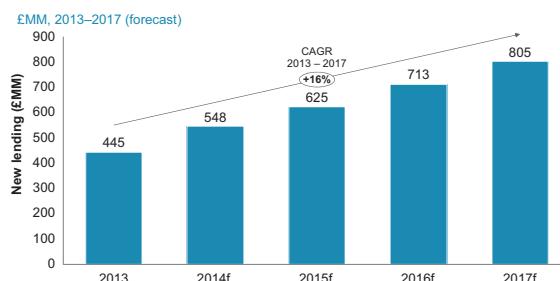
However, since January 2010, new lending has shown strong growth at a CAGR of 15 per cent. This evolution to lower levels of gross lending partially reflects a changing customer profile. The average customer profile for secured loans, and the Group's target customer, has increasingly moved towards higher credit quality, super prime, prime and near prime customers in recent years. Chart 9 shows the changes in market stock and flow for the UK second secured lending market.

The Company estimates the average size of second charge mortgages in the secured lending market to range between £20,000 and £40,000, with LTVs varying from 20 per cent. to 95 per cent. Secured loans are typically used for loan consolidation purposes, followed by home improvement loans, consumer purchase loans and loans for business purposes.

The Directors anticipate that future trends in the secured lending market will include increased customer awareness of second charge mortgage products as a result of the implementation of the Mortgage Credit Directive in March 2016, which will require first charge mortgage lenders and/or intermediaries to inform customers of all mortgage options, including second charge mortgages.

The UK second charge mortgage market is expected to grow, with new originations projected to increase from approximately £0.5 billion in 2014 to £0.8 billion in 2017 at a CAGR of 14 per cent., as shown in Chart 10. This growth is expected to result from increased customer awareness of second charge mortgages and the market becoming FCA-regulated as noted above, which are expected to lead to second charge mortgages being considered a more mainstream option. However, the Directors anticipate that second charge mortgages will remain primarily targeted at prime borrowers supported by strong affordability tests, in contrast to the period before the global financial crisis where significant second charge lending was made to near and sub-prime consumers.

Chart 10: UK second mortgage market new lending forecast



Source: Datamonitor UK Mortgage Market: Forecasts and Future Opportunities (2013).

The second charge secured lending market is predominately served by specialist bank and non-bank lenders including the Group, Blemain Finance, Nemo Personal Finance, Optimum Credit, Precise Mortgages and Prestige Finance. Almost all business in the secured lending market is originated through intermediaries consisting usually of specialist business-to-consumer (“**B2C**”) and business-to-business (“**B2B**”) intermediaries. B2C intermediaries generally originate business through aggregators or affinity relationships, while the majority of B2B intermediaries originate business from independent financial advisers, other smaller brokers and authorised representatives. The Directors anticipate that the second charge mortgage market may also benefit from a general trend of consumers increasingly consulting with intermediaries to arrange new loans (*source: De Montfort University*).

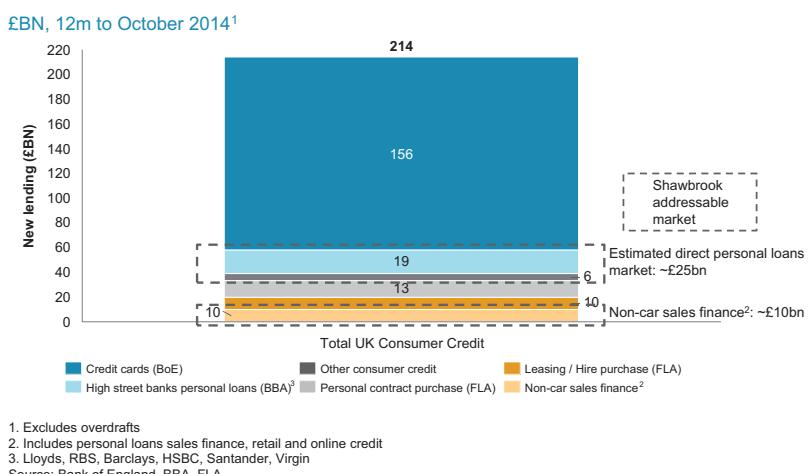
### 3.5 Consumer lending

The UK unsecured consumer lending market is significant in size, with outstanding balances in the overall market (including unsecured term loans, retail finance credit cards and other short-term credit) standing at approximately £168 billion in 2014 (*source: Bank of England*). Within this market, the Group targets specialised sub-sectors where its strong intermediary relationships, underwriting and analytical capabilities and high levels of customer service provide an opportunity to generate attractive risk-adjusted margins. These sub-sectors are the provision of home improvement loans (“**HILs**”), holiday ownership loans (“**HOLs**”), retail finance and personal loans. The Group estimates its total addressable market in this sector to be approximately £35 billion.

The HILs market comprises the provision of point of sale finance for installed home improvements, such as replacement windows, conservatories, kitchens, bathrooms and energy efficiency products such as boilers and solar panels. The Directors estimate the overall market size for the HILs market to be between £1.75 billion and £2.25 billion. The key lending participants in the HILs market include the Group, Barclays, Creation Consumer Finance Ltd and Hitachi.

The HOLs market involves the provision of finance to UK residents purchasing holiday club memberships. The Directors estimate the overall market size for the HOLs market to be between £0.2 billion and £0.3 billion. The key lending participants in the HOLs market include the Group, Barclays and Hitachi.

Chart 11: UK consumer lending new business by segment

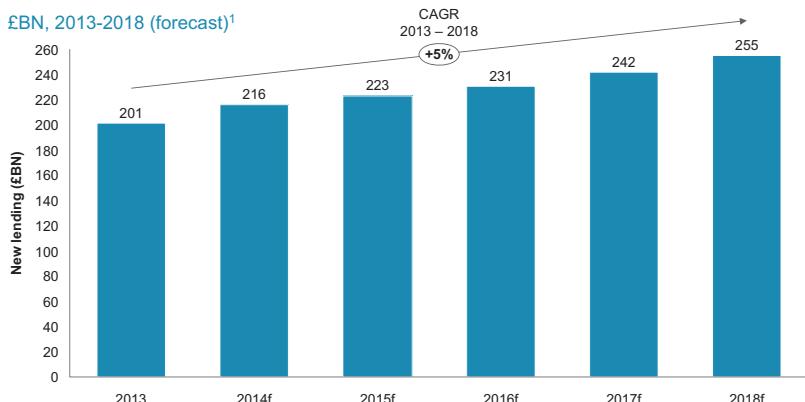


The retail finance sub-sector involves the provision of point of sale instalment credit for a range of assets including furniture, sports equipment and electronic goods on both a chargeable and interest-free basis. The overall market size for the retail finance sub-sector (including online credit) comprised approximately £7.8 billion of outstanding loans as at 31 October 2014, representing an increase of £430 million since 30 September 2013 (*source: FLA*). Approximately 1.3 million new retail finance accounts were opened in Q3 2013, representing a total value of £1 billion (*source: Experian*). The Directors believe retailers will increasingly demand diversification in lenders, with large retailers in particular showing demand for credible new lenders and mid-size retailers demonstrating support for lenders able to offer products tailored for their particular needs.

The overall personal loans market has experienced significant growth since 2009. Growth has been driven by improved consumer confidence, increased employment and low interest rates. The estimated size of the direct personal loans market was approximately £25 billion in 2014 (sources: *Bank of England, BBA, FLA*). 533,000 new accounts were opened in Q3 2013, with a total loan value of £4.81 billion (source: *Experian*). Personal loans represent the fourth most commonly held form of credit for individuals, behind credit card facilities, mortgages and current account overdraft facilities (source: *Mintel*). Recent trends in the personal loans market include increasing customer preference for online loan applications and increased use of comparison websites to find the most attractive offerings (sources: *BBA, GfK, Mintel*). The Directors believe that the Group is well-positioned to take advantage of these trends with its launch in 2014 of a personal loan offering.

Following a decline in originations and outstanding stock of unsecured credit in the period to 2009, consumer credit volumes have been increasing in recent years with new business (excluding student loans) increasing from approximately £161 billion per annum in 2009 to approximately £216 billion per annum in 2014 (sources: *Bank of England, Datamonitor*). Further growth in the sub-sector is expected, driven by increasing consumer confidence resulting in higher demand for consumer credit, an improving labour market increasing the capacity of consumers to service debt, and increasing lender supply (source: *Datamonitor*). New unsecured gross lending (excluding student loans) is expected to grow from £216 billion in 2014 to £255 billion in 2018 at a CAGR of 5 per cent. per annum (see Chart 12).

Chart 12: UK consumer lending new business forecast



1. Sum of all monthly flows of sterling unsecured gross lending to individuals, excluding student loans (includes sum of all expenditure on credit cards during the year)  
Source: *Bank of England, Datamonitor*.

Key lending participants in the consumer lending market include large high street banks and building societies such as Lloyds, RBS, Barclays and Nationwide, specialist lenders such as the Group, Barclays Partner Finance, Creation Consumer Finance Ltd and Hitachi and non-bank lenders. In common with other markets addressed by the Group, the consumer lending market has been trending towards a lower proportion of customers arranging loans in bank branches and increasing customer preference for interacting with lenders online and via other alternative channels.

The Group's consumer lending products are distributed through professional intermediaries who comprise home improvement suppliers and holiday ownership vendors seeking to offer finance arrangements to their customers, as well as general retailers. Because these intermediaries are offering customers finance options at the point of sale, high confidence of credit provision and a streamlined and efficient underwriting process are considered to be key differentiators.

#### 4. Trends in the retail savings market

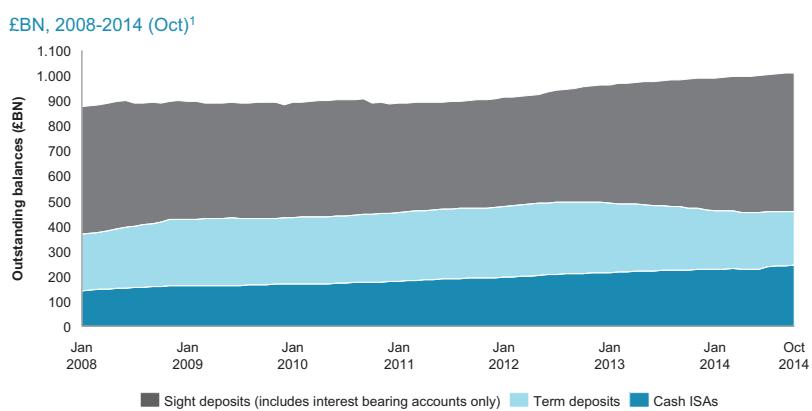
The retail savings market consists of retail customer deposits held by monetary and financial institutions including banks and building societies and National Savings (a government sponsored savings and investment organisation) on behalf of retail customers. Typically, product offerings in the savings market are divided between easy access accounts (i.e. where a customer has instant or near-instant access to fund withdrawals, including non-interest-bearing current accounts and interest-bearing sight accounts) and time deposits (i.e. where withdrawal prior to the expiry of agreed time

periods is subject to a penalty or prohibited altogether). In addition, certain other products including ISAs and more bespoke and sophisticated products offer a range of pricing and availability options. Access to retail savings is no longer reliant upon a high street presence or associated current account offering as customers are increasingly happy to engage directly by post, phone, internet or mobile.

The UK retail savings market has experienced five years of growth (*source: Bank of England*). Total UK households cash savings at MFIs stood at £1.01 trillion as at October 2014, representing an increase of 3.7 per cent. since the end of 2012 (*source: Bank of England*). Within this market, the Directors estimate the Group's addressable market to be £116 billion based on its current product offering, increasing to £464 billion following its planned full market launch of easy access and cash ISA accounts over the course of 2015.

The split between easy access accounts and time deposits has remained relatively steady from 2008 to 2013 (*source: Bank of England*). Cash ISAs posted the highest growth rates from January 2011 to October 2014 with a CAGR of 8.5 per cent. Chart 13 provides details on the split between different forms of deposits between January 2008 and October 2014.

Chart 13: UK households cash savings outstanding balances by type

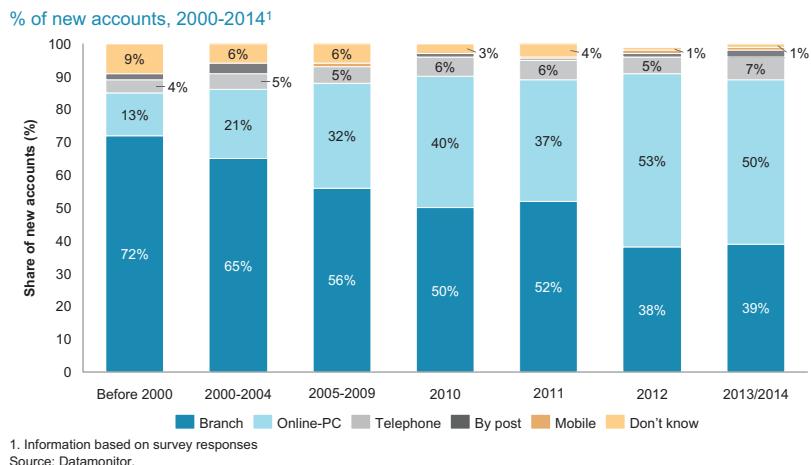


1. Average monthly outstanding MFIs balances – household sector – seasonally adjusted  
Source: Bank of England.

Historically the UK savings market has been dominated by the large high street banks, due to brand loyalty, the perceived 'safety' of these institutions and customer inertia due to high barriers to switching. Recent years have shown a significant shift in terms of customer behaviour which has eroded the advantages of incumbent institutions. Customers have become more aware of the relative value offered by placing their savings with alternative institutions. This has enabled new entrants including specialist banks to increase their presence in the market, aided by the security of the FSCS and the free advertising of brand and rates in a variety of media and 'best buy' type tables/ commentary. Further, increased levels of discontent by customers towards traditional offerings by large high street banks, which at times do not offer the same benefits to existing customers as to new customers or offer bonuses which lapse after only a short period of time, have driven switching by customers to specialist banks that offer a more bespoke, consistent and personalised service and competitive rates.

Customers are increasingly relying upon the internet for new savings account openings (*source: Datamonitor*). Approximately 50 per cent. of customers in 2013 and 2014 opened new savings accounts online, compared to 39 per cent. who relied upon branches (*source: Datamonitor*). Account openings through branches have experienced a steady decline in percentage terms from 2000 onwards (*source: Datamonitor*). Chart 14 provides further details on new savings account openings by channel. The shift in consumer preferences towards online and telephone for new account openings has significantly increased the ability of smaller banks to compete, while reducing the benefits of maintaining an extensive branch network.

Chart 14: UK households cash savings accounts by opening channel



## PART VII – INFORMATION ON THE COMPANY AND THE GROUP

### 1. Overview of the Group's business

The Group is an independent specialist lending and savings bank serving UK SMEs and consumers. As at 31 December 2014, 73 per cent. of the Group's loan book comprised loans to SMEs, with the remaining 27 per cent. comprising loans to consumers.

The Company was formed for the purpose of acquiring WLB from the Manchester Building Society in January 2011. WLB was subsequently renamed Shawbrook Bank. The strategic plan for the Company at the time of its acquisition of WLB was to provide specialist lending products in selected sectors that were poorly served by the large high street banks. The Company recognised that significant structural changes in the UK banking sector resulting from the global financial crisis had created opportunities in a number of markets. In particular, as large high street banks increasingly sought to simplify their business models and focus on cost reduction initiatives and mainstream lending products which are often heavily commoditised and price competitive, those lending markets which require greater sophistication, either through greater human skill or skill in data analytics, had become increasingly poorly served.

Having captured this opportunity through a combination of strategic acquisitions of established lending businesses and organic growth supported by management's in-depth market knowledge, the Group has leveraged its demonstrable expertise, long-standing relationships and sophisticated skill set and data analytics to lend into those sectors to earn attractive risk-adjusted margins.

The Group's efficient infrastructure enables it to operate in specialist sectors on a smaller scale. The Group conducts all of its underwriting and deposit-raising in-house, while working with long-term Business Partners to secure the most efficient route to market. Through its network of Business Partners and established customer relationships, the Group is also able to enjoy diverse and national coverage of the market in a cost-effective way without the fixed costs associated with a branch network but with a robust and consistent approach to pricing and risk.

The Group is led by an experienced management team with a combination of significant underwriting expertise and institutional and regulatory banking experience at major specialist lenders. The management team has a wealth of experience across a wide range of specialist lending sectors. This depth of experience provides the Group with significant heritage and understanding of its lending sectors, without being burdened by the significant legacy issues facing many of its competitors.

At the time of its acquisition by the Company, WLB had assets of £36.0 million, customer lending of £2.8 million and 18 employees. Since then the Group has developed into a multi-product specialist lender and, through controlled growth of originations, it has grown the balance sheet significantly, with £2.8 billion of assets, over 100,000 customers and over 460 employees as at 31 December 2014. The Group, which is headquartered in Brentwood, Essex, is authorised by the PRA (part of the Bank of England) and regulated by the FCA and the PRA.

The Group operates the following five lending divisions and, in the case of the four divisions which provide secured loans, is well-collateralised:

- **Commercial Mortgages**, which focuses on investment mortgages for professional residential investors, short-term loans for property professionals and commercial property loans for seasoned investors and owner-occupiers;
- **Asset Finance**, which provides financing secured against what are typically hard assets of the borrower. The Group provides corporate asset finance (lending against principally wheeled assets, but also light aircraft, commercial marine vessels, yellow plant, machine tools and other assets with low rates of depreciation), block discounting (lending to SME finance companies secured against receivables within their portfolios, with the security given by the ultimate borrower taking the form of a variety of different assets including vehicles, plant and equipment and property), wholesale finance (lending to smaller specialist lenders secured against a pool of loan receivables) and healthcare finance (operating leases for healthcare equipment to NHS trusts and finance leases or hire purchase agreements for private healthcare operators);
- **Business Credit**, which provides funding to SMEs, secured mainly against invoices, to support a number of business operations, including working capital, growth opportunities, mergers and acquisitions, refinancings, restructurings, management buy-outs and buy-ins and turnarounds;

- **Secured Lending**, which provides customers with loans secured against their homes through second charge mortgages; and
- **Consumer Lending**, which provides unsecured loans for a variety of purposes, primarily focused on home improvements, holiday ownership and certain retailers.

The loan books (classified as loans and advances to customers and operating leases within property, plant and equipment) for the Group's five lending divisions as at 31 December 2014 were as follows:

<u>Division</u>	<u>As at 31 December 2014</u>
	(£m)
Commercial Mortgages .....	968.9
Asset Finance .....	564.1
Business Credit .....	169.8
Secured Lending .....	401.3
Consumer Lending .....	226.9
<b>TOTAL .....</b>	<b>2,331.0</b>

The following table sets out summary information for each of the Group's lending divisions as at or for the financial year ended 31 December 2014:

	Year ended 31 December 2014						
	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Savings/ Central	Total
	(£m)						
Net interest income .....	30.8	32.7	3.3	23.8	15.2	(3.1)	102.7
Net Operating Income/ (Expense) .....	30.6	38.6	8.1	23.1	15.0	(3.2)	112.2
<b>Profit/(loss) before taxation ..</b>	<b>23.3</b>	<b>29.8</b>	<b>4.5</b>	<b>19.0</b>	<b>5.5</b>	<b>(36.8)</b>	<b>45.3</b>
Total Assets .....	968.9	564.1	169.8	401.3	226.9	423.0	2,754.0
Total Liabilities .....	—	—	—	—	—	(2,535.3)	(2,535.3)

(1) Business Credit numbers are from 9 June 2014 (when Centric was acquired by the Group) to December 2014.

The Group is funded predominantly through retail and SME deposits. To date, the Group has focused on raising contractually longer-dated deposits across both the notice account and fixed term bond markets to support a stable funding base for its lending divisions. As at 31 December 2014, the average contractual maturity of deposits was 14 months and 85 per cent. of the Group's deposits had a contractual duration of greater than 90 days.

The Group sources its deposits directly. Most deposits (73 per cent. in the year ended 31 December 2014) are sourced through an online origination platform that enables the Group to raise significant volumes of retail and SME deposits within relatively short periods of time with minimal manual input. This direct sourcing model is cost-effective and enables the Group to be flexible in its approach to funding, including managing inflows and tailoring maturity of deposits to manage liquidity risk. The remaining deposit accounts were originated by postal application.

Additional funding is provided by the Group's participation in the FLS. As at 31 December 2014, the Group had raised £163.1 million of UK Treasury Bills under the FLS. Accounting standards require that FLS Treasury Bills are held off-balance sheet; however they are still eligible to be counted towards a bank's liquidity resources. Treasury bills can also be used by a bank as collateral to borrow cash in the market. Funding from the FLS is due for repayment in four years from the date of first drawing the Treasury Bills.

The Group has clearly defined control and risk functions and employs a modern, innovative IT infrastructure to support its operations and customer service proposition. All of the Group's administrative support functions are performed in the UK. Account administration, customer servicing and arrears management for its Commercial Mortgages, Secured Lending and Consumer Lending portfolios are outsourced to Target. The Group has used Target as a service provider since 2011, recognising its bespoke and tailored approach to providing customer service. All other Group administrative functions are performed in-house.

The Group made an initial strategic decision not to have a branch network and as such does not have any costs associated with running such a network. Loans in the Commercial Mortgages, Consumer Lending and Secured Lending divisions are originated through Business Partners. Loans in the Asset Finance division are primarily originated through direct distribution (77.8 per cent. in the year ended 31 December 2014), with the remaining loans originated through Business Partners or, in the case of loans in the healthcare sector, NHS tenders. Loans in the Business Credit division are originated through a network of Business Partners who act as professional introducers. The Group has strong geographic reach and access to customers throughout England, Wales and Scotland through its network of Business Partners and its own direct distribution.

## **2. Key strengths of the Group**

### **2.1 Well-positioned lender in large, deep and growing markets**

The Group's main focus is lending to SMEs, who by their nature tend to require more bespoke products and whose needs generally require relationship banking, human skill and expertise, as well as individual borrowers in markets which require specialist skills and advanced analytics to fully understand and price the associated risk. The Group's expertise, long-standing relationships and sophisticated skill set and data analytics position it well to lend into these markets to earn attractive risk-adjusted margins.

The opportunity within these markets is also growing for specialist lenders as large high street banks increasingly seek to simplify their product offerings, implement cost reduction initiatives and focus on the mainstream lending sectors of the market that tend towards standardisation and automation.

As this trend continues, the Group continually monitors potential new lending markets to identify and evaluate new niches and capture new market opportunities to target continued and sustainable growth. The Group's experienced management is well positioned to identify, evaluate and respond quickly and nimbly to market opportunities as shown by its recent expansion into short-term property loans, marine finance and wholesale finance.

The Group seeks to offer the benefits of a bank with stable and attractively priced funding but without the negative attributes of large high street banks that can include bundling of products, lack of pricing transparency and poor levels of service.

### **2.2 Carefully selected markets where the Group is generating attractive risk-adjusted margins and has a clear path to earnings growth**

The Group operates in carefully identified sub-sectors of the UK banking market where it has demonstrable competitive advantages and where it is achieving attractive risk-adjusted margins. Based upon the knowledge and expertise of the Directors and the management team, and the outlook for the sectors in which the Group operates, the Directors believe that there is potential for the Group to achieve attractive risk-adjusted margins on a sustainable basis. In addition, the Group's operating and cost structure supports the generation of attractive returns in line with the Group's strategic objectives.

The Group has successfully delivered high underlying pre-tax returns on assets (calculated as defined in Section 2 of Part X (*Selected Financial Information and Key Performance Indicators*) of 2.6 per cent. for the year ended 31 December 2014 and returns on tangible equity (calculated as defined in Section 2 of Part X (*Selected Financial Information and Key Performance Indicators*) of 26.9 per cent. for the year ended 31 December 2014 and 29.9 per cent. for the six months ended 31 December 2014 without needing to rely on the scale and funding base available to large and medium-sized UK retail banks.

The Directors believe that the Group has a clear path to future growth in profitability and returns, supported by the following factors:

- the Group's current levels of originations significantly exceed its loan amortisation rates and redemptions, which has supported significant growth in its balance sheet;
- many of the lending markets addressed by the Group have experienced recent growth and the Directors expect this trend to continue. The Group's lending divisions have either kept pace with, or significantly exceeded, overall growth in their markets;

- the Group has built a scalable platform capable of supporting a much larger loan portfolio and driving further improvements in its cost/income ratio;
- the Group considers there to be further growth opportunities from product development and expansion into adjacent markets, and has a proven and successful track record of delivery; and
- the Group's diversification across its five lending divisions and wide range of product offerings also contributes to the resilience of the Group's business model.

The Group's ability to successfully execute this strategy can be seen in its steady growth in loan originations alongside its relatively consistent gross yields, low cost of risk and improving cost/income ratio. For example, in the year ended 31 December 2014, the Group originated an average of £114 million of new loans per month<sup>1</sup>. As at 31 December 2014, its run-rate of annual gross originations was £1.4 billion and the behavioural weighted average half-life of its loans (that is, the average number of years for which each £1 of unpaid principal on a loan remains outstanding) was 3.25 years.<sup>2</sup> The Group's loan book increased from £1.4 billion as at 31 December 2013 to £2.3 billion as at 31 December 2014, with the acquisition of Centric's loan book in June 2014 contributing to this overall growth.

For the year ended 31 December 2014<sup>3</sup>, the Group had a gross yield of 9.0 per cent. and a cost/income ratio of 50.5 per cent. The Group had a cost of risk of 0.36 per cent., slightly below what the Directors expect to be the through the cycle cost of risk for the Group (0.5-0.6 per cent.).

### **2.3 Robust balance sheet built upon disciplined underwriting combining extensive human skill and expertise with advanced analytics**

The Group carefully guards its risk and pricing standards by conducting underwriting and risk management in-house. A culture of disciplined underwriting based upon a deep understanding of collateral and underlying customers is nurtured throughout the organisation. The Group benefits from extensive knowledge and heritage across a wide range of asset classes. The vast majority of executive management has extensive experience underwriting credit, with an average of over 20 years' experience, and continues to spend a significant amount of time on a daily basis considering individual credits. This deep credit knowledge is reflected throughout the organisation so that disciplined underwriting is built throughout the fabric of the business. The Directors believe such expertise is necessary in order to operate successfully in its chosen markets and, further, that it would be difficult for competitors to replicate this expertise.

Loans are considered based upon a deep understanding of the borrowers, their business, the environment in which they operate and the assets collateralising the loans. In addition to high levels of security, prudent provision levels are assumed in the pricing models to provide appropriate headroom to expected performance.

The Group's extensive expertise and knowledge are supported by sophisticated pricing models and analytics with a view to ensuring that attractive returns are achieved across the business.

The Group carries out proactive servicing and arrears management through close ongoing contact with borrowers and the use of data analytics to ensure that any issues are identified early. Continual monitoring of performance and feedback ensure that expectations of returns are reflective of current performance.

The Group has also adopted a "cradle to grave" risk management philosophy which is at the core of its policies on credit ownership, rigorous stress testing, affordability analysis and verification of customer and Business Partner information. These policies, and their underlying philosophy, have supported the Group's low cost of risk and low levels of non-performing loans, with impairment losses of only £2.7 million, £3.5 million and £6.7 million for the years ended 31 December 2012, 31 December 2013 and 31 December 2014, respectively. The Group's current arrears levels are also low: as at 31 December 2014, 0.8 per cent. of the Group's loan book had outstanding lending balances more

<sup>1</sup> Average of the Group's total gross annual originations in 2014, including average monthly gross originations of Business Credit from June 2014 (when Centric was acquired by the Group) to December 2014.

<sup>2</sup> Includes gross loan origination volumes and behavioural weighted average life of loans for Business Credit from June 2014 to December 2014.

<sup>3</sup> Based on underlying results as outlined in Part X (*Selected Financial Information and Key Performance Indicators*).

than 90 days past due or impaired, and the Group's provision coverage ratio (calculated as balance sheet provision as a percentage of loans more than 90 days past due and impaired loans) was 62.4 per cent. The Group's Commercial Mortgages and Secured Lending portfolios are further supported by low LTVs, with a weighted average LTV of less than 65 per cent., being 64.8 per cent. and 61.4 per cent. respectively. In addition, the Group's Business Credit portfolio had a weighted average advance rate (calculated as the average loan balance divided by average collateral/receivables) of 47 per cent.

#### **2.4 Diverse and efficient origination across and within divisions providing high levels of repeat business and a predictable pipeline**

The quality and depth of the Group's relationships have led to high rates of repeat business which supports high earnings visibility and has the added benefits of lower loan origination costs, predictability of originations and higher asset quality (because the customers are already known to the Group).

The Group originates business through both direct relationships with customers and through Business Partner relationships in order to deliver attractive returns on equity based upon a scale that can be achieved with confidence within a given time frame. The Group works with Business Partners in certain of its business divisions — Commercial Mortgages, Secured Lending, Business Credit and Consumer Lending — offering it the ability to secure national coverage without the fixed operating base of a branch network like the large high street banks, and the variable cost of such a structure enables it to select the most attractive lending based upon disciplined and consistent underwriting criteria.

#### **2.5 Strong and inclusive relationships with customers and Business Partners**

The Group has long-standing and deep relationships with its customers and Business Partners. Many of the Group's relationships with customers and Business Partners extend over ten years and are based upon personal relationships with the lending teams. The Group's relationships are underpinned by high quality service, a partnership approach, speed and certainty of delivery and a bespoke approach to developing solutions.

At the core of the Group's relationships is high quality service focused on a human and personal approach to understanding and thoughtfully managing the needs of customers and Business Partners. The Group's high quality service is evidenced by the strong, positive feedback it receives and advocacy that is driven by its relationships. In surveys carried out by the Group of its customers from December 2014 to January 2015, 92 per cent. of respondents were very satisfied or satisfied with the level of service received and the Group achieved a net promoter score of 35 in research conducted by Charterhouse for the Group in December 2014 to January 2015, which significantly exceeds that of many large high street banks.

The Group adopts a partnership approach to its relationships to drive inclusiveness and align incentives in the development of new products and platforms. For example, the Group developed its loan origination system (the "**DJ System**") for its Secured Lending division in consultation with the division's Business Partners. The DJ System is a web-based system that streamlines the application process for Business Partners, enabling efficient case management that evidences regulatory compliance while reducing Business Partners' operational costs. This system is often integrated to Business Partners' own platforms through application programming interfaces and forms a core part of their operations. The DJ System also has a messaging tool so users can communicate directly with the loan's underwriter.

Having been developed in close partnership with the Group's Business Partners, the DJ System is an example of the Group's commitment to delivering innovative products and platforms which strengthen its Business Partners' service offerings and, as a result, strengthen its relationships with its Business Partners. The DJ System facilitates secured lending processes which are aligned to the standards required by first charge mortgage lenders, and it is expected that this will assist the Secured Lending division in meeting the requirements of the Mortgage Credit Directive when it comes into force in March 2016.

The Group also focuses on providing local support to Business Partners in each of the geographic areas in which it operates, whether through regional offices (in the Asset Finance and Business Credit divisions), or field-based sales teams. The Commercial Mortgages and Secured Lending divisions also

have an incentive structure in place that provides their key Business Partners with opportunities for shared economics that are designed to align interests around the quality of loans originated.

The Group is conscious of the importance of speed and certainty to its customers and Business Partners and works to provide fast decisions within the Group's risk and margin criteria. For example, the Business Credit division holds daily internal calls to discuss new credit proposals, which allow it to provide prospective customers with an outline of terms within 48 hours of a prospective customer's first meeting with a representative from the division. The Group also recognises the importance of transparency and accountability in meeting its service level standards, particularly with respect to turnaround times. The Commercial Mortgages division publishes its performance against its service level standards on a monthly basis and is not aware of any other lender in its field which provides this information to its Business Partners. As at 31 December 2014 98 per cent. of new applications were reviewed and an in-principle decision given in 72 hours.

Lastly, the Group's extensive product suite and deep understanding of both the markets in which it operates and the underlying collateral and risks enable it to adopt a bespoke approach to developing solutions for customers and Business Partners. Working closely with Business Partners, the Group considers market feedback as a way to identify product extensions or new markets. The Group actively seeks views from its Business Partners as to areas where they would like to see further product development as well as their views on the trends in the development of the market. On a quarterly basis, the Group conducts surveys with its Business Partners including market-specific questions such as predictions for UK economic growth and the main challenges faced by Business Partners, as well as questions tailored to the Group such as how Business Partners rate the Group's product and service proposition, common obstacles to the working relationship and which products Business Partners would wish the Group to introduce. The Commercial Mortgages division regularly publishes its findings from its quarterly surveys and analysis in publications sent to Business Partners, which allow the division to better understand and address its Business Partners' needs.

## **2.6 Talent built upon strong culture and values**

Specialist lending is a talent business and the Group has hired, nurtured and developed its staff at all levels. The Group is led by an experienced senior management team, with a wealth of experience across a wide range of specialist lending and savings sectors. In addition, the management team has cultivated a talented, committed employee base with extensive industry knowledge. The average length of experience of employees in each of the Group's divisions ranges from 15 to 23 years.

The Group has also implemented robust internal development programmes that underpin long-term development of, and commitment to, its staff. High levels of granularity in the key performance indicators at both a divisional and sub-divisional level in each of the Group's divisions help drive a sense of ownership. The Group provides employees with high levels of autonomy within clear controls as part of its strategy to build future leaders.

The Group is founded on a culture of respect, care, good sense and thoughtful judgement. Its culture is built upon four core values: "personal", "pragmatic", "expert" and "progressive". The aim is to foster an environment of thought leadership and always lending as though every pound lent is one's own. The success of the Group's staff management is reflected in its strong retention rates across the business.

## **2.7 Innovation in the Group's products, platform and approach enables it to capture opportunities**

The Group's success in its target lending sectors is supported by its ability to create and continually develop a broad range of innovative products and operational platforms in order to provide the types of flexible and customised lending solutions that appeal to its target customers.

The Group's product offering is extensive and is constantly developing in response to feedback from customers and Business Partners. For example, in the Group's Commercial Mortgages division, a number of products offer borrowers the flexibility to make part-repayments of capital, in addition to the standard options of interest-only and full capital repayments. In addition, the Platinum, Premier Plus and Plus product ranges offered by the Group's Secured Lending division, which together accounted for over 87 per cent. of the division's loan originations in the year ended 31 December 2014, have supported the division's growth by offering high-income individuals an alternative means to raise

capital without having to remortgage and become tied into a fixed-term arrangement. Digital tools enabling straight-through processing of loan applications are also currently used in the Consumer Lending division to streamline Business Partners' sales processes and enhance the customer experience. These tools make it possible for customers to receive an instant quotation so that they can make a decision whether to proceed with their application on the spot, helping improve efficiency, transparency, consistency and origination volumes. The Group plans to implement these tools across a number of its other lending divisions over the course of 2015.

These product innovations also assist Business Partners and the Group with regulatory compliance by automating much of the process flow incorporating many regulatory requirements.

The Group also draws on a range of sophisticated data analysis tools to deepen its understanding of its customers and price its loan products and deposits effectively. The Group maintains a data warehouse containing granular data, supporting robust analytics and providing the Group with proprietary commercial insights. The Group produces pricing models specific to each business division and each product they offer which monitor monthly behavioural curves and are aligned to budget and strategic planning. The pricing models are also based on a number of division and product specific assumptions which take into account relevant margins, commissions and subsidies.

The Group's management information and data analytics platforms are fully integrated across the business, driving quality, transparency, consistency and accuracy in reporting and governance. These platforms, together with the Group's focus on the most efficient route of distribution by sector, have provided the Group with a sound foundation for its successful expansion into ancillary product areas, including commercial marine funding in its Asset Finance division and the short-term loan offering developed by the Commercial Mortgages division for property refurbishment for professional property investors.

## **2.8 An established and stable retail savings franchise providing access to reliable funding at an attractive cost**

The Group is funded primarily through retail and SME deposits that provide a stable and flexible liquidity platform from which to grow the Group's lending business. In addition, the Group receives a relatively small amount of funding through the FLS and intends to expand its liquidity options by accessing wholesale funding in the future.

The Retail Savings division sources its deposits directly with accounts opened either online or by post. The Group's deposit platform enables it to raise significant volumes of retail and SME deposits within relatively short periods of time with minimal manual input. This direct sourcing model is cost-efficient and enables the Group to be flexible in its approach to funding, including managing inflows and tailoring maturity of deposits to manage liquidity risk.

The Retail Savings division aims to provide its customers with a straightforward, simple and efficient savings account with transparent and fair pricing. The online platform allows customers to open an account within ten minutes and track balances and tax and interest statements. In addition, a team of customer service agents provide assistance to customers through the division's call centre. The division provides a range of training programs to its customer service agents focusing on developing skills to engage, listen, relate and resolve customer's needs.

The Group's balance of deposits has grown strongly, totalling £2.4 billion as at 31 December 2014, up from £1.46 billion as at 31 December 2013 and £0.9 billion as at 31 December 2012. The Group has adopted a prudent approach to liquidity management, demonstrated by 85 per cent. of the deposit book having a contractual duration of more than 90 days (as at 31 December 2014). As at 31 December 2014, the average contractual maturity was 14 months, providing the group with a stable deposit book.

As the Group's deposit book matures, it has the opportunity to build deeper relationships with its depositors by offering rollover products. The Group has historically retained a material portion (76 per cent. for the year ended 31 December 2014) of maturing deposits which lowers its overall funding cost and reduces the operating costs required to serve its customer base. The Retail Savings division continues to develop its product offering to further strengthen and expand its relationships with customers.

The Retail Savings division uses a range of analytical tools to allow it to price its products sensitively and has demonstrated its ability to re-price a number of its products effectively to reduce its cost of funds while maintaining high levels of customer retention. The Retail Savings division re-priced a number of its notice account products during 2013 and Q1 2014, with interest rates on the re-priced accounts reduced by up to 155 basis points over this period. While these re-pricings led to short-term increases in attrition rates, attrition rates for these accounts overall remain low and have, in most cases, been on a stable or downwards trajectory since the second re-pricing. As the Retail Savings division continues its data-driven analysis into the elasticity of its deposit book, it will continue to focus on optimising funding costs with prudent liquidity management.

The Group's Retail Savings division has been recognised for its competitively priced savings products and transparent and consistent treatment of customers in numerous awards including, most recently, the Best Fixed Rate Bond Provider and Best Notice Account Provider at the Savings Champion Awards 2014 and Best Online Saver and Best Overall Saver in a poll of 11,000 customers at the Money Pages Personal Finance Awards 2014. These awards recognise not only savings products that offer consistently good rates for new savers but, importantly, those that support their existing savers. Many of the Group's award wins have placed the Group higher than more established and larger high street banks.

## **2.9 A cost-efficient and scalable model which supports the Group's high growth and high returns**

The Group has a simple business and financial model designed to maximise growth and returns. The Group seeks to keep control of the key functions of underwriting, risk management and deposit-raising but will also consider the most efficient operating model to enable it to secure attractive returns. This approach enables the Group to deliver attractive risk-adjusted margins at a scale lower than the large high street banks.

By maintaining core underwriting skills in-house, the Group is able to maintain the discipline and consistency of risk, while a partnership approach to origination allows it to secure national coverage at a variable cost.

The Group has established strong distribution channels in each of its lending divisions and has been recognised for providing expertise, superior customer service and flexible, straightforward products, including receiving 22 industry awards in 2014. The Group's focus on intermediary and digital distribution also means it is not burdened with the fixed cost base associated with branch networks.

The Group's use of Business Partners alongside its internal sales teams to distribute many of its lending products supports the Group's ability to maximise growth and returns in a cost-efficient way.

The Group's cost-efficient model further supported its high overall underlying pre-tax return on assets (calculated as defined in section 2 of Part X (*Selected Financial Information and Key Performance Indicators*)) of 2.6 per cent. in the year ended 31 December 2014.

In addition, the Group's scalable platform further enables it to realise improvements in overall cost/income with an underlying cost/income ratio of 50.5 per cent. for the year ended 31 December 2014.

## **2.10 Prudent levels of capital and liquidity**

The Group maintains levels of regulatory capital which satisfy its statutory requirements. As at 31 December 2014, the Group had a Common Equity Tier 1 ("CET1") ratio of 11.5 per cent., a total capital ratio of 13.8 per cent. and a leverage ratio of 6.3 per cent. (see Section 2.1 of Part X (*Selected Financial Information and Key Performance Indicators*)), well in excess of the regulatory minimum.

As at 31 December 2014, the Group held a 92.8 per cent. ratio of liquidity buffer eligible assets to liquidity balances (see Section 7.1 of Part XI (*Operating and Financial Review*)). Based on this liquidity buffer, the Directors believe the Group has sufficient liquidity to meet its day-to-day cash flow needs, with consideration being given to both normal and stressed conditions in excess of the Group's risk appetite as well as internal and regulatory liquidity requirements.

The Directors believe that the Group is well placed to meet both applicable global capital and liquidity requirements from the Basel Committee and the implementation of the recommendations of the Independent Commission on Banking. For a discussion of the Group's capital and capital ratios, see Part XI (*Operating and Financial Review*) of this Prospectus.

### **3. The Group's strategy**

The Group intends to continue with its successful strategy of providing customers and Business Partners with a reliable, expert, dynamic and straightforward banking service across targeted sectors. The Directors believe that by focusing on its existing model and the following strategic priorities, the Group can continue to pursue significant growth in earnings and aim to deliver strong, sustainable risk-adjusted margins.

#### **3.1 Deliver the visible growth potential inherent in the business today as underpinned by current origination volumes and expected growth in existing markets.**

The Group aims to deliver the visible growth potential inherent in the business today, which is underpinned by the following:

- **Embedded growth based on current levels of origination:** in the year ended 31 December 2014, the Group's lending divisions originated an average of £114 million of new loans per month<sup>4</sup> compared to £83 million for the year ended 31 December 2013 and £40 million for the year ended 31 December 2012. The Group's 2014 origination volumes drove average monthly balance sheet loan growth of £78 million per month for the year ended 31 December 2014 with a behavioural weighted average half-life of 3.25 years as at 31 December 2014<sup>5</sup>. Were the 2014 gross origination run rate volumes<sup>6</sup> of £1.4 billion per annum (based on the monthly average gross originations as described above) to continue, from an opening position as at 31 December 2014 of £2.3 billion, then, even without any incremental acceleration in originations, the loan book would grow by approximately £700 million — £800 million per annum (assuming there was no change in the behavioural weighted average half-life of the Group's loans). Much of the present run-rate of new loan originations also arises from repeat business from existing customers and Business Partners, supporting the visibility of this embedded growth.
- **Growth in existing markets:** there are positive dynamics in the Group's existing sectors with growing business confidence, strong demand for credit and unfulfilled demand for SME lending. Against this backdrop, the Directors expect growth in the Group's existing markets to be above 9 per cent. over the next two years, which the Directors believe should support strong overall growth in originations and, in turn, further growth in the loan book.

#### **3.2 Drive incremental growth through expansion into new markets and adjacent product ranges in a disciplined manner, while leveraging the Group's core strengths and demonstrated track record**

Within the Group's five existing lending divisions, the Directors believe there are opportunities to realise incremental growth from the steady expansion of the Group's product footprint within its specialist markets and into new markets which meet the Group's stringent credit quality and return criteria. The Group's management and employees have a deep understanding of, and expertise in, the Group's specialist markets and distribution and operational capabilities that enable it to understand its customers' needs and target marketing accordingly, which is expected to further support such growth.

The Group intends to develop its strong suite of products in markets where it has identified opportunities for high risk-adjusted margins. Each new product offering or market entered is supported by the relevant underwriting and sector expertise within the Group and a strict governance and appraisal system used to help the Group successfully expand its business while generating appropriate risk-adjusted margins. The ability for the Group to successfully deliver on this strategy is supported by

<sup>4</sup> Average of the Group's total gross annual originations in 2014, including average gross monthly originations of Business Credit from June 2014 (when Centric was acquired by the Group) to December 2014.

<sup>5</sup> Includes gross loan origination volumes and behavioural weighted average half-life of loans for Business Credit from June 2014 (when Centric was acquired by the Group) to December 2014.

<sup>6</sup> Being the Group's total gross originations during the year.

its demonstrated track record, such as the recent expansion of its Commercial Mortgages division into short-term loans and its new marine finance offering in its Asset Finance division.

The Group has a number of expansion opportunities it is currently considering across its divisions, including:

- development funding in the Commercial Mortgages division;
- professional services and healthcare managed services in the Asset Finance division;
- extending existing operations into Scotland and expanding into the purchase finance market in the Business Credit division;
- additional retail sectors including school and education fees and medical procedures in Consumer Lending; and
- a full roll-out of easy access and ISA accounts in 2015 and commencing development of its e-savings offering for SMEs in Retail Savings. The Retail Savings division also plans to develop its affinity relationships distribution and products.

### **3.3 Leverage the Group's scalable and high quality infrastructure to drive improvements in cost/income ratio**

The Group's loan distribution model is focused on Business Partners and direct channels rather than a traditional branch network. The Group plans to continue to leverage this distribution model to grow its loan book and revenues without incurring significant incremental costs.

The Group has also invested significantly in its infrastructure to support scalable growth, including in its:

- underwriting and sales teams, which are able to support further increases in gross originations, without significant incremental costs;
- IT systems, which were initially selected and further developed to undertake higher volumes of gross originations and support a significantly larger loan book;
- risk management framework, which has been developed to ensure a continual feedback loop between the business divisions and the Group's various risk functions and support higher volumes of gross originations while maintaining rigorous credit standards; and
- functional support teams who provide robust and scalable support to the customer-facing business divisions.

These factors support the scalable nature of the Group and are expected to drive improvements in its cost/income ratio in the future. As described below, the Group expects its cost/income ratio to reduce to approximately 40 per cent. in the medium term, with further improvement envisaged beyond this time frame.

### **3.4 Deliver strong financial performance and attractive returns**

The Group expects its gross originations to increase to above £2 billion per financial year by 2017, consistent with run-rate growth and market trends. This origination growth is expected to further support overall growth in the Group's loan book and, combined with the Group's target pre-tax return on assets of around 3.5 per cent. in the medium term, to support strong profit growth. The Group's target pre-tax return on assets is supported by its net interest margin (expected to remain stable in the medium term at approximately 6 per cent.), its annualised cost of risk (expected to range from 0.5-0.6 per cent.) and its targeted cost/income ratio of approximately 40 per cent. in the medium term, with further improvement envisaged beyond this time frame. Furthermore, the Group's ability to deliver profitability and growth is reinforced by its diversification across its five divisions.

### **3.5 Utilise data analytics and innovation to increase speed to market**

The Group's customised IT systems enable it to analyse customer data effectively to gain a deeper understanding of customers' needs, to price its products effectively and to provide its products and services with increasing speed. For example, the bespoke DJ System was developed for and with the

Group's Secured Lending Business Partners and helps Business Partners complete cases entirely on the Group's systems, which significantly reduces the time to process applications. The Group also maintains pricing databases for each lending division to be able to provide timely pricing of products within the Group's robust risk criteria. The Group continues to analyse data and invest in innovation to support its overall service proposition.

### **3.6 Leverage the Group's robust acquisition and integration track record**

The Group has demonstrated its ability to identify and enter attractive new markets, through the hiring of teams and additive business acquisitions with strong cultural fit, such as those of Singers Asset Finance in March 2012 and Centric in June 2014. The Group's strategy for acquired businesses is to fully integrate the business into the Group and leverage synergies in platforms, systems, functional areas and relationships to drive organic growth. In addition, the Group has successfully acquired portfolios of loans and will continue to consider additional loan portfolio acquisitions once it is listed where they are consistent with the Group's overall strategy and where stringent internal criteria are met.

### **3.7 Enhance the Group's funding sources**

The Group recognises that an established and resilient savings franchise represents the foundation on which its lending business can prosper. The Group is funded primarily through retail and SME deposits and also receives a small amount of funding through the FLS. In addition, the Group intends to maintain strong liquidity ratios and diversify and deepen its funding sources both across its retail base and by accessing wholesale funding in the future. The Group expects its cost of funds to further improve due to: (i) the run-off of certain existing high-interest rate deposits, (ii) the expansion of the Group's product offering into the ISA and easy access markets, and (iii) the Group's ability to continue accessing the FLS until January 2016. Together, these factors should help support the Group's net interest margin which, as noted above, is expected to remain stable at approximately 6.0 per cent. in the medium term.

The Group continues to develop new savings products, including a range of ISA products and easy access accounts, to attract new customers and deepen its existing relationships. The Group will also continue to offer competitive new savings products and seek to continue to achieve high retention rates of existing customers whose products come to an end of term.

### **3.8 Maintain a stable and strong balance sheet which supports dividend payments**

The Group plans to continue to maintain a strong balance sheet with prudent buffers maintained in excess of minimum regulatory capital requirements, targeting a CET1 ratio of greater than 13 per cent. in the near term. The Group's stable and strong balance sheet, combined with the strong expected growth in the business, is expected to support the Group's ability to pay dividends. The Group is targeting a modest maiden dividend in respect of the financial year ending 31 December 2016, with the target rising to 30 per cent. of post-tax statutory profits by 2017 with a progressive policy thereafter.

### **3.9 Maintain and develop reputation as a preferred partner with customers and Business Partners**

The Group recognises the importance of its relationships with customers and Business Partners to its business model and intends to continue to maintain and develop its reputation as a preferred partner. In its relationship with customers, the Group intends to continue to offer a bespoke, personalised service that is sensitive to the needs of its customers. The success of the Group's strategy in this area to date can be seen in its high levels of customer satisfaction: 92 per cent. of customers were very satisfied or satisfied with the Group's level of service, and it had a net promoter score of 35, based on surveys carried out by Charterhouse on behalf of the Group from December 2014 to January 2015.

The Group also intends to continue to build on the relationships between its Business Partners and the lending teams, working together to develop new products and platforms with a focus on fostering a sense of inclusiveness.

### **3.10 Attract and retain talented employees who support its core values**

The Group recognises that attracting and retaining talented employees who support its core values is of key importance for its business and that effective performance management is critical to its success.

Accordingly, the Group plans to maintain and develop its reputation as an employer of choice by offering the opportunity to work within an experienced, well-supported and inclusive team and ensuring employees are treated fairly and with respect.

### **3.11 Continue to maintain high-quality underwriting which is core to the Group**

Through the quality and financial performance of its loan book, the Group has demonstrated its disciplined bespoke underwriting capabilities, built on a strong culture of rigorous quality control and supported by the team's ownership of its customer relationships, from underwriting to repayment. The Group plans to maintain this focus, which is embedded throughout the organisation, to help deliver further growth and attractive returns.

## **4. History and development of the Group**

The Company was formed to acquire the entire issued share capital of WLB from the Manchester Building Society in January 2011, using funds provided by RBS Special Opportunities Funds. In 2013, the managers of RBS Special Opportunities Funds formed an independent fund business which is now called Pollen Street Capital and which advises the Major Shareholder. After its acquisition by the Company, WLB was renamed Shawbrook Bank. The acquisition was largely free of legacy exposures with less than £3 million of customer loan assets transferring on completion. This acquisition was the first step in the journey of creating a new UK independent specialist lender.

Having secured access to a reliable and stable source of funding from retail and business deposits through the acquisition of WLB's banking platform, the Group has built out its product offering to include a number of carefully selected specialist markets which the Group identified as being poorly served by the large high street banks, and where the Group had the expertise and deep relationships to maximise the opportunities for high growth and returns which these specialist markets offer.

At the same time as the acquisition of WLB's banking platform, the Group also acquired certain assets and people (but not the entity itself or the historical loan book) of Commercial First, a leading non-bank commercial mortgage lender that was previously funded through the wholesale markets.

In 2011, the Group acquired Link Loans, a secured lending provider, which had been established by certain members of the Commercial First management team in 2010. The Group acquired the entire issued share capital of Link Loans as well as certain key assets, people and the historical loan book of £33.5 million which had been built since 2010.

The business pursued organic growth from these two lending platforms during 2011, and also established a Consumer Lending capability initially focused on the home improvement sub-sector and subsequently expanded into holiday ownership and retail markets. These sectors were selected as focus areas as they were areas in which the management team had extensive industry experience with deep expertise and relationships, they provided an opportunity for the Group to leverage its bespoke underwriting capabilities and they were markets in which service and speed of delivery could yield a premium risk-adjusted margin.

In March 2012, the Group expanded its SME offering by acquiring Singers Asset Finance, a provider of asset finance, which was rebranded as Shawbrook Asset Finance in March 2013. This acquisition was consistent with the Group's business plan, which had anticipated an expansion into SME lending. Singers Asset Finance was acquired as it had developed an extensive loan book in attractive sub-sectors (including taxis and roadside recovery vehicles) and was led by a team which had demonstrated its ability to originate high quality loans with attractive risk-adjusted margins through the economic cycle. Singers Asset Finance was acquired with £325 million of leasing assets (classified as loans and advances to customers and operating leases within property, plant and equipment). Since its acquisition by the Group, the division has grown organically to £564.1 million of leasing assets as at 31 December 2014.

In November 2012, the sales and Business Partner management capability for the Consumer Lending division was brought in-house with the acquisition of Money2Improve, which sourced lending business in the division's key focus areas of home improvement products and holiday ownership.

In June 2014 the Group acquired Centric, an invoice finance provider to SMEs founded by experienced entrepreneurial commercial finance experts. Centric was rebranded as Shawbrook Business Credit in October 2014. This acquisition rounded out the Group's SME offering by adding an ability to finance receivables.

## 5. The Group's current operations

The Group offers a range of specialist lending and savings products and organises its operations as described below.

### 5.1 The Group's lending divisions

#### 5.1.1 Overview

The Group's lending operations comprise five divisions that offer a diversified asset mix united by a consistent approach to customer service, underwriting, credit analysis and collections. These divisions are focused on carefully selected specialist markets which the Group identified as being poorly served by the large high street banks, and where the Group has the expertise and deep relationships to maximise the opportunities for high growth and returns which it believes these specialist markets offer.

As at 31 December 2014, the Group's total loan book stood at £2.3 billion. The Group's origination platform supported £1.4 billion of new loans in 2014, demonstrating its capabilities.

A summary of the performance of each of the Group's lending divisions for the years ended 31 December 2014, 2013 and 2012 is set out below:

	Year ended 31 December 2014			
	Net loans and advances to customers <sup>(1)</sup> (£m)	Total originations (£m)	Average gross monthly originations (£m)	Risk-adjusted yield <sup>(3)</sup> (per cent.)
			8.0 <sup>(2)</sup>	
<b>Commercial Mortgages</b> .....	968.9	550.9	45.9	6.4
<b>Asset Finance</b> .....	564.1	386.1	32.2	10.0
<b>Business Credit</b> .....	169.8	47.9	8.0 <sup>(2)</sup>	9.9
<b>Secured Lending</b> .....	401.3	191.3	15.9	9.7
<b>Consumer Lending</b> .....	226.9	190.2	15.9	9.2
<b>TOTAL</b> .....	<b>2,331.0</b>	<b>1,366.4</b>	<b>113.9<sup>(4)</sup></b>	<b>8.6</b>

(1) Includes loans and advances to customers in each case net of provisions and operating leases within property, plant and equipment.

(2) Based on average from June 2014 to December 2014, when the Group acquired Centric.

(3) Calculated as gross yield less cost of risk for year ended 31 December 2014.

(4) Average of total annual originations in 2014, adjusted to reflect the mid-year acquisition of Centric.

	Year ended 31 December 2013			
	Net loans and advances to customers <sup>(1)</sup> (£m)	Total originations (£m)	Average gross monthly originations (£m)	Risk-adjusted yield <sup>(2)</sup> (per cent.)
			—	
<b>Commercial Mortgages</b> .....	543.8	400.6	33.4	6.4
<b>Asset Finance</b> .....	444.4	305.4	25.4	10.7
<b>Business Credit</b> .....	—	—	—	—
<b>Secured Lending</b> .....	295.0	180.8	15.1	9.8
<b>Consumer Lending</b> .....	115.6	112.9	9.4	9.7
<b>TOTAL</b> .....	<b>1,398.8</b>	<b>999.7</b>	<b>83.3</b>	<b>9.2</b>

(1) Includes loans and advances to customers in each case net of provisions and operating leases within property, plant and equipment.

(2) Calculated as gross yield less cost of risk for year ended 31 December 2013.

	Year ended 31 December 2012			
	Net loans and advances to customers <sup>(1)</sup> (£m)	Total originations (£m)	Average gross monthly originations (£m)	Risk-adjusted yield <sup>(2)</sup> (per cent.)
			monthly originations (£m)	
<b>Commercial Mortgages</b> .....	202.2	175.4	14.6	6.4
<b>Asset Finance</b> .....	348.5	150.5	12.5	10.9
<b>Business Credit</b> .....	—	—	—	—
<b>Secured Lending</b> .....	163.1	122.2	10.2	10.4
<b>Consumer Lending</b> .....	29.4	31.7	2.6	11.2
<b>TOTAL</b> .....	<b>743.2</b>	<b>479.8</b>	<b>39.9</b>	<b>9.9</b>

(1) Includes loans and advances to customers, in each case net of provisions and operating leases within property, plant and equipment.

(2) Calculated as gross yield less cost of risk for year ended 31 December 2012.

### 5.1.2 Business Partners

All loans in the Group's Commercial Mortgages, Secured Lending, Consumer Lending and Business Credit divisions are originated through Business Partners. Business Partners in the Commercial Mortgages and Secured Lending divisions comprise mortgage brokers, independent financial advisers and specialist commercial finance brokers. Business Partners in the Consumer Lending division comprise home improvement suppliers and holiday ownership vendors seeking to offer finance arrangements to their customers, as well as general retailers. Loans in the Business Credit division are originated through a network of professional introducers. They include accountancy firms, private equity houses, corporate finance houses and small independent brokerage firms.

Loans in the Asset Finance division are originated primarily through direct distribution (77.8 per cent. in the year ended 31 December 2014), with the remaining loans originated through Business Partners. Business Partners in the Asset Finance division are generally specialist independent asset finance brokers, the largest of whom also run their own loan book. In recent years there has been a move towards "super" brokers who act as umbrella organisations for smaller, but still independent, brokers.

The vast majority of the Group's Business Partners are directly regulated by the FCA because they source and broker business that is covered by the CCA and regulated by the FCA. This includes all Business Partners in the Group's Secured Lending and Consumer Lending divisions and the majority of Business Partners in the Commercial Mortgages, Asset Finance and Business Credit divisions. Due to regulatory changes affecting the consumer credit regime, most Business Partners who offer consumer credit hold interim permissions at this stage, and are due to apply for authorisation over the course of 2015. For more detail on the interim permission regime, please see Section 2.2 of Part IX (*Supervision and Regulation*). Other Business Partners may be authorised or regulated by the FCA because of the nature of their business activities — for example, because they provide financial services. The Group maintains registers of Business Partners who hold FCA authorisations which it continually reviews and updates.

A small number of the Group's Business Partners in its Commercial Mortgages, Business Credit and Asset Finance divisions are not required to hold any FCA authorisations because their activities do not fall within the scope of matters regulated by the FCA. As detailed below, the Group carries out detailed due diligence on all Business Partners prior to accrediting them.

The Group's use of its Business Partners is designed to meet the needs of its customers and provide the Group with a scalable platform for future growth. Generally, across the banking industry, SME customers tend to seek advice from intermediaries and/or brokers due to the lack of their own in-house expertise. Similarly, a significant proportion of Commercial Mortgage customers tend to seek advice from qualified mortgage brokers.

The Group has access to a wide range of specialist Business Partners. Its total distribution network comprises approximately 800 intermediaries and brokers thereby ensuring that the Group is not reliant on any particular intermediary or group of intermediaries.

The Group continually reviews the size, composition and performance of its panels of Business Partners for each lending division. While the Group's established position in the market is such that it

regularly receives proposals from potential new Business Partners, it will in certain circumstances proactively target new Business Partners by advertising in the trade press and hosting industry and trade shows and through market intelligence and referrals from its existing relationships with other participants in its lending markets. The Group conducts detailed due diligence prior to accrediting its Business Partners. This includes a review of financial performance, credit checks and an assessment of the customer sales proposition, regulatory status and reputation. While the Group is not responsible for the day-to-day conduct of its Business Partners, it is focused on ensuring its customers have positive outcomes. Therefore, once a Business Partner is accredited, they undertake an intensive training process in respect of the Group's products, procedures and systems and attend updated training on an ongoing basis, in order to assist Business Partners in complying with any applicable regulations and to provide positive customer outcomes at all stages of the application process.

Business Partners are managed by both field and office-based relationship managers within each of the Group's lending divisions who make regular on-site visits. The performance, quality of presentation and conversion rates of Business Partners are carefully, closely and regularly monitored by these relationship managers in order to determine if further training, marketing support or incentives are necessary or if the Business Partner should be removed from a lending division's panel.

In addition to their relationship managers, the Group provides its Business Partners with access to a broad range of its employees across different departments so that Business Partners can have any requests and further questions addressed promptly by the right person.

The Group has a number of different remuneration arrangements in place with its Business Partners which vary depending on the nature of the product. In certain cases, commissions are paid by the Group to Business Partners. In addition, the Commercial Mortgages and Secured Lending divisions have an incentive structure in place which provides their key Business Partners with opportunities for shared economics based on the performance of loans introduced. In all cases, these arrangements are fully transparent and the terms of these arrangements are disclosed to the customer as part of the loan documentation they receive. Consistent with the Group's commitment to customer service, its Business Partners do not have the ability to increase the commission they receive by increasing the rate charged to the customer. In many cases, Business Partners do not receive any form of remuneration from the Group but will instead charge their customers a fee directly.

The Group recognises the critical importance of embedding a strong oversight framework with its Business Partners and places significant focus on implementing such a framework as a means to manage its exposure to any potential risk or liability issues arising from the conduct of its Business Partners. The detailed due diligence the Group carries out on its Business Partners before including them on its panels, and its proactive approach to continued training and monitoring of Business Partners following their accreditation have ensured that there have been only a limited number of cases where the Group has needed to remove a Business Partner from one of its panels due to the Business Partner's inappropriate or unlawful behaviour.

The Group takes complaints about Business Partners from customers very seriously and will fully investigate and review any such complaints. If the Group is not completely satisfied with the resolution proposed by the Business Partner in respect of any such complaint, it will terminate the relationship with that Business Partner.

### **5.1.3 Commercial Mortgages**

The Commercial Mortgages division provides mortgages for residential investment and commercial and semi-commercial investment to professional property investors and SME owner-occupiers. It also provides short-term loans to professional property investors to finance refurbishments and acquisitions of new properties, and to replace existing property development finance pending the property's sale.

While the majority (91 per cent.) of the division's loans are to established landlords and property professionals, the division also lends to well established SME owner-occupiers. The division is recognised industry-wide for the strength of its relationships, its highly professional personal service and its leading loan execution, which have encouraged substantial levels of repeat business across its product range.

Since its acquisition by the Group in February 2011, the Commercial Mortgages division has originated over 4,200 loans with a total value of £1.2 billion. The loan book for the division stood at £968.9 million at 31 December 2014.

The following table sets out a breakdown of the Group's Commercial Mortgages loan book by product category as at 31 December 2014:

<u>Product category</u>	<u>As at 31 December 2014</u>
	(per cent.)
Residential .....	56
Commercial .....	30
Short-term loans .....	14
<b>TOTAL .....</b>	<b>100</b>

The portfolio is weighted towards Greater London and the South East. The following table sets out the geographical distribution of the Group's Commercial Mortgage loans as at 31 December 2014:

<u>Region</u>	<u>As at 31 December 2014</u>
	(per cent.)
Greater London .....	42.4
South East .....	17.5
North West .....	9.1
South West .....	8.5
Yorkshire & Humberside .....	4.7
Other .....	17.8
<b>TOTAL .....</b>	<b>100.0</b>

The Commercial Mortgages division originates all loans through its Business Partners. The division is supported by a large and diverse panel of approximately 393 accredited Business Partners. Of these, 11 Business Partners are categorised by the division as "Elite Partners" and accounted for 39 per cent. of the division's completions for the year ended 31 December 2014. A further 30 Business Partners are categorised by the division as "Strategic Partners" and accounted for 23 per cent. of the division's completions for the year ended 31 December 2014. The management team for Commercial Mortgages has had relationships with eight of these Business Partners for over ten years. The long-standing nature of the division's relationships with its Business Partners, together with its size and scale — which would not be easy to replicate — provides the division with confidence on future loan originations. The division's field-based relationship managers manage a maximum of 50 Business Partners per region to drive long-term relationships built on trust and strict controls.

As at 31 December 2014, the Commercial Mortgages division had an average loan balance of £260,000 and its loans had a weighted average behavioural half-life of 53 months. The division has approximately 3,100 customers. For the year ended 31 December 2014, the Commercial Mortgages division originated loans amounting to £550.9 million.

The division's residential investment mortgages flow has outperformed the market for the last three years, increasing from £73 million for the year ended 31 December 2012 to £288 million for the year ended 31 December 2014, achieving a CAGR of 98.6 per cent., compared with a CAGR of 22 per cent. for the overall residential investment mortgage market (sources: *FCA and Mintel*). The division's commercial mortgages flow increased from £82 million in the year ended 31 December 2012 to £117 million in the year ended 31 December 2013, then declined to £88 million in the year ended 31 December 2014, achieving an overall CAGR of 3.6 per cent. over this period, slightly above the CAGR of 3.0 per cent. in the overall commercial property mortgage market (source: *Datamonitor*). The commercial property mortgages market has been slower than the residential market to recover from the global financial crisis, although there have been recent signs of improving sentiment from investors and owner-occupiers.

The division remains selective in its decision to underwrite loans within the large UK commercial mortgage market, consistent with the Group's overall strategy of focusing on margins and credit quality over volumes. The division has delivered consistently high margins while maintaining a strict interest-rate and LTV discipline, even after the launch of new competing products by others, many at lower prices. 100 per cent. of loans written by the division have a maximum LTV of 75 per cent. (net of fees).

The division's loans are fully secured in all cases by way of a first ranking charge on the primary property, and in some cases with additional second lien security on other assets of the borrower, to ensure that the Group's claim to the property, in the event of default, is senior to claims of other potential creditors. The terms of the Commercial Mortgages division's loans allow for repossession and sale of the property if the borrower fails to comply with the terms and conditions of the loan. The division's loans are secured against a diverse range of residential and commercial investment properties:

- **Residential properties** include single properties, multi-units, apartment blocks, houses with multiple occupiers/student lets and properties forming part of a portfolio; and
- **Commercial investment properties** include offices, industrial sites and retail spaces. Mortgages may also be secured against semi-commercial property (primarily retail spaces with residential accommodation).

The Group offers repayment and interest-only Commercial Mortgages. Borrowers with repayment mortgages pay off both interest and capital, usually on a monthly or quarterly basis. Borrowers with interest-only mortgages pay off only the interest, usually on a monthly basis, and repay the capital at the expiry of the mortgage term. As at 31 December 2014, 13.3 per cent. of the Group's Commercial Mortgage loans were repayment mortgages, 76.5 per cent. were interest-only and 10.2 per cent. were part and part. In order to reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, the Group imposes early repayment charges on some of its mortgage products. The early repayment charges generally apply for repayment made prior to the expiration of the fixed rate for the particular product.

Mortgages are offered up to a maximum of £5 million on a single property in strong locations nationwide, rising to a maximum of £15 million over multiple properties in strong locations nationwide or over single or multiple properties in prime locations in London and the South East of England. The Group's Commercial Mortgage loans are generally granted for a term between three and 30 years. Short-term loans are offered for a period of up to 18 months.

For the year ended 31 December 2014, the Commercial Mortgages division's gross asset yield was 6.5 per cent. As at 31 December 2014, its loan book had an average LTV of 64.8 per cent., 0.2 per cent. of the division's loans were more than three months in arrears or impaired, and the division had an overall cost of risk of 0.1 per cent. Its contribution to the Group's overall operating profit for the year ended 31 December 2014 was £23.3 million.

#### 5.1.4 Asset Finance

The Asset Finance division is a proven lender in the UK SME and healthcare markets in which provides financing secured against what are typically hard assets of the borrower. The Group provides corporate asset finance (lending against principally wheeled assets, but also light aircraft, commercial marine vessels, yellow plant, machine tools and other assets with low rates of depreciation), block discounting (lending to SME finance companies secured against receivables within their portfolios, with the security given by the ultimate borrower taking the form of a variety of different assets including vehicles, plant and equipment and property), wholesale finance (lending to smaller specialist lenders secured against a pool of loan receivables) and healthcare (operating leases for healthcare equipment to NHS trusts and finance leases or hire purchase agreements for private healthcare operators). As at 31 December 2014, 53 per cent. of the division's loans were made to hard wheeled based SMEs.

The loan book for the Asset Finance division stood at £564.1 million as at 31 December 2014. The following table sets out a breakdown of the Group's Asset Finance loan book by product category as at 31 December 2014:

Product category	Per cent. of total loan book (as at 31 December 2014)
Corporate asset finance (including taxi and marine finance) .....	56
Block discounting .....	14
Healthcare .....	13
Wholesale finance .....	17
<b>TOTAL .....</b>	<b>100</b>

The Asset Finance division predominately originates loans through long-standing direct relationships with customers through its established team of 23 business development managers. This core of direct distribution is augmented by a small network of Business Partner-led distribution. The Asset Finance division is further supported by regional offices in Glasgow, Dorking in Surrey and Wisbech in Cambridgeshire, whose sales teams provide a local point of contact for customers and Business Partners, and by a specialist taxi division in West Malling in Kent.

Of the total originations of £386.1 million for the year ended 31 December 2014 for the Asset Finance division, 77.8 per cent. were originated directly with the remainder originated through Business Partners.

As at 31 December 2014, the Asset Finance division's loans had a weighted average maturity on a behavioural half-life basis of 19 months. The size of loans originated by the Asset Finance division ranged from an average of £22,000 (for taxi finance) to a minimum of £5 million and a maximum of £20 million for certain wholesale facilities. The division has approximately 7,600 customers.

The division is a well established player in the asset finance market, with Singers Asset Finance entering the market in 1996 as part of UK Bank SFFL. Since its acquisition by the Group, the division has grown strongly: in the period from March 2012 (when the division was acquired by the Group) to 30 September 2014, the division's new business volumes achieved a CAGR of 34 per cent., far exceeding growth in business volumes in the overall asset finance market, which had a CAGR of 6.7 per cent. from 1 January 2012 to 31 December 2014 (*source: FLA*).

The division's agreements are secured against the underlying asset that is being acquired or (in the case of healthcare assets) leased. These agreements contain terms which allow for the repossession and sale of the asset if the borrower fails to comply with the terms of the loan.

High levels of repeat business at good yields continue to provide the division with strong annuity income. For the year ended 31 December 2014, the Asset Finance division's gross asset yield was 10.3 per cent., 0.8 per cent. of the division's outstanding balances were more than three months in arrears or impaired and the division had an overall cost of risk of 0.3 per cent. The division has historically maintained low impairment and arrears levels, including pre-acquisition through the weak economic climate of 2007 through 2010. As at 31 December 2014, the division's block and wholesale divisions had no accounts in arrears. The division's contribution to the Group's overall operating profit for the year ended 31 December 2014 was £29.8 million.

### **5.1.5 Business Credit**

Following its acquisition of Centric in June 2014, the Group established its Business Credit division, which provides funding to UK SMEs with revenues of between £2 million and £100 million across 20 different business sectors. These facilities are mainly secured against accounts receivables (86 per cent. as at 31 December 2014) to support a number of business operations, including working capital, growth opportunities, mergers and acquisitions, refinancings, restructurings, management buy-outs and buy-ins and turnarounds. The majority (81 per cent.) of the Business Credit division's facilities are in the manufacturing, distribution and business services sectors. The division competes on the quality of its service, range of financing solutions and certainty and speed of delivery. All of the Business Credit division's customers have invoice discounting as part of their core relationship with the Group. The division's other asset-based lending products (property, plant and machinery, stock and cash flow) are only offered in tandem with its invoice discounting offering. Invoice discounting entails advancing a certain amount (typically 80 per cent.) of the borrower's outstanding eligible sales ledger with all customer payments being received into an account controlled by the division. The division only provides advances against eligible invoices, with eligibility determined based on the ageing of the debtors or concentrations. The division will always take security over the whole book of receivables. Whenever the division provides more than one facility to a customer it will reserve the right to cross-collateralise its security such that, if there is a shortfall on one asset, this can be made up on any assets with a surplus.

The loan book for the Business Credit division stood at £169.8 million as at 31 December 2014. The following table sets out a breakdown of the Group's Business Credit facilities by product category as at 31 December 2014:

Product category	Per cent. of total loan book (as at 31 December 2014)
Invoice discounting .....	86
Inventory .....	5
Cash-flow loans .....	4
Property .....	3
Plant and machinery .....	2
<b>TOTAL .....</b>	<b>100</b>

The division's asset-based lending business (when it was operating as Centric) has demonstrated consistently higher growth than the market, with the value of outstanding balances on its loans having achieved a CAGR of 29 per cent. over the four-year period ended 31 December 2013, compared with a CAGR of 7.4 per cent. for outstanding loan balances in the overall asset-based lending market (*source: ABFA*). The considerable size of the division's current addressable market (estimated to be approximately £15 billion) relative to the division's market share (estimated to be £0.2 billion) is expected to provide considerable opportunity for continued growth.

Centric became profitable in 2008 and has, since inception, maintained a high quality portfolio with average historical losses of less than 0.25 per cent. per annum. The division takes a proactive approach to credit monitoring and has developed a bespoke credit grading system. Each customer is assigned a customer manager who monitors the customer's performance and manages the division's exposure. Customer managers present the customer's performance to a committee at least once a month depending on the credit grading. In addition, a three-month health check is carried out on all new customers, an annual review is carried out on all customers and regular audits and customer visits are also undertaken, with their frequency determined according to the particular customer's credit grading.

The Business Credit division originates its facilities through a diverse panel of professional introducers comprising corporate financiers, accountants, private equity firms and commercial finance brokers. 31 professional introducers originated 41 facilities for the Business Credit division in the year ended 31 December 2014, with 17 professional introducers originating facilities over the period June to December 2014. The Business Credit team works closely with its network of professional introducers to make sure it is one of their preferred finance providers and is able to provide them with local support through its diverse regional footprint, with offices in Leeds, Manchester, Croydon, Birmingham, Bristol, Southampton and Cambridge. The division maintains a low average ratio of 20 customers per customer manager with the aim of fostering strong, enduring relationships and the success of this approach is reflected in the fact that Centric was ranked the number one lender in both 2012 and 2013 by professional introducers according to the Business Money Intermediary Index.

The division has the ability to fund individual transactions of up to £25 million. As at 31 December 2014, the Business Credit division had 217 customers. The average size of all of its loans for the year ended 31 December 2014 was £0.9 million, while the average size of its asset-based loans over the period from 1 January 2014 to 31 December 2014 was £1.4 million. As at 31 December 2014, the division's loans had a weighted average maturity on a behavioural half-life basis of 23 months. For the year ended 31 December 2014, the Business Credit division's sales volumes amounted to £2.8 billion.

For the year ended 31 December 2014, the Business Credit division's gross asset yield was 10.2 per cent., and its loan book had a weighted average advance rate (calculated as the average loan balance divided by average gross collateral/receivables) of 47 per cent. 0.2 per cent. of the division's outstanding balances were more than 90 days past due or impaired, and the division had an overall cost of risk of 0.3 per cent. Its contribution to the Group's overall operating profit for the year ended 31 December 2014 was £4.5 million.

### 5.1.6 Secured Lending

The Secured Lending division offers what the directors believe is one of the widest secured loan product ranges in the market for super prime, prime and near prime borrowers. The loans are generally

secured by way of second charge on the customer's primary residential property although in some cases the security may be the customer's buy-to-let residential property. Lending is provided for a wide variety of purposes, including home improvements, loan consolidation and large consumer purchases.

The loan book for the Secured Lending division was £401.3 million as at 31 December 2014.

The following table sets out the geographical distribution of the Group's Secured Lending loans as at 31 December 2014:

<u>Region</u>	<u>As at 31 December 2014</u>
	(per cent.)
Greater London .....	25.6
South East .....	28.7
North West .....	6.8
South West .....	8.9
Yorkshire & Humberside .....	4.8
Other .....	25.2
<b>TOTAL .....</b>	<b>100.0</b>

The Secured Lending division originates all of its loans via its panel of approximately 91 accredited Business Partners who provide the division with a consistent pipeline of work. Twelve of these Business Partners accounted for 67 per cent. of the division's completions for the year ended 31 December 2014. The management team for the Secured Lending division has had relationships with seven of these Business Partners for over ten years. Its Business Partners are drawn to the holistic lending proposition offered by the Secured Lending division. To help align business interests, the division has a transparent incentive structure which provides key Business Partners with opportunities for shared economics based upon the quality of the portfolio.

As at 31 December 2014, the Secured Lending division had an average loan balance of £38,000, and its loans had a weighted average maturity on a behavioural half-life basis of 46 months. The division had approximately 10,500 customers.

The division's loan originations have increased steadily from 1 January 2012 to 31 December 2014, achieving a CAGR of 25.1 per cent. over this period.

The terms of the division's loans allow the Group to exercise its rights over the property (including power of sale) if the borrower fails to comply with the material terms and conditions of its loan, subject to the rights of the lender under the first ranking charge. However, the division will only receive funds after the holder of the first ranking charge has been repaid in full.

The Secured Lending division offers loans of between £3,000 and £1 million, with the potential to offer loans exceeding £1 million in certain circumstances. The Group's Secured Lending loans are generally granted for a flexible term of up to 25 years (capital and interest only). The average charge rate (being the weighted average interest rate) on the division's loans is 9.5 per cent.

For the year ended 31 December 2014, the Secured Lending division's gross asset yield was 9.7 per cent. and its loan book had an average LTV of 61.4 per cent (taking into account the LTV of the first charge mortgage). 1.4 per cent. of the division's outstanding balances were more than three months in arrears or impaired, and the division had an overall cost of risk of 0.0 per cent. Its contribution to the Group's overall operating profit for the year ended 31 December 2014 was £19.0 million.

### 5.1.7 Consumer Lending

The Consumer Lending division is the Group's only lending division that writes unsecured loans. It provides loans for a variety of purposes, including:

- home improvement: working with selected leading national and regional home improvement companies, including Anglian Home Improvements, Betta Living and Helplink, to finance the design and installation of windows, doors, kitchens, bathrooms, solar photovoltaics and other bespoke home improvement products. Sales take place in customers' homes to homeowners;

- holiday ownership: the division has an established reputation in this sub-sector, working with carefully chosen holiday ownership companies including Diamond Resorts International and CLC World Resorts & Hotels, to offer their customers finance for vacations in resorts in the UK and Europe; and
- retail: working with in-store and online retailers, including Bang & Olufsen, Dreams and Skin Clinic, as well as dental clinics, to tailor the finance packages they offer to customers, including the provision of credit in-store or online.

In 2014, the division launched an unsecured personal loans offering to customers through a selected network of Business Partners.

The Consumer Lending division provides a broad range of loan products to its customers, including interest-bearing loans (at a fixed interest rate for the first five years, with the division then being able to re-price the loan), interest-free loans (for terms ranging from six months to four years) and “buy now pay later” loans (in which no repayments are due during an initial period, ranging from three to 12 months and, if the loan is not settled during this initial period, it is followed by a period during which the loan bears interest at a fixed rate).

All of the division’s loans are regulated under the CCA.

The loan book for the Consumer Lending division stood at £226.9 million at 31 December 2014. The following table sets out a breakdown of the Group’s Consumer Lending loan book by product category as at 31 December 2014:

<u>Product category</u>	<u>Per cent. of total loan book (as at 31 December 2014)</u>
Home improvement .....	75
Holiday ownership .....	15
Retail .....	4
Personal loans .....	6
<b>TOTAL .....</b>	<b>100.0</b>

The Consumer Lending division originates all of its loans through its Business Partners and actively manages a panel of over 110 accredited Business Partners. Business Partners in home improvement loans are managed by a team of field-based professionals and Business Partners in holiday ownership loans are managed centrally.

As at 31 December 2014, the Consumer Lending division’s average loan size was £5,300 and its loans had a weighted average maturity on a behavioural half-life basis of 34 months. The Group has approximately 40,000 Consumer Lending customers.

The division’s growth has significantly outperformed the market for the last three years: the year-on-year growth of the division’s loan originations was 1,847 per cent., 256 per cent. and 68 per cent. for the years ended 31 December 2012, 2013 and 2014 respectively, compared to year-on-year growth in the overall market of 7.3 per cent., 8.5 per cent. and 7.3 per cent., respectively, for the same periods (*source: Bank of England*). For the year ended 31 December 2014, the Consumer Lending division’s gross asset yield was 11.5 per cent., 2.8 per cent. of the division’s outstanding balances were more than 90 days past due or impaired and the division had an overall cost of risk of 2.3 per cent. Its contribution to the Group’s overall operating profit for the year ended 31 December 2014 was £5.5 million.

## 5.2 Retail Savings

The Group’s Retail Savings division focuses on building a sustainable and enduring savings franchise by providing savings customers with a straightforward, simple and efficient savings account with transparent and fair pricing. The Group continues to broaden its product range to meet customers’ savings needs while building a diverse but stable deposit base in line with the Bank’s liquidity risk appetite.

In order to deliver the Bank's retail funding strategy, the Group continues to build and maintain a stable retail deposit book consisting of variable rate long-dated notice accounts (mostly 95 – 120 days' notice) and fixed term accounts (six months to five years).

The Retail Savings division continues to develop its product offering in order to broaden and deepen relationships with existing and new customers, most recently through its introduction of a range of ISA products, both fixed term and notice, and easy access accounts. In Q1 2015, a limited easy access product offering was made available to the Group's existing customers whose term deposits had matured. A further launch to all existing customers is planned for Q2 with a full market launch in Q3 2015.

As at 31 December 2014, the Retail Savings division had approximately 57,000 customers and £2.4 billion of deposits. The division operates in a vast addressable market — in the UK, the total deposit market is approximately £1.01 trillion, of which £548 billion comprises branch deposits (*source: Bank of England*), leaving the division with an addressable market of £464 billion following its planned full market launch of ISA and easy access accounts. The division has had a steady increase in deposit balances in the three years ended 31 December 2014, achieving a CAGR of 61.9 per cent. As at 31 December 2014, the Group's loan-to-deposit ratio (calculated as loans and advances to customers divided by customer deposits at each reporting date) was 94.4 per cent. The Directors believe growth in the Group's deposits will support a loan-to-deposit ratio of 110 per cent. in the medium term. As at 31 December 2014, 85 per cent. of the Group's deposits had contractual maturities of greater than 90 days. The Group's focus on notice and fixed rate accounts that have prudent term structures provides the Group with a stable funding platform.

Over the year ended 31 December 2014, the Group sourced 73 per cent. of its deposit accounts directly through an online deposit origination platform that allows it to raise significant volumes of retail and deposits in relatively short periods of time. It also allows the Group to be flexible in its approach to funding, including tailoring maturities of deposits to manage liquidity risk, and provides a scalable model for cost-effective growth. The remaining 27 per cent. of deposit accounts were sourced through postal applications.

The Retail Savings division has a well-diversified depositor base and attracts larger average balances by actively targeting the broad savings needs of the most affluent saving segments in the UK. This focus has resulted in an average size of deposits of £39,000 for term deposits and £53,000 for notice accounts and also has the benefit of optimising administrative efficiency.

The division's total cost of funds (being its interest expense on customer deposits as a percentage of average customer deposits) has reduced by 117 basis points in the period from 30 April 2013 to 31 December 2014. The Directors expect the Group's cost of funds to further improve as its existing high-rate balances run off and the ISA and easy access products it plans to launch this year increase in volume.

The Directors believe that the following key characteristics of the Retail Savings division's account products contribute to the stability and quality of its customer deposits:

- transparent pricing, which applies to existing and new customers — the Retail Savings division does not offer bonus rates which revert to low underlying rates after a certain period and does not introduce limited product offerings available only to new customers. When re pricing existing variable rate products, the Retail Savings division clearly discloses the rates it offers compared with those offered by competitors;
- consistently competitive interest rates are offered in respect of both fixed-term and notice accounts across its distribution channels;
- clear communication with customers — the Retail Savings division has procedures in place to proactively notify existing customers when there is a change to the terms (including interest rates) which applies to their accounts;
- no automatic rollover of bonds — unlike accounts at certain other banks, the Retail Savings division's fixed rate bonds do not automatically roll over upon maturity into another same-dated account. This policy is intended to provide a higher level of fairness and transparency to customers compared to certain competitors and, alongside other product features, to

encourage longer-term relationships with customers, at fair and sustainable rates. The Directors believe this approach has supported the strong levels of customer retention achieved in the Group's savings book, which in turn reduces the average cost of customer acquisition;

- an increasingly diverse product range, which means the division's products are spread across duration, reducing concentration risk;
- a high standard of personal customer service delivery, provided by a UK-based contact centre that does not make use of interactive voice responses, talk-time targets, sales-based incentives or other features which may negatively affect the customer experience; and
- limited early withdrawals — the Retail Savings division does not in general allow early withdrawals from its deposit products, allowing the Group to more efficiently manage its liquidity risk. Certain limited exceptions are made in exceptional circumstances, mainly death or serious illness.

## **6. Credit risk management and the underwriting process**

### **6.1 Credit risk management**

The Group manages risks associated with lending through detailed credit and lending policies which reflect the approved risk profile set out in its credit risk appetite statement and which govern the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. The Group's independent internal audit function is conducted by Deloitte LLP, which provides an independent assessment of the governance, risk management and internal control frameworks operated by the Group and assesses the extent to which the Group is operating within its risk appetite.

All prospective customers are subject to the Group's standard anti-money laundering and know-your-customer reviews, undertaken by each division's lending team.

The Group seeks to mitigate credit risk by focusing on sectors where it has in-depth knowledge of both the underlying collateral and borrowers. The Group seeks to maintain a broad lending portfolio, rather than a portfolio of large loans, although certain larger exposures exist. The Group operates delegated lending mandates such that all transactions involving an aggregate exposure in excess of £2.5 million (£300,000 in the case of Secured Lending) to a single counterparty or group of connected counterparties are subject to objective overview and countersignature from at least one nominated individual who sits outside of the business division (being the Chief Executive Officer, Chief Risk Officer, Head of Credit or Senior Manager, Group Credit). Any exposure in excess of £4.0 million (£500,000 in the case of Secured Lending) is reviewed by a credit approval committee chaired by the Chief Executive Officer or an approved deputy and of which there are a number of standing members and a number of members who sit for specific cases by rotation. Loans in the Consumer Lending division are subject to an absolute maximum of £50,000 with referral outside the division required for non-standard decision referrals above £25,000. The Group's credit approval committee meets twice weekly, or more frequently if required, and also deals with amendments and reviews for substantial credits.

The Head of Credit in each lending division reports directly to the Chief Risk Officer. All credit management information is reported monthly to the Group Credit Committee, which is chaired by the Chief Risk Officer, with the Chief Executive Officer and Chief Financial Officer as members. Non-Executive Directors may also attend meetings.

The Group has a strong record of customer payment with, for example, only 0.8 per cent. of its loans more than 90 days past due or impaired as at 31 December 2014.

For further details on the Group's approach to credit risk, see Section 6.2 of Part XIII (*Risk Management*).

### **6.2 The underwriting process**

#### **6.2.1 Commercial Mortgages**

The underwriting process in the Commercial Mortgages division requires all loans to be manually underwritten to address the unique circumstances of each customer. The division's valuation process is independently managed by a specialist panel manager and is audited on a regular basis. The

underwriting process commences with Business Partners interacting with the division's sales desk at the enquiry stage or submitting an application in principle to the market-specific lending teams.

The first stage of the underwriting process is carried out using the application form and the customer's personal and business credit profile. The division maintains a strict LTV discipline, with loans limited to a 75 per cent. maximum LTV (net of fees). The vast majority (98 per cent. for the year ended 31 December 2014) of loans are assessed within 72 hours, and an indicative offer is made subject to valuation and more detailed application information or the application is declined. The division received applications for loans totalling £2.9 billion in the year ended 31 December 2014, but only originated loans totalling £550.9 million.

The division has a panel of valuers who are audited and approved to provide independent valuations to the Group. The division's panel manager allocates a Business Partner's application to an approved valuer who then conducts a valuation for the benefit of the Group and independently of the customer. Upon receipt of the valuation together with bank statements and other supporting information a formal mortgage offer is provided or the case is rejected, as appropriate. An established protocol of delegated lending mandates is in place in line with the group competency framework.

Once the customer accepts the formal offer (if made), the division will instruct independent law firms the Group has partnered with on conveyancing matters to prepare a report on title for the security being taken. The division will require the customer to have separate legal representation in certain cases if they would be deemed to potentially be at risk, for example, in the case of a non-active partner in a business who was a legal owner of the property security. However, the division will not rely on the customer's solicitor to provide the report on title. The Commercial Mortgages division makes use of a title insurance product in certain cases to expedite the conveyancing process by reducing the number of title checks which need to be carried out.

The lending officer assigned to the case will often carry out a detailed interview with the customer, which is recorded, prior to completion to confirm key points of the loan. The lending managers and more senior mandate holders will, for higher value loans/exposures or where the underwriter otherwise determines it to be appropriate, conduct a more detailed face-to-face or telephone interview with the customer. There are quality control processes in place for every loan before offer and completion.

Affordability tests are carried out in all cases. Within the mortgage products, these tests are based on a stressed interest rate which is linked to the maturity of the loan. A customer's other financial commitments will also be stress-tested using an increase in interest rates. In addition to these tests, the underwriters will review the customer's wider property portfolio to consider the level of overall indebtedness and the interest cover available in a higher interest rate environment.

### **6.2.2 Asset Finance**

Day-to-day underwriting is handled within each of the Asset Finance product lines with local underwriters reporting to the product line directors of each business. All the product line directors are involved in day-to-day underwriting with ownership of each of their portfolios. All single debtor exposures requiring approval and/or amendments in excess of £300,000 are referred into an Asset Finance central credit risk function. In addition, all loans over £150,000 have quality assurance performed by the Asset Finance central credit risk team.

The Asset Finance risk function is led by a director of risk management, assisted by two credit risk managers. Together they have over 50 years of asset finance experience in credit and risk roles. The other senior underwriter (for exposures above £300,000) is the managing director of Asset Finance, who reviews all large exposures entered into by the Asset Finance division.

Exposures of up to £1,000,000 will normally be considered by an Asset Finance credit committee and are required to be authorised by two approved signatories.

Specific product lines have their own underwriting rules, but the following principles are applied across all business areas:

- Customers — the Asset Finance division seeks a deep understanding of customers' businesses, considering not just their financial information but past history and experience, to make a thorough assessment of affordability.

- Collateral and valuations — the Asset Finance division provides funds over less than the useful working life of the assets and the loan amortisation profile is generally ahead of the depreciation curve of the asset, ensuring loans are asset-secure throughout the life of the loan. The Asset Finance division only finances collateral it has deep knowledge of and will validate asset valuations using trusted external valuers. Importantly, the division seeks to understand at the outset the likely exit routes should unexpected circumstances occur and an asset need to be repossessed.
- Structure and profile — structuring deals in a way which gives the Asset Finance division asset security and covers downside risks.
- Ancillary security — mitigating risks by taking guarantees (from individuals or group companies) or other ancillary protection such as landlord's waivers, debentures, and buybacks to support the commitment from the borrower.
- Audits and monitoring — the Asset Finance division regularly visits and audits customers, particularly on larger exposures with multiple assets, vehicle rental companies and block and wholesale customers where there will also be formal collateral and performance covenants in place which are monitored. The Asset Finance team works closely to support its customers if it appears probable that they will breach their repayment terms.

The Asset Finance division does not take residual value risk other than in respect of its healthcare operating leases to the NHS. As at 31 December 2014, the division's total residual value position on NHS healthcare operating leases was £18 million.

### 6.2.3 Business Credit

New business underwriting is undertaken in-house with highly experienced underwriters who report directly to the division's head of underwriting who reports in turn to the division's chief credit officer. The underwriting process takes place independent of origination. Typically, three to four representatives from the division will conduct an initial face-to-face meeting with all new customers on-site at the customer's business and will arrange follow-up meetings over the life of the facility so as to encourage a close, deep relationship with customers and smooth handover to the assigned customer manager.

The Business Credit division holds daily internal calls to discuss proposals, which allows it to provide prospective customers with an outline of terms within 48 hours of a prospective customer's first meeting with a representative from the division.

Facilities are underwritten on a delegated authority matrix based upon size and structure of facilities. Sole underwriting mandates do not apply as all transactions, irrespective of size and complexity, are underwritten by a minimum of two people across the underwriting department, such as head of risk, chief credit officer and managing director. A manager sponsors all prospects and, at a minimum, either the chief credit officer or head of underwriting will be a signatory to all transactions in excess of £750,000.

In reaching an underwriting decision, a collateral review of an SME's accounts receivables will be undertaken by the division's Audit and Survey department. All other asset appraisals are commissioned by the division from an established panel of third party professional advisers. Receivables audits are undertaken regularly through the life of the customer relationship and appraisals against other asset classes are typically undertaken at least annually.

Finance provided by the Business Credit team will usually be supported by full debenture security from the customer and similar security from other companies within the customer's corporate group. Additional security may be taken in the form of personal guarantees from shareholders or directors of the customer's business.

In addition to the collateral, the following considerations are fundamental to the division's decision to underwrite:

- ownership/third party investment;
- quality of management;

- the company's position within its market; and
- the company's liquidity/debt service capacity considering the businesses' historical performance against forecasts.

With the exception of cash flow loans, which are fundamentally written against the financial standing of the customer and often include a formal financial due diligence report as part of the analysis, all facilities are directly collateralised by assets which are considered to be capable of realising sufficient value to recover the advance made against that class of asset. All facilities are advanced under one master finance agreement such that over-recovery against a particular class of collateral may be used to offset any shortfall in another class.

All legal matters associated with the preparation of documents and registering of security are undertaken by external legal advisers.

#### **6.2.4 Secured Lending**

As with the Group's other lending divisions, the Secured Lending division adopts a transparent and rigorous approach to underwriting. The division uses a credit score alongside clear policy rules and manual assessment. The division has a limited number of mandate holders, including its managing director who regularly underwrites loans.

Secured loan applications are submitted to the Secured Lending division's web portal by Business Partners on behalf of their customers. Applications are either declined, accepted (subject to further information required) or referred to the Secured Lending division's sales team, who will contact the Business Partner to discuss the application further. If the application is likely to be accepted, the division's sales team will refer the application to one of the Secured Lending division's underwriters who will manually underwrite the case within the Group's lending policy.

Once the customer has signed the relevant documentation, depending on the requirements imposed by the Group, a valuer (from the Group's panel) will be instructed and the Business Partner will obtain a mortgage questionnaire and any other documentation which the Group may require such as pay slips, accountants' references, bank statements, or settlement quotes for any credit to be settled. The division only uses automated valuation models on smaller loans with low LTVs — in all other cases a "drive by" visual inspection of the property or a full valuation is carried out. Once the division has received this information, the case is assessed once more by one of the Secured Lending team's underwriters. If the information is complete and the transaction is within the Group's lending criteria, the loan is agreed and independent law firms the Group has partnered with on conveyancing matters are instructed to effect the legal completion and dispatch of funds. Any transaction over £300,000 must be approved by the Chief Executive Officer, Chief Risk Officer, Head of Credit or Senior Manager, Group Credit. Loans over £500,000 must be approved by the Group's Credit Approval Committee.

In making their assessments on applications, the division's underwriters consider a number of factors including: the LTV ratio, the valuation report and condition of the property and the affordability of the loan. Loans are limited to a 95 per cent. maximum LTV (after giving effect to the first charge mortgage) and this maximum will only be permitted for customers who have received a very high credit score. Loan affordability is measured by reference to a number of factors, including: an income and expenditure assessment on the basis of both the interest rate applying to the Secured Lending product and of the interest rate which applies to the first charge stressed to reflect an increase in interest rates, the status report from the credit reference agency, including the review of credit performance, the repayment profile of the first charge, the credit score and the loan to income ratio (being the total secured debt as a multiple of annual income) and the purpose of the loan (including, in the case of loan consolidation, whether the customer's financial position is improved in terms of their credit outgoings after the loan is set up). The division's underwriters ensure the loan is written on the correct plan based on the criteria above and take account of whether the application is within the Group's risk appetite and provides a good financial outcome for the customer.

In every case, prior to completion, a member of the Secured Lending team carries out a recorded telephone conversation with all parties to the loan on a separate, individual basis to go through all the information supplied, to confirm they understand the terms and conditions of the loan, and to establish that each party has signed all the requisite documents.

Where a borrower takes a loan to consolidate other third party debts such as credit card debt, the division ensures that the purpose of the loan is fulfilled by settling these debts directly with the other lenders.

#### **6.2.5 Consumer Lending**

In Consumer Lending, the underwriting process is initiated by the submission of an application either directly to the division's paperless e-signature solution or keyed into a web portal where a paper application form has been used. Personal loans can be submitted electronically through an interface direct from a Business Partner's own system. Irrespective of delivery mechanism, an applicant's details are assessed using the Group's proven scorecard and detailed policies and procedures. FCA guidance on affordability assessments and responsible lending is reflected in the division's approvals process.

In the case of the majority of applications, an automated decision is made by the division's scorecard. All other applications are referred to the Consumer Lending division's team of underwriters for a manual assessment. The decision to refer an application to an underwriter for manual assessment is made based upon a series of risk-based policy rules which trigger the requirement for a manual review. There is also scope for automated decisions to be reviewed by the division's underwriting team and discussed further with the applicant. The division considers its ability to talk through decisions, gather additional information and be pragmatic to be key points of differentiation from its competitors. As in other business divisions, credit approval mandates are tiered on the basis of loan size and asset category. If a transaction is larger than the underwriter's credit mandate, it will be referred to a more senior underwriter.

Automated processes used by the Consumer Lending division are continually reviewed and adapted to enhance their predictive accuracy.

### **7. Information technology and intellectual property**

The Group's in-house IT department delivers a centralised IT service across all the business divisions covering infrastructure, application software and data. The IT team provides in-house development and support as well as working with suppliers of third party applications on a day-to-day basis. Alongside the change management function, the IT team is also responsible for delivering significant developments on a project by project basis.

The Group relies on its modern and stable IT platform to deliver a cost-effective and flexible platform capable of expansion.

The Group's IT systems are based on enterprise (service oriented) architecture principles, which encompass systems and components sourced both externally from third party suppliers or developed internally by the development team. This enables the Group to deploy the most appropriate software addressing key selection criteria including scalability, functionality, reusability and efficiency. Decisions to develop software internally have been driven by the fact that the software is not available from third parties with functionality specific to the Group's approach. Where third party providers cannot meet the Group's demands, the Group's IT team will work to develop systems that support the Group's requirements and that can be integrated with the systems and processes of its Business Partners, helping to strengthen relationships and encourage repeat business.

An example of the Group's product innovation can be seen in the Secured Lending division's DJ System, which was developed with and for Business Partners and provides a hub and an origination/underwriting system which helps Business Partners process applications while streamlining the Group's own internal processes.

The Directors appreciate that the availability and stability of the IT platform is critical to achieving the Group's growth strategy as it develops its customer proposition, expands its product franchise and develops its overall market profile. Given the importance of the Group's IT infrastructure to its future growth, the Group continues to invest in technology and data capability across various channels including online and telephone, with a focus on digitisation and process automation. In 2015, the Group will complete re-platforming of the Asset Finance business following investments to develop the IT infrastructure.

The Group is committed to continually enhancing its digital capabilities — it has a team of more than 40 full-time employees working to deliver strategic change, primarily focusing on the areas of re-platforming, operational excellence, control and regulatory compliance.

While the Group's existing IT systems provide a highly resilient infrastructure, the Group has a business continuity plan to help manage the consequences of a business continuity event, utilising a virtualised server farm at a data recovery site. In addition, the Group has disaster recovery plans in place which are regularly monitored and tested.

The Group relies on third parties to provide IT services and software licences. Key external suppliers include Netsol, Sopra, Sun, Sungard, Target and Welcom.

For risks relating to the Group's IT arrangements, see "*The Group is dependent on its IT systems, which are subject to potential disruption or failure*" in Part II (*Risk Factors*).

## **8. Dividend Policy**

The Directors believe the Group's attractive long-term growth prospects will support a dividend policy which reflects the strength of the Group's capital position and business. Based on the Directors' anticipated growth profile for the Group, the Directors are targeting a modest maiden dividend in respect of the financial year ending 31 December 2016, rising to a target of 30 per cent. of post-tax statutory profits in respect of the financial year ending 31 December 2017, with a progressive policy thereafter.

The ability of the Company to pay dividends is dependent on a number of factors and there is no assurance that the Company will pay dividends or, if a dividend is paid, what the amount of such dividend will be.

## PART VIII — DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

### 1. Directors

The current members of the Board are:

Name	Position	Age
Sir George Mathewson, CBE	Chairman and Non-executive Director	75
Richard Pyman	Chief executive officer and Director	46
Tom Wood	Chief financial officer and Director	42
Graham Alcock	Non-executive Director	66
Robin Ashton	Non-executive Director and SID	57
Lindsey McMurray	Non-executive Director	44
Roger Lovering	Non-executive Director	55

The business address of each Director is: Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, CM13 3BE, Essex.

*Sir George Mathewson, CBE*, 75, currently serves as Chairman and Non-Executive Director of the Company. Sir George is also a non-executive director of Arrow Global Group PLC, having previously served as chairman of its board. He served as the chief executive officer at the Scottish Development Agency from 1981 to 1987 and worked at 3i Group plc (formerly the ICFC) from 1972 to 1981. Prior to 1972, he spent five years in the United States as a professional engineer at Bell Aerospace Services, Inc. He joined The Royal Bank of Scotland Group plc in 1987 as a director of strategic planning and development. In January 1992, he was appointed as the group chief executive officer and following the acquisition of NatWest he was appointed as an executive deputy chairman in 2000 and chairman in 2001, retiring in 2006. In 1995 he served as the president of the International Monetary Conference. In 1999 he was knighted in the New Year honours list for services to economic development and banking. He completed degrees in mathematics and applied physics at St Andrews University in 1961.

Sir George has been Chairman since the Group's formation in 2011. Having been with the Company for over four years, Sir George will remain as Chairman through Admission and has announced that he will step down once a suitable successor has been identified.

*Richard Pyman*, 46, currently serves as the Company's Chief Executive Officer and as a Director. He has been the Chief Executive Officer of Shawbrook Bank since April 2014. Previously, Richard was managing director of Singers Asset Finance, a role that he held since 2005. He held positions on the banking side of SFFL from 1991 to 2004, including head of credit from 2000 to 2004. During his time as managing director of Singers Asset Finance, Richard led three acquisitions and one divestment, as well as completing Singers Asset Finance's AAA-rated securitisation in 2010. Richard is also a non-executive director of Weatherbys Bank Limited and Arkle Finance Limited. He holds an MA in Modern and Medieval Languages from Cambridge University and an MBA from City University Business School.

*Tom Wood*, 42, currently serves as the Chief Financial Officer of the Company and as a Director. Tom has significant experience in banking and financial management. Prior to joining the Group in 2012, Tom was the Finance Director of NBNK Investments plc and group CFO of Skipton Group. He began his career in financial services with Barclays where he held a number of senior roles in finance, risk and corporate development. Subsequently he was Group CFO of Derbyshire Building Society playing a key role in its merger with Nationwide, and played a leading role in the restructure of Northern Rock in 2009. He is ACA qualified and holds a LLB (Hons) in International Law from Glasgow University.

*Graham Alcock*, 66, currently serves as a Non-Executive Director of the Company and has been with the Group for eight years, having been a Non-Executive Director of Whiteaway Laidlaw Bank. Graham is an experienced corporate banker, having spent 37 years in a variety of senior posts with Royal Bank of Scotland plc prior to his retirement in 2005, when he was senior director of commercial banking for the Manchester region.

*Robin Ashton*, 57, currently serves as a Non-Executive Director and the SID of the Company. Robin has been a non-executive director of Leeds Building Society since April 2011 and its chairman since

March 2013. He is also a non-executive director of Non-Standard Finance plc. Robin spent 24 years at Provident Financial plc, joining the Board in 1993, initially as finance director, then deputy chief executive in 1999 and as chief executive in 2001, leaving in early 2007 prior to the demerger of Provident's international business. During his tenure as chief executive he oversaw the expansion of Provident's international business into six countries and its progression from start-up loss to a substantial profitable business. Robin was also involved in the establishment in 2003 and subsequent development of Vanquis Bank, now Provident Financial's most profitable business. Robin then spent a year as chief executive of London Scottish Bank plc. He has also been non-executive chairman of Apple Holdco Limited, the original holding company for what is now Shawbrook Bank Limited's Secured Lending business, and was a non-executive director of Albemarle & Bond Holdings PLC (A&B) for 13 months from October 2012 where he played a significant role trying to recapitalise the business. He resigned from A&B in November 2013 prior to the business being sold via an administration in March 2014. Robin has extensive experience in retail financial services in both the U.K. and internationally. He is ACA qualified (1982) and holds a Bachelor of Arts (Hons) in Economics and Law from Durham University (1979).

*Roger Lovering*, 55, currently serves as a Non-Executive Director of the Company. Roger is also a Director of Caswell Consultancy Limited. Previously, Roger was chief executive officer at Santander Cards UK Limited, head of European cards at HSBC and chief operating officer and director at HFC Bank Limited. He is a member of ICAEW and has a degree in Accountancy and Financial Analysis from Warwick University.

*Lindsey McMurray*, 44, currently serves as a Non-Executive Director of the Company as a Representative Director of the Major Shareholder. Lindsey is managing partner of private equity fund manager Pollen Street Capital, an affiliate of the Major Shareholder. Pollen Street Capital is an independent private equity manager that focuses on investing in high quality financial services businesses across Europe. Lindsey has over 15 years of experience as a private equity investor with a particular focus on the financial services sector. Prior to her time at Pollen Street Capital she was head of RBS Equity Finance where she led the management of the RBS Special Opportunities Fund, a £1.1 billion private equity fund. Prior to this she was at Cabot Square Capital, Ltd. for six years where she was a partner. She is also currently a non-executive director of Pollen Street Capital Limited. She holds a first class honours degree in Accounting and Finance from Strathclyde University.

## 2. The Board

The Company is led and controlled by the Board. The names, responsibilities and details of the current Directors appointed to the Board are set out above.

## 3. Senior Managers

The Company's current Senior Managers are as follows:

Name	Position	Age
Richard Pyman .....	Chief Executive Officer .....	46
Tom Wood .....	Chief Financial Officer .....	42
Paul Hedges .....	Interim Chief Risk Officer .....	53
Stephen Johnson .....	Managing Director, Commercial Mortgages .....	38
Jim Cannon .....	Managing Director, Asset Finance .....	60
John Onslow .....	Managing Director, Business Credit .....	57
Philip George .....	Managing Director, Secured Lending .....	64
Nick McAuliffe .....	Managing Director, Consumer Lending .....	46
Simon Furnell .....	Managing Director, Savings and Outsourced Services .....	51
Daniel Rushbrook .....	Legal Director and Company Secretary .....	45
Claire Withey .....	Human Resources Director .....	48
Nick Ellis-Calcott .....	IT Director .....	40
Tommy Wight .....	Head of Change .....	35

*Richard Pyman*

See — “Directors” above for Richard Pyman's biography.

*Tom Wood*

See — “*Directors*” above for Tom Wood’s biography.

*Paul Hedges*

Paul has an extensive background in credit risk and problem loan management with underwriting experience across a wide spectrum of sector and asset classes over an extended period through different economic cycles. Paul joined the Group in January 2014 as Head of Group Credit Risk and was appointed Interim Chief Risk Officer in February 2015. Prior to joining the Group Paul was Head of Corporate and Institutional Risk at BAWAG PSK Vienna (which is owned by Cerberus Capital Management) and spent 17 years at Royal Bank of Scotland plc in various risk management roles, most recently as Managing Director, Portfolio Management of its Corporate and Institutional Banking Division. Paul is an Associate of the Chartered Institute of Bankers and has completed the Harvard Business School Senior Manager Programme, the RBS Emerging Leaders Programme and the INSEAD Inter-Alpha Banking Programme.

*Stephen Johnson*

Stephen is a qualified chartered accountant with over twelve years’ experience in building specialist lending businesses, primarily with operational and commercial experience of the UK intermediary market. Stephen was part of the founding team at Commercial First and established a key profile in the intermediary market with a number of the significant loan distributors and wider IFA and mortgage networks.

*Jim Cannon*

Jim has been in the finance industry for 36 years. He started his career with Bowmaker and worked for a small number of finance companies (including Hitachi) before joining SFFL 20 years ago to establish block discounting. In 2005, Jim became CEO of Singers Corporate Asset Finance, Managing Director of the Corporate division of Asset Finance in 2013, and most recently Managing Director of Asset Finance in 2014.

*John Onslow*

John has over 30 years’ experience in the banking industry. John is the former Chairman of the Asset Backed Finance Association and is a member of its executive committee. John joined the Group in 2014, following the acquisition of Centric. Previous roles include Chief Risk Officer and Chief Operating Officer at GE Commercial Finance. Prior to this John spent a number of years with NMB Heller as Operations Director, Underwriting Director and Divisional Managing Director.

*Philip George*

Prior to joining the Group Philip was Managing Director of Commercial First Mortgages since 2003. In 2009, Philip also became Managing Director and co-founder of Link Loans Ltd, a prime secured loan lender. Prior to joining Commercial First Mortgages, Philip, a qualified banker, had been the Managing Director of First National Bank — the leading finance house and specialist lending arm of Abbey National plc. His career with First National spanned over 30 years, culminating in becoming Managing Director in 1997 and CEO in 2000.

*Nick McAuliffe*

Nick has 20 years’ experience in the finance industry, having worked across a number of high profile organisations including Commercial First Mortgages, GE Capital and First National Bank. With extensive commercial knowledge and a strong background in B2B sales and operations, Nick has held executive roles as COO of the Group, Sales Director and General Manager at GE as well as e-commerce Manager at First National Bank.

*Simon Furnell*

Simon has extensive banking and financial services experience in operations, establishing and leading outsourced service provision, service and operational transformation programmes across a range of

product divisions and financial institutions. Simon joined the Group in 2014 having previously directed major business transformation programmes at both Barclays and Barclaycard. His previous roles include Call Centre Director, Customer Services Director and Change Director in various divisions of the Lloyds Banking Group.

#### *Daniel Rushbrook*

Daniel holds a law degree from Oxford University and a Masters law degree from the University of Pennsylvania. He qualified as a solicitor in 1995 and worked in commercial private practice in the City for nine years, first with Linklaters LLP then Macfarlanes LLP. In 2004, he became the first in-house lawyer for Commercial First Mortgages Limited, joining its Board as Legal Director a year later. Daniel transferred to the Group in 2011, as part of the Commercial First Mortgages management team.

#### *Claire Withey*

Claire began her career at the Bank of England. She then went on to hold various human resources positions, UK and global, with a number of organisations including AMEC Group plc, Atos Origin, KPMG, Barclays, and Commercial First Mortgages. She also has an array of experience working with SMEs and start-up businesses, recently implementing strategy to guide the Group through a number of merger and acquisition activities.

#### *Nick Ellis-Calcott*

Prior to joining the Group, Nicholas was part of the founding team of Commercial First Mortgages as IT Director. He was responsible for the implementation and administration of all IT systems and infrastructure, and played a key role in the launch of the first commercial mortgage application portal 'Cfirst', a platform that received industry wide accolades. He has worked on a number of million pound projects and has a track record of building highly available and highly resilient systems and infrastructures.

#### *Tommy Wight*

Tommy Wight joined the Group in January 2013 as Head of Change. Prior to joining the Group Tommy held a number of senior IT and change management roles at financial institutions, including the roles of IT Delivery Manager at Deutsche Bank, Programme Manager at NBNK Investments plc and Change Manager at Royal Bank of Scotland Group. Tommy has a BA (Hons) in Business & Information Management from Glasgow Caledonian University.

### **4. Corporate governance**

The Board is committed to the highest standards of corporate governance. It is expected that, shortly following Admission, the Board will comprise 7 members, consisting of the Chairman, 3 independent Non-Executive Directors, 2 Executive Directors and 1 Non-Executive Director who is not regarded as independent for the purposes of the UK Corporate Governance Code published by the Financial Reporting Council in September 2012 (the "**UK Corporate Governance Code**"). The Board regards Sir George Mathewson, CBE, as Chairman, as independent upon his appointment and regards Graham Alcock, Robin Ashton and Roger Lovering as independent Non-Executive Directors for the purposes of the UK Corporate Governance Code. The Board intends to appoint Robin Ashton to be the Company's SID, such appointment to take effect upon Admission. Lindsey McMurray, as a Representative Director nominated by the Major Shareholder, is not regarded as independent for the purposes of the UK Corporate Governance Code.

From Admission the Company will comply, and intends to continue to comply, with the requirements of the UK Corporate Governance Code, which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

The UK Corporate Governance Code recommends, in the case of a FTSE 350 company, that at least half the board of directors (excluding the chairman) should comprise 'independent' non-executive directors, being individuals determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors.

Where a company is outside the FTSE 350, the UK Corporate Governance Code recommends that the board of directors comprises at least two 'independent' non-executive directors. As at the date of this Prospectus, the Company, which expects to be included in the FTSE 350 following Admission, complies with the recommendations of the UK Corporate Governance Code concerning the number of independent non-executive directors the Company should have.

The Company continues its search for additional independent non-executive directors and expects to appoint additional non-executives when suitable candidates are identified.

#### **4.1 Audit, Remuneration, Nomination and Disclosure Committees**

As envisaged by the UK Corporate Governance Code, the Board has established Audit, Remuneration, Nomination and Disclosure Committees. The Board has also established a separate Risk Committee.

##### **(A) Audit Committee**

The Audit Committee has responsibility for, among other things, the monitoring of the integrity of the financial statements of the Group and the involvement of the Group's auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The Audit Committee holds bi-monthly meetings and at such other times as required. It normally meets the external and internal auditors at least once a year. In particular, the Audit Committee meets with the external auditor at least once during the planning stage and once during the reporting stage of the audit cycle.

The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, as mentioned above, together with the requirements of any quorum for, and the right to attend, meetings. The categories of responsibility of the Audit Committee covered in the terms of reference are: external audit, internal audit, financial reporting, narrative reporting and internal controls. The terms of reference also set out the authority of the committee to carry out its responsibilities.

The UK Corporate Governance Code recommends that the Audit Committee comprises at least three members who are all independent non-executive directors (two in the case of companies outside the FTSE 350) and includes one member with recent and relevant financial experience. In a company outside the FTSE 350, the chairman may be a member of (but may not chair) the committee so long as he was considered independent on appointment as chairman. From Admission, the Audit Committee will comprise three members who are independent Non-Executive Directors (Robin Ashton, Graham Alcock and Roger Lovering). The Audit Committee will be chaired by Roger Lovering.

##### **(B) Risk Committee**

The Risk Committee has responsibility for, among other things, advising the Board on the Company's overall risk appetite and strategy. The Risk Committee will review the Company's risk assessment processes and methodology and its capability for identifying and managing new risk, alongside advising on proposed transactions and reviewing reports on material breaches of risk limits.

The Risk Committee holds bi-monthly meetings and at such other times as required. The Risk Committee meetings are held, where possible, alongside the Audit Committee meetings so as to ensure that the work of the two committees is coordinated and consistent.

The terms of reference of the Risk Committee cover such issues as membership and the frequency of meetings, as mentioned above, together with the requirements of any quorum for, and the right to attend, meetings. The terms of reference also set out the authority of the committee to carry out its responsibilities.

From Admission, the Risk Committee will comprise three members who are independent Non-Executive Directors (Robin Ashton, Graham Alcock and Roger Lovering). The Risk Committee will be chaired by Robin Ashton.

### **(C) Remuneration Committee**

The Remuneration Committee has responsibility for the determination of specific remuneration packages for each of the Chairman, the Executive Directors and certain senior executives of the Group, including pension rights and any compensation payments, and recommending and monitoring the level and structure of remuneration for senior management, and the implementation of share option, or other performance-related schemes. It meets at least four times a year.

The terms of reference of the Remuneration Committee cover such issues as membership and frequency of meetings, together with the requirements for quorum and the right to attend meetings.

The responsibilities of the Remuneration Committee covered in its terms of reference relate to the following: determining and monitoring the remuneration policy (such policy to be subject to a binding shareholder vote) and determining, within the parameters of that policy, levels of remuneration, early termination, performance-related pay, pension arrangements, authorising claims for expenses from the Chief Executive Officer and Chairman, reporting and disclosure, share schemes, clawback, shareholder and employee consultation and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the committee to carry out its responsibilities. The Remuneration Committee will be required to produce complaint statements relating to the remuneration policy and the implementation of that policy for the Group's annual report.

The UK Corporate Governance Code recommends that the Remuneration Committee comprises at least three members who are all independent non-executive directors (two in the case of companies outside the FTSE 350) one of whom may be the chairman (but who may not chair the Remuneration Committee). From Admission, the Remuneration Committee will comprise the Chairman of the Board, Sir George Mathewson, CBE, and two other independent Non-Executive Directors, Graham Alcock and Robin Ashton. Pursuant to the Relationship Agreement, the Major Shareholder will have the right to nominate an observer to attend meetings of the Remuneration Committee. The Remuneration Committee will be chaired by Graham Alcock.

### **(D) Nomination Committee**

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary.

Furthermore, the Nomination Committee is required to ensure that the evaluation of the Board is externally facilitated at least every three years.

The Nomination Committee's terms of reference deal with such items as membership, quorum and reporting responsibilities. It also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future. The Nomination Committee will meet at least four times per year.

The UK Corporate Governance Code recommends that a majority of the members of the Nomination Committee should be independent non-executive directors. The committee should be chaired by the chairman or an independent non-executive director. From Admission, the Nomination Committee will comprise the Chairman of the Board (Sir George Mathewson, CBE) and two other independent Non-Executive Directors (Graham Alcock and Robin Ashton). Pursuant to the Relationship Agreement, the Major Shareholder will have the right to nominate an observer to attend meetings of the Nomination Committee. The Nomination Committee will be chaired by Sir George Mathewson, CBE.

### **(E) Disclosure Committee**

The Disclosure Committee will, shortly after Admission, be made up of Richard Pyman (Chief Executive Officer), Tom Wood (Chief Financial Officer), Daniel Rushbrook (Legal Director and Company Secretary) and the other Senior Managers. The Disclosure Committee will meet at such times as may be necessary or appropriate.

The Disclosure Committee is responsible for monitoring, evaluating and enhancing disclosure controls and procedures of the Group. In particular, responsibilities set out in the terms of reference include the identification of inside information and maintenance of insider lists, the design, implementation and evaluation of disclosure procedures and the resolution of any questions concerning the materiality of certain information. The Disclosure Committee is also required to help the Company and the Group to make timely and accurate disclosure of all information where disclosure is required to meet legal and regulatory obligations.

The terms of reference of the Disclosure Committee cover issues such as membership and frequency of meetings, together with the requirements for a quorum and the right to attend meetings.

## **5. Securities Dealing Code**

From Admission, the Company shall require the Directors and other persons discharging managerial responsibilities within the Group to comply with the Model Code, and shall take all proper and reasonable steps to secure their compliance. Such steps shall include the introduction of a code for dealing in securities applicable to relevant individuals and the monitoring of such individuals' compliance with that code.

## **6. Risk Management Framework**

The overall risk appetite of the business is set by the Company's Board and is embedded throughout the business through a structured approach to risk management. The Group takes a rigorous approach to identifying, assessing, classifying and reporting on risk, further details of which can be found in Part XIII (*Risk Management*).

## **7. Takeover Regulation**

The City Code is issued and administered by the Takeover Panel. The Company will, following Admission, be subject to the City Code and, therefore, its Shareholders will, following Admission, be entitled to the protections afforded by the City Code.

Under Rule 9 of the City Code when: (i) a person acquires an interest in shares, which (taken together with shares in which he and persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company subject to the City Code, or (ii) any person who, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of a company, but does not hold shares carrying more than 50 per cent. of the voting rights of the company subject to the City Code, and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of the shares carrying voting rights in which he is interested, then, in either case, that person, together with the persons acting in concert with him, is normally required to extend offers in cash, at the highest price paid by him (or any persons acting in concert with him) for shares in the company within the preceding 12 months, to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights. After Admission, and for so long as the Major Shareholder holds more than 50 per cent. of the voting rights in the Company, the Major Shareholder will be able to increase its aggregate holding in the Company without triggering the requirement to make a cash offer for the outstanding shares in the Company.

## PART IX — SUPERVISION AND REGULATION

### 1. European Union Legislation

The regulatory framework for banking and financial services within the UK is shaped to a large degree by legislation emanating from the EU. Regulations of the EU apply directly in Member States while directives are required to be implemented into national law by Member States. The following key items of current and proposed EU legislation have particular relevance for the Group.

#### 1.1 Capital Requirements Regulation and Directive

The Basel Committee on Banking Supervision introduced significant changes to the existing capital requirements framework for banks in 2011 to 2013. The intention of these new capital and liquidity requirements was to reinforce capital standards, with heightened requirements for global systemically important banks, and to establish minimum liquidity standards for credit institutions. The changes (referred to as the “**Basel III reforms**”) include new requirements for a bank’s capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (the “**Liquidity Coverage Ratio**” and the “**Net Stable Funding Ratio**” respectively).

It is intended that Member States will implement the new capital standards and the new Liquidity Coverage Ratio as soon as possible (with provisions for phased implementation, meaning that the measures will not apply in full until January 2019), and the Net Stable Funding Ratio from January 2018.

The Basel Committee on Banking Standards is currently consulting on revisions to the standardised approach for credit risk. The main proposals are to introduce a “risk drivers” approach to some types of credit risk, with these risk drivers determining the standardised risk weights. For example, corporate exposures will no longer be risk-weighted by reference to the borrowing firm’s external credit rating, but will instead be based on the firm’s revenue and leverage; and similarly, bank exposures will no longer be risk-weighted by reference to the bank’s external credit rating or that of its sovereign of incorporation, but will instead be based on two “risk drivers” (namely the bank’s capital adequacy and its asset quality). The consultation period closes on 27 March 2015.

The Basel III reforms have been implemented in the EU by the Capital Requirements Regulation (the “**Capital Requirements Regulation**”) and the associated Capital Requirements Directive (the “**CRD IV Directive**”, known together with the Capital Requirements Regulation as “**CRD IV**”) which were adopted by the European Parliament and European Council on 26 June 2013. CRD IV substantially reflects the Basel III capital and liquidity standards. CRD IV introduced new capital limits and buffers for banks, and includes a requirement to hold CET1 capital to account for capital conservation, countercyclical and systemic risk buffers. CRD IV also established rules on the remuneration of bank staff. Certain further details remain to be clarified in binding technical standards, reports and guidelines to be issued by the European Banking Authority. CRD IV entered into force on 1 January 2014 although many provisions will be phased in over time, with full implementation of CRD IV required by January 2024. However individual Member States may implement the stricter requirements of contributing instruments and/or implement increases to the required levels of capital more quickly than envisaged. As a regulation, the Capital Requirements Regulation is directly effective in all Member States.

#### 1.2 Consumer Credit Directive

In April 2008, the European Parliament and the Council of the European Union adopted a second directive on consumer credit (Directive 2008/48/EC) which provides that, subject to exemptions, loans not exceeding €75,000 will be regulated. This directive repealed and replaced the first consumer credit directive and required Member States to implement the directive by 11 June 2010.

#### 1.3 European Market Infrastructure Regulation (“EMIR”)

EMIR was adopted by the European Parliament and European Council on 4 July 2012. EMIR provides for certain over-the-counter derivative contracts to be submitted to central clearing and imposes,

among other things, margin posting and other risk mitigation techniques, reporting and record keeping requirements. The clearing requirements are expected to be phased in from late 2014/early 2015, the margin requirements are expected to be phased in from 2015 and certain reporting obligations are already in force.

#### **1.4 Bank Recovery and Resolution Directive (“BRRD”)**

The BRRD was published in the Official Journal of the EU on 12 June 2014 and Member States have until 1 January 2015 to implement it, except for certain bail-in provisions which are to be implemented by 1 January 2016. The UK Treasury is expected to make appropriate legislative amendments and bring the bail-in option into force (subject to certain exceptions) on 1 January 2015.

#### **1.5 Markets in Financial Instruments Regulation and Directive (“MiFID II”)**

On 15 May 2014 the European Parliament and European Council adopted MiFID II. MiFID II introduces a variety of changes to the banking sector’s market infrastructure and conduct rules, with the majority of provisions under MiFID II required to enter into force from 3 January 2017. MiFID II bans firms that provide advice on an independent basis from accepting or receiving fees, commissions or any other monetary benefits paid or provided by any third party, and also introduces new investor protection measures which include product governance requirements and enhanced suitability requirements.

#### **1.6 Deposit Guarantee Schemes Directive**

The existing Deposit Guarantee Schemes Directive required each Member State to introduce at least one deposit guarantee scheme, with implementation by 1 July 1995. The Deposit Guarantee Schemes Directive has been reviewed and a new directive to recast and replace the existing rules was adopted by the European Parliament and European Council on 16 April 2014 and published in the Official Journal on 12 June 2014. Member States have until 3 July 2015 to implement it into national law. The main changes include a tighter definition of deposits, mandatory part pre-funding of deposit guarantee schemes, a requirement that deposit guarantee schemes repay customers within a week and that banks must be able to provide information at any time.

#### **1.7 Payment Services Directive**

In July 2013 the European Commission proposed a revised payment services directive (“PSD II”) to take account of new types of payment services due to technological development and to harmonise the transposition of certain rules set out in the Payment Services Directive that had been transposed or applied by Member States in different ways, leading to regulatory arbitrage and legal uncertainty. It also published a proposal for a regulation on multilateral interchange fees. Taken together, the proposals are designed to (i) extend the scope of the Payment Services Directive as regards geographical scope, currencies covered and payment services regulated, (ii) limit the scope of available exemptions under the Payment Services Directive, (iii) increase consumer rights and payment security and (iv) reduce interchange fees for card payments and prohibit surcharging.

### **2. UK Regulation**

Under the Financial Services Act 2012, a range of structural reforms to UK financial regulatory bodies were implemented, with the FSA being replaced from 1 April 2013 by the following bodies:

#### *The Prudential Regulation Authority*

The PRA is an independent subsidiary of the Bank of England, which has responsibility for the micro-prudential regulation of deposit-takers (including banks, building societies and credit unions), insurers, and investment firms that have the potential to present significant risks to the stability of the financial system and that have been designated for supervision by the PRA.

In discharging its functions, the PRA’s general objective is promoting the safety and soundness of PRA-authorised firms. The PRA is required to advance this objective primarily by seeking to: (i) ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and (ii) minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system. Additionally, the

Banking Reform Act 2013 introduces, from a day to be appointed, additional requirements on how the PRA is to advance its general objective in relation to certain matters related to ring-fenced bodies.

When discharging its general functions in a way that advances its objectives, the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by PRA-authorised firms carrying on regulated activities.

#### *The Financial Conduct Authority*

The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the FSA's market regulatory functions, and it represents the UK's interests in markets regulation at the European Securities and Markets Authority.

When discharging its general functions, the FCA must, so far as is reasonably possible, act in a way which is compatible with its strategic objective of ensuring that relevant markets function well, and which advances one or more of its operational objectives of: (i) securing an appropriate degree of protection for consumers (the consumer protection objective); (ii) promoting effective competition in the interests of consumers in financial markets (the competition objective); and (iii) protecting and enhancing the integrity of the UK financial system (the integrity objective).

So far as is compatible with its consumer protection and integrity objectives, the FCA must discharge its general functions in a way which promotes effective competition in the interests of consumers.

#### *The Financial Policy Committee*

The FPC is a part of the Bank of England which has a primary objective of identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC has a secondary objective to support the economic policy of the UK Government, including its objectives for growth and employment.

### **2.1 Financial Services and Markets Act 2000 (“FSMA”)**

The most important piece of financial services legislation in the UK is FSMA. Crucially, FSMA prohibits any person from carrying on a “regulated activity” by way of business in the UK unless that person is authorised or exempt under FSMA. Regulated activities include deposit-taking, effecting and carrying out contracts of insurance as well as insurance mediation, consumer credit activities and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments and advising on or managing investments). FSMA also prohibits financial promotions in the UK unless the financial promotion is issued or approved by an authorised firm or is exempt from such requirements.

The following sections set out some of the key elements of FSMA for a UK-authorised bank.

#### *Threshold conditions*

Authorised firms must at all times meet certain “threshold conditions” specified by FSMA. Dual-regulated firms, such as the Group, must meet both the PRA and FCA threshold conditions. The FCA threshold conditions are, in summary, that: (i) a firm's head office and in particular its mind and management must be in the UK if it is incorporated in the UK; (ii) the firm is capable of being effectively supervised by the FCA; (iii) the firm maintains appropriate non-financial resources; (iv) the firm itself is fit and proper, having regard to the FCA's objectives; and (v) the firm's strategy for doing business is suitable, having regard to the FCA's operational objectives. The PRA threshold conditions require that: (i) a firm is either a body corporate or partnership; (ii) a firm's head office and in particular its mind and management must be in the UK if it is incorporated in the UK; (iii) the firm must have appropriate financial and non-financial resources; (iv) the firm itself is fit and proper, having regard to the PRA's objectives; and (v) the firm is capable of being effectively supervised by the PRA.

#### *Change of control*

Under FSMA, if a person intends to acquire or increase its “control” of a UK authorised person, it must first notify the appropriate regulator (in the case of the Group, this is the PRA). The PRA must then

(after consulting with the FCA) decide whether to approve the acquisition or increase of control within 60 working days after acknowledging receipt of this notice (assuming it has been provided with a complete application). The PRA will not approve any new controller or any increase of control without being satisfied that the controller is financially sound and suitable to be a controller of, or acquire increased control of, the UK authorised person. Acquiring control for the purposes of FSMA includes where a person first holds 10 per cent. or more of the shares or voting power in an authorised person or its parent undertaking. A person will be treated as increasing his or her control over a UK authorised person, and therefore require further approval from the PRA, if the level of his or her shareholding or entitlement to voting power increases from a holding below certain thresholds to a holding above them. The thresholds are 10 per cent., 20 per cent., 30 per cent. or 50 per cent. of shares or voting power.

When determining a person's level of control, that person's holding of shares or entitlement to voting power will be aggregated with the holdings or entitlements of any person with whom he or she is "acting in concert".

Acquisition or increase of control without PRA approval is a criminal offence.

#### *FCA/PRA Handbooks and other guidance*

The detailed rules and guidance made by the FCA and the PRA under the powers given to them by FSMA are contained in various parts of their respective handbooks (the FCA Handbook and the PRA Handbook). The PRA is currently in the process of drafting the new "**PRA Rulebook**" which will contain rules and directions made by the PRA which apply only to PRA-authorised firms. Some sections of the PRA Rulebook have already been completed.

Once authorised, and in addition to continuing to meet the threshold conditions above, firms are obliged to comply with the FCA's Principles and, if a dual-regulated firm, the PRA's Fundamental Rules, which include requirements to (i) conduct their business with due skill, care and diligence; (ii) treat customers fairly; and (iii) communicate with customers in a manner that is clear, fair and not misleading. The 11 Principles and eight Fundamental Rules are set out in the FCA Handbook and PRA Rulebook respectively.

Other modules of the FCA and PRA Handbooks which are of particular relevance to the Group include the Senior Management Arrangements, Systems and Controls sourcebook, the Consumer Credit sourcebook ("**CONC**"), the Banking Conduct of Business sourcebook, the Supervision sourcebook and the Dispute Resolution: Complaints sourcebook.

#### *Enforcement*

The FCA and the PRA have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within them. The sanctions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an individual's approval to perform particular roles within a firm. They can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months, or that fails to meet the threshold conditions.

## **2.2 Consumer credit regulation**

Responsibility for consumer credit transferred from the OFT to the FCA on 1 April 2014. The new framework for consumer credit regulation comprises the FSMA and its secondary legislation, retained provisions of the Consumer Credit Act 1974 (the "**CCA**") and rules and guidance in the FCA Handbook, in particular in the CONC (which sets out general conduct standards, rules on financial promotions, further rules on pre- and post- contractual requirements, responsible lending rules and debt advice rules).

The UK Government has introduced an interim permission regime, which is a transitional arrangement for regulation by the FCA. Firms with a CCA licence from the OFT were required to register with the FCA for interim permission to be able to continue carrying on regulated consumer credit activities after 1 April 2014. Firms with interim permission are subject to FCA regulation but are exempt from some parts of the new regime until they become fully authorised. The Group has obtained interim permission

from the FCA and must apply for authorisation for its consumer credit activities between 1 August 2015 and 31 October 2015. If the Group does not apply during this period its interim permission will lapse and it will no longer be able to carry on regulated consumer credit activities (unless it falls within an exemption).

The CCA continues to outline pre-contractual credit information requirements, the form and content of regulated credit agreements, the right to cancel and withdraw and unfair relationships, and those parts of the CCA that implement the Consumer Credit Directive 2008 have been retained.

The CCA licensing regime, exempt agreement provisions and consumer credit advertisement legislation have, however, been repealed. The FSMA financial promotions regime will now apply and the FCA has also imposed new financial promotion rules for high cost short-term credit, cold calling and debt management companies.

The requirement to obtain a licence from the OFT to carry on consumer credit business has been replaced by the need for authorisation under FSMA to carry on a consumer credit regulated activity. For example, entering into a “regulated credit agreement” as lender is now a regulated activity for the purposes of FSMA. A “regulated credit agreement” is any “credit agreement” that is not an “exempt agreement”. A “credit agreement” is any agreement between an individual or relevant recipient of credit (“A”) and any other person (“B”), under which B provides A with “credit” of any amount. Credit is widely defined and includes cash loans and any other form of financial accommodation. Exempt agreements include those predominantly for the purposes of a business, those secured on land or otherwise by mortgage and those where a local authority or other specified type of organisation is the lender.

The FCA has greater powers of enforcement than the OFT, including the power to: bring criminal, civil and disciplinary proceedings; withdraw authorisations; suspend authorised firms for 12 months; suspend individuals from performing certain roles for two years; and the power to issue unlimited fines. It is also able to use its product intervention powers in the consumer credit market, which can include restrictions on product features and selling practices or product bans.

### **2.3 Financial Services Compensation Scheme (“FSCS”)**

FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. Broadly speaking, the aims of compensation payments are to provide redress for customers who are least able to sustain financial loss and therefore to assist in promoting consumer confidence in the financial system.

The levels of compensation below are, for example, for claims against firms declared in default on or after 1 January 2010 (31 December 2010 for deposits):

- for deposits, 100 per cent. of the first £85,000;
- for mortgage advice and arranging, 100 per cent. of the first £50,000; and
- for insurance, 90 per cent. of the claim with no upper limit (except compulsory insurance is protected in full).

The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. The FSCS is funded by levies on authorised firms. However, the methodology for determining levies per institution going forward will be governed by the new Deposit Guarantee Schemes Directive (see above) which must be implemented into national law by 3 July 2015.

### **2.4 Financial Ombudsman Service (“FOS”)**

FSMA established the FOS, which provides customers with a free and independent service designed to resolve disputes where the customer is not satisfied with the response received from the regulated firm. The FOS resolves disputes for eligible persons that cover most financial products and services provided in (or from) the UK. The jurisdiction of the FOS extends to include firms conducting activities under the CCA. The maximum monetary award by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012. The FOS may also make directions awards, which direct the business to take such steps as the FOS considers just and appropriate.

Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases on the basis of what is fair and reasonable; in this regard, the FOS is not bound by law or even its own precedent. The decisions made by the FOS are binding on regulated firms.

## 2.5 Other relevant legislation and regulation

### *Payment Services Regulations 2009 (“PSR”)*

Under the PSR, the FCA is responsible for regulating payment services in the UK. The PSR establish an authorisation regime, requiring payment service providers to either be authorised or registered with the FCA. The PSR also contain certain rules about providing payment services that payment service providers must comply with, including in relation to consent for payment transactions, unauthorised or incorrectly executed transactions, liability for unauthorised payment transactions, refunds, execution of payment transactions, execution time, information to be provided to payment service users and liability of payment services providers if things go wrong.

The Banking Reform Act 2013 required the FCA to establish a body corporate to regulate payment systems (the “**Payment Systems Regulator**”). The Payment Systems Regulator was established on 1 April 2014 and it is anticipated that it will become fully operational in April 2015.

### *UK Money Laundering Regulations 2007*

The UK Money Laundering Regulations 2007 place a requirement on the Group to verify the identity and address of customers opening accounts with it, and to keep records to help prevent money laundering and fraud. Guidance in respect of firms’ anti-money laundering and counter-terrorist financing obligations is produced by the Joint Money Laundering Steering Group.

### *UK Bribery Act 2010 (“Bribery Act”)*

The Bribery Act contains offences relating to bribing another person, being bribed and bribing foreign public officials. It also contains an offence for commercial organisations of failing to prevent bribery. The Ministry of Justice has published guidance about procedures which commercial organisations can put into place to help prevent persons associated with them from engaging in such activity.

### *Data Protection Act 1998*

The Data Protection Act 1998 regulates the processing of data relating to individual customers.

### *Unfair Terms in Consumer Contracts Regulations 1999*

The Unfair Terms in Consumer Contracts Regulations 1999 apply to consumer contracts entered into on or after 1 July 1995. The main effect of these regulations is that a contract term which is “unfair” will not be enforceable against a consumer. The FSA issued statements of good practice in this regard in May 2005, January 2007 and January 2012.

## 2.6 Structural and other reforms

On 14 June 2012, HM Treasury issued a White Paper entitled “Banking reform: delivering stability and supporting a sustainable economy” on how the UK Government intends to implement the measures recommended by Sir John Vickers’ Independent Commission on Banking (“**ICB**”) final report of 12 September 2011. Broadly, the White Paper covers the following areas: the ring-fencing of vital banking services from international and investment banking services; measures on loss absorbency and depositor preference; and proposals for enhancing competition in the banking sector.

On 19 June 2013, the Parliamentary Commission on Banking Standards (“**PCBS**”) published its final report, entitled “Changing banking for good”. The PCBS’ recommendations related to issues such as: a new framework for individuals in the banking sector, replacing the existing approved persons regime; reforms to remuneration of staff whose behaviour could seriously harm the bank, its reputation or its customers; and sanctions and enforcement, including a new criminal offence of reckless misconduct in the management of a bank. This was followed by the publication of the UK Government’s response on 8 July 2013, accepting the overall conclusions of the report and its principal recommendations.

The Banking Reform Bill received Royal Assent on 18 December 2013. The Banking Reform Act 2013 gives the UK Treasury and the relevant regulators (primarily the PRA), the power to implement some of the ICB's recommendations, particularly regarding ring-fencing requirements for banks and the senior managers regime. The UK Government intends for all relevant secondary legislation to be completed by May 2015.

*Senior managers regime, certification regime and conduct rules*

The new regime implemented by the Banking Reform Act 2013 will consist of:

- **The Senior Managers Regime:** This regime will replace the significant influence function element of the current approved persons regime. It is intended to ensure that the key responsibilities within banks are assigned to specific individuals, who are made fully and unambiguously aware of those responsibilities and made to understand that they will be held to account for how they carry them out.
- **The Certification Regime:** This regime, which will sit alongside the senior managers regime, will apply to other bank staff whose actions or behaviour could seriously harm the bank, its reputation or its customers.
- **Conduct Rules:** These rules will replace the existing Statements of Principle for Approved Persons and the associated codes of practice, which the PCBS considered to be incomplete and unclear in their application. The new rules will apply to a broad range of bank staff and a breach would constitute grounds for enforcement action by the regulators.

On 30 July 2014, the PRA and the FCA published a joint consultation paper which set out their proposed rules on the new regime. The consultation paper sets out, among other things: information on the split of senior management functions between PRA-designated functions and FCA-designated functions; the mandatory statements of responsibility that will have to accompany applications for approval as a senior manager; how the PRA and the FCA will use their powers to impose conditions and time limits on senior manager approval; the individuals that will fall within the certification regime; and the draft conduct rules.

The consultation closed on 31 October 2014. The PRA and the FCA expect to publish their final policy statements and any supporting guidance or supervisory statements in early 2015.

## PART X — SELECTED FINANCIAL INFORMATION AND KEY PERFORMANCE INDICATORS

The following tables present selected financial and other information of the Group as at the dates and for the periods indicated. Investors should read this entire Prospectus and not rely only on the selected financial information presented in this Part X (*Selected Financial Information and Key Performance Indicators*).

### 1. Selected Financial Information

The selected financial information in the tables below headed “Income statement data” and “Balance sheet data” has been extracted without material adjustment from the audited consolidated historical financial information of the Group, prepared under International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”), as at and for the years ended 31 December 2014, 2013 and 2012 in Part XV (*Historical Financial Information*) of this Prospectus.

#### 1.1 Income statement data

	<b>FY 2014</b>	<b>FY 2013</b>	<b>FY 2012</b>
	(£m)	(£m)	(£m)
Interest receivable and similar income .....	156.7	93.3	48.4
Interest expense and similar charges .....	(54.0)	(38.4)	(27.4)
Net interest income .....	102.7	54.9	21.0
Operating lease rentals <sup>(1)</sup> .....	15.7	17.1	15.1
Other income .....	1.1	1.1	0.3
Depreciation on operating leases .....	(13.1)	(13.8)	(12.1)
Net income from operating leases .....	3.7	4.4	3.3
Fee and commission income .....	7.6	0.8	0.5
Fee and commission expense .....	(1.7)	—	(0.1)
Net fee and commission income .....	5.9	0.8	0.4
Fair value (losses) on financial instruments .....	(0.1)	—	—
<b>Net operating income</b> .....	<b>112.2</b>	<b>60.1</b>	<b>24.7</b>
Administrative expenses .....	(59.1)	(39.8)	(29.0)
Impairment losses on financial assets .....	(6.7)	(3.5)	(2.7)
Provisions for liabilities and charges .....	(1.1)	(0.7)	(0.1)
<b>Profit/(Loss) before taxation</b> .....	<b>45.3</b>	<b>16.1</b>	<b>(7.1)</b>
Income tax (charge)/credit .....	(10.8)	(3.3)	0.3
<b>Profit/(Loss) for the year, attributable to owners</b> .....	<b>34.5</b>	<b>12.8</b>	<b>(6.8)</b>

(1) Operating lease rentals comprise income received in respect of leases of certain healthcare equipment to the NHS within the Asset Finance division.

## 1.2 Balance sheet data

	As at 31 December		
	2014	2013	2012
	(£m)		
<b>Assets</b>			
Cash and balances at central banks .....	313.1	206.6	0.2
Loans and advances to banks .....	36.6	23.8	117.2
Loans and advances to customers .....	2,284.8	1,346.9	683.5
Derivative financial assets .....	3.7	—	—
Investment securities — available for sale .....	—	—	144.9
Property, plant and equipment .....	49.7	53.8	61.1
Intangible assets .....	49.5	22.2	21.3
Deferred tax assets .....	9.8	8.6	11.2
Other assets <sup>(1)</sup> .....	6.8	6.1	10.9
<b>Total assets</b> .....	<b>2,754.0</b>	<b>1,668.0</b>	<b>1,050.3</b>
<b>Liabilities</b>			
Customer deposits .....	2,421.0	1,463.0	923.7
Due to banks .....	41.0	24.6	—
Provisions for liabilities and charges .....	0.6	0.4	0.1
Other liabilities <sup>(2)</sup> .....	41.9	16.9	21.6
Subordinated debt .....	30.8	27.6	—
<b>Total liabilities</b> .....	<b>2,535.3</b>	<b>1,532.5</b>	<b>945.4</b>
<b>Equity</b>			
Share capital .....	185.3	138.0	120.2
Share premium account .....	1.3	—	—
Retained earnings .....	32.1	(2.5)	(15.3)
<b>Total equity</b> .....	<b>218.7</b>	<b>135.5</b>	<b>104.9</b>
<b>Total equity and liabilities</b> .....	<b>2,754.0</b>	<b>1,668.0</b>	<b>1,050.3</b>

(1) Other assets comprise other debtors, prepayments, corporation tax recoverable and amounts due from Group companies.

(2) Other liabilities comprise other creditors, corporation tax payable, accruals and amounts due to Group companies.

## 1.3 Underlying results

The Group has included underlying results in this Prospectus, which represent non-IFRS financial measures, on the basis that they are a useful indicator of the Group's operating performance before items which are believed to be exceptional and/or not relevant to the assessment of the Group's operating performance and that they are useful for comparing the Group's operating performance from period to period. However, because of the discretion that the Group and other banks have in defining and calculating underlying results (as they are not IFRS financial measures), care should be taken in comparing the Group's underlying results with those of other banks, and such results may not be directly comparable.

Although the Directors use underlying results to assess the performance of the Group's business, such use is limited because they do not include certain material costs necessary to operate the Group's business. Underlying results should be considered in addition to, and not as a substitute for, the Group's statutory accounts in accordance with IFRS, and the Group's presentation of underlying results should not be construed as an indication that future results will be unaffected by exceptional items. Underlying results have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of the Group's results as reported under IFRS. Some of these limitations are:

- they do not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments; and
- they do not reflect the impact of earnings or charges resulting from matters the Directors consider not to be indicative of our ongoing operations.

Because of these limitations, underlying results are not intended as an alternative to the Group's statutory accounts as an indicator of the Group's operating performance. The Group compensates for these limitations by using underlying results, along with other comparative tools, together with IFRS statutory accounts, to assist in the evaluation of operating performance. The Group's IFRS statutory accounts can be found in Part XV (*Historical Financial Information*) of this Prospectus.

The following tables reconcile the Group's statutory accounts to underlying results for FY 2014, FY 2013 and FY 2012.

	FY 2014			
	Statutory accounts	Adjustments		
		IPO transaction costs <sup>(1)</sup>	Corporate activity costs <sup>(2)</sup>	Underlying results
		(£m)		
Interest receivable and similar income .....	156.7	—	—	156.7
Interest expense and similar charges .....	(54.0)	—	0.6	(53.4)
<b>Net interest income</b> .....	<b>102.7</b>	—	<b>0.6</b>	<b>103.3</b>
Operating lease rentals .....	15.7	—	—	15.7
Other income .....	1.1	—	—	1.1
Depreciation on operating leases .....	(13.1)	—	—	(13.1)
Net income from operating leases .....	3.7	—	—	3.7
Fee and commission income .....	7.6	—	—	7.6
Fee and commission expense .....	(1.7)	—	—	(1.7)
Net fee and commission income .....	5.9	—	—	5.9
Fair value (losses) on financial instruments .....	(0.1)	—	—	(0.1)
<b>Net operating income</b> .....	<b>112.2</b>	—	<b>0.6</b>	<b>112.8</b>
Administrative expenses .....	(59.1)	0.6	2.6	(55.9)
Impairment losses on financial assets .....	(6.7)	—	—	(6.7)
Provisions for liabilities and charges .....	(1.1)	—	—	(1.1)
<b>Profit/(loss) before taxation</b> .....	<b>45.3</b>	<b>0.6</b>	<b>3.2</b>	<b>49.1</b>
Income tax (charge)/credit <sup>(3)</sup> .....	(10.8)	(0.1)	(0.2)	(11.1)
<b>Profit/(loss) for the year, attributable to owners</b> .....	<b>34.5</b>	<b>0.5</b>	<b>3.0</b>	<b>38.0</b>

(1) IPO transaction costs consist of a one-off payment to a former employee that will be triggered by the Offer.

(2) Corporate activity costs includes both external costs incurred in acquiring businesses and internal costs, such as surplus funding costs, incurred while building up the liquidity required to fund such acquisitions. £2.5 million of corporate activity costs were incurred in connection with the acquisition of Centric in June 2014. In addition, corporate activity costs includes £0.6 million of deferred consideration incurred in connection with the acquisition of Money2Improve in November 2012. Within this adjustment, £2.1 million is disallowable for tax purposes.

(3) Income tax (charge)/credit on underlying adjustments has been calculated at the implied corporation tax rate.

	FY 2013		
	Statutory accounts	Adjustments	
		Corporate activity costs <sup>(1)</sup>	Underlying results
		(£m)	
Interest receivable and similar income . . . . .	93.3	—	93.3
Interest expense and similar charges . . . . .	(38.4)	—	(38.4)
<b>Net interest income</b> . . . . .	<b>54.9</b>	—	<b>54.9</b>
Operating lease rentals . . . . .	17.1	—	17.1
Other income . . . . .	1.1	—	1.1
Depreciation on operating leases . . . . .	(13.8)	—	(13.8)
Net income from operating leases . . . . .	4.4	—	4.4
Fee and commission income . . . . .	0.8	—	0.8
Fee and commission expense . . . . .	—	—	—
Net fee and commission income . . . . .	0.8	—	0.8
<b>Net operating income</b> . . . . .	<b>60.1</b>	—	<b>60.1</b>
Administrative expenses . . . . .	(39.8)	0.8	(39.0)
Impairment losses on financial assets . . . . .	(3.5)	—	(3.5)
Provisions for liabilities and charges . . . . .	(0.7)	—	(0.7)
<b>Profit/(loss) before taxation</b> . . . . .	<b>16.1</b>	<b>0.8</b>	<b>16.9</b>
Income tax (charge)/credit <sup>(2)</sup> . . . . .	(3.3)	(0.2)	(3.5)
<b>Profit/(loss) for the year, attributable to owners</b> . . . . .	<b>12.8</b>	<b>0.6</b>	<b>13.4</b>

(1) Corporate activity costs relate to deferred consideration incurred in connection with the acquisitions of Singers Asset Finance in March 2012 and Money2Improve in November 2012.

(2) Income tax (charge)/credit on underlying adjustments has been calculated at the implied corporation tax rate.

	FY 2012		
	Statutory accounts	Adjustments	
		Corporate activity costs <sup>(1)</sup>	Timing difference on investment maturity <sup>(2)</sup>
		(£m)	
Interest receivable and similar income . . . . .	48.4	—	0.8
Interest expense and similar charges . . . . .	(27.4)	—	(27.4)
<b>Net interest income</b> . . . . .	<b>21.0</b>	—	<b>0.8</b>
Operating lease rentals . . . . .	15.1	—	—
Other income . . . . .	0.3	—	—
Depreciation on operating leases . . . . .	(12.1)	—	(12.1)
Net income from operating leases . . . . .	3.3	—	—
Fee and commission income . . . . .	0.5	—	—
Fee and commission expense . . . . .	(0.1)	—	(0.1)
Net fee and commission income . . . . .	0.4	—	—
<b>Net operating income</b> . . . . .	<b>24.7</b>	—	<b>0.8</b>
Administrative expenses . . . . .	(29.0)	5.4	—
Impairment losses on financial assets . . . . .	(2.7)	—	(2.7)
Provisions for liabilities and charges . . . . .	(0.1)	—	(0.1)
<b>Profit/(loss) before taxation</b> . . . . .	<b>(7.1)</b>	<b>5.4</b>	<b>0.8</b>
Income tax (charge)/credit <sup>(3)</sup> . . . . .	0.3	(1.3)	(0.2)
<b>Profit/(loss) for the year, attributable to owners</b> . . . . .	<b>(6.8)</b>	<b>4.1</b>	<b>0.6</b>

(1) Corporate activity costs include both external costs of £2.1 million incurred in acquiring businesses and internal costs, such as surplus funding costs, incurred while building up the liquidity required to fund such acquisitions. The majority (£4.3 million) of the corporate activity costs incurred in 2012 related to the acquisition of Singers Asset Finance.

(2) In 2011, the Group had purchased a number of UK gilts, and the accounting treatment under IFRS accelerated the release of income into 2011, which was subsequently unwound when the gilts were sold in 2012.

(3) Income tax (charge)/credit on underlying adjustments has been calculated at the implied corporation tax rate.

## 1.4 Half-year selected financial information

The following tables set forth half-year selected financial information presented to illustrate the growth in the business during 2014.

The information presented below under the heading "Underlying income statement data" reflects underlying results of the Group. The information presented for FY 2014 is derived from the Group's statutory accounts, while the information presented below for the six months ended 31 December 2014 ("H2 2014") and 30 June 2014 ("H1 2014") is derived from the Group's management accounts.

The information presented below under the heading "Balance sheet data" presents the Group's statutory accounts as at 31 December 2014 and 2013, except where indicated, while the information presented as at 30 June 2014 presents the Group's management accounts.

### 1.4.1 Underlying income statement data

	FY 2014	H2 2014	H1 2014
	(£m)		
Gross income .....	166.2	95.9	70.3
Interest expense and similar charges .....	(53.4)	(29.2)	(24.2)
<b>Net operating income</b> .....	<b>112.8</b>	<b>66.7</b>	<b>46.1</b>
Administrative expenses .....	(55.9)	(32.5)	(23.4)
Impairment losses on financial assets .....	(6.7)	(3.0)	(3.7)
Provisions for liabilities and charges .....	(1.1)	—	(1.1)
<b>Profit/(loss) before taxation</b> .....	<b>49.1</b>	<b>31.2</b>	<b>17.9</b>
Income tax (charge)/credit .....	(11.1)	(7.5)	(3.6)
<b>Profit/(loss) for the year, attributable to owners</b> .....	<b>38.0</b>	<b>23.7</b>	<b>14.3</b>

### 1.4.2 Balance sheet data

	As at 31 December 2014	As at 30 June 2014	As at 31 December 2013
	(£m)		
<b>Assets</b>			
Loans and advances to customers .....	2,284.8	1,919.5	1,346.9
Intangible assets .....	49.5	47.1	22.2
Other assets <sup>(1)</sup> .....	419.7	428.2	298.9
<b>Total assets</b> .....	<b>2,754.0</b>	<b>2,394.8</b>	<b>1,668.0</b>
<b>Liabilities</b>			
Customer deposits .....	2,421.0	2,113.7	1,463.0
Other liabilities .....	83.5	56.8	41.9
Subordinated debt .....	30.8	29.1	27.6
<b>Total liabilities</b> .....	<b>2,535.3</b>	<b>2,199.6</b>	<b>1,532.5</b>
Total equity .....	218.7	195.2	135.5
<b>Total equity and liabilities</b> .....	<b>2,754.0</b>	<b>2,394.8</b>	<b>1,668.0</b>

(1) Other assets includes operating leases held as property, plant and equipment ("PPE") in the Group's Asset Finance division, as well as investment securities available for sale, deferred tax assets, other debtors, prepayments, corporation tax recoverable, amounts due from Group companies and derivative financial instruments.

## 2. Certain key performance indicators

Certain of the KPIs presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in compliance with, applicable banking regulations, but such

regulations often provide for certain discretion in defining and calculating the measures. Because of the discretion that the Group and other banks have in defining and calculating these measures, care should be taken in comparing the Group's KPIs with those of other banks, and such KPIs may not be directly comparable.

The KPIs presented below are derived from the audited consolidated IFRS historical financial information of the Group set out in Part XV (*Historical Financial Information*) of this Prospectus and the Group's financial reporting and management information systems. In addition, some of the KPIs are calculated using underlying income statement data as presented in Section 1.3 of this Part X (*Selected Financial Information and Key Performance Indicators*) above. For a reconciliation of underlying results to statutory results for the periods indicated, see Section 1.3 of this Part X (*Selected Financial Information and Key Performance Indicators*) above.

## 2.1 Group KPIs

	As at and for the year ended 31 December		
	2014	2013	2012
	(unaudited)		
<b>Assets and liabilities</b>			
Average principal employed (£m) <sup>(1)</sup> .....	1,855.5	1,041.8	507.9
Total average interest-earning assets (£m) <sup>(2)</sup> .....	2,228.7	1,285.5	755.9
Total average interest-bearing liabilities (£m) <sup>(3)</sup> .....	(2,085.9)	(1,189.9)	(689.3)
Originations (£m) .....	1,366.4	999.7	479.8
<b>Profitability</b>			
Gross asset yield (%) <sup>(4)</sup> .....	9.0	9.5	10.4
Liability yield (%) <sup>(5)</sup> .....	(2.9)	(3.7)	(5.4)
Net interest margin (%) <sup>(6)</sup> .....	6.1	5.8	5.0
Management expenses ratio (%) <sup>(7)</sup> .....	(3.1)	(3.8)	(4.7)
Cost of risk (%) <sup>(8)</sup> .....	(0.36)	(0.34)	(0.53)
Return on lending assets before tax (%) <sup>(9)</sup> .....	2.6	1.6	(0.2)
Return on lending assets after tax (%) <sup>(10)</sup> .....	2.0	1.3	(0.4)
Return on tangible equity (%) <sup>(11)</sup> .....	26.9	13.6	(3.9)
Cost/income ratio (%) <sup>(12)</sup> .....	50.5	66.1	92.9
<b>Asset quality</b>			
Ratio of impaired loans (%) <sup>(13)</sup> .....	0.6	0.6	0.5
Ratio of past due over 90 days and impaired loans (%) <sup>(14)</sup> .....	0.8	0.8	0.7
Forbearance cases <sup>(15)</sup> .....	531	160	21
Forbearance principal employed (£m) <sup>(16)</sup> .....	8.7	2.7	0.4
<b>Balance sheet</b>			
Loan-to-deposit ratio (%) <sup>(17)</sup> .....	94.4	92.1	74.0
Encumbrance (%) <sup>(18)</sup> .....	16.0	9.4	—
<b>Liquidity</b>			
Liquidity ratio (%) <sup>(19)</sup> .....	21.1	19.7	28.4
Ratio of liquidity buffer eligible assets to liquidity balances (%) <sup>(20)</sup> .....	92.8	91.7	55.3
<b>Capital and leverage</b>			
CET1 ratio (%) <sup>(21)</sup> .....	11.5	13.8	17.5
Total capital ratio (%) <sup>(22)</sup> .....	13.8	17.3	17.6
Leverage ratio (%) <sup>(23)</sup> .....	6.3	6.9	8.1
<b>Other</b>			
Full time equivalents (annual average) .....	414	281	179

(1) Average principal employed is calculated as the average of monthly closing loans and advances to customers, net of provision, from the Group's financial reporting and management information systems, including operating leases, which are classified as property, plant and equipment in the Group's statutory accounts, as reported in Part XII (*Selected Statistical Data*).

(2) Total average interest-earning assets is the sum of the monthly averages of total liquid assets and loans and advances to customers, net of provision, from the Group's financial reporting and management information systems, including operating leases, which are classified as property, plant and equipment in the Group's statutory accounts, as reported in Part XII (*Selected Statistical Data*).

(3) Total average interest-bearing liabilities is calculated as the sum of monthly averages of customer deposits, amounts due to banks and subordinated debt from the Group's financial reporting and management information systems as reported in Part XII (*Selected Statistical Data*).

(4) Asset yield is calculated as the sum of underlying interest receivable and similar income, net income from operating leases, net fee and commission income and fair value losses on financial instruments, divided by average principal employed.

(5) Liability yield is calculated as underlying interest expense and similar charges divided by average principal employed.

(6) Net interest margin is calculated as underlying net operating income divided by average principal employed.

(7) Management expenses ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by average principal employed.

(8) Cost of risk is calculated as impairment losses on financial assets divided by average principal employed.

(9) Return on lending assets before tax is calculated as underlying profit/(loss) before taxation divided by average principal employed.

(10) Return on lending assets after tax is calculated as underlying profit/(loss) for the year attributable to owners divided by average principal employed.

(11) Return on tangible equity is calculated as underlying profit/(loss) for the year attributable to owners divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period, divided by two.

(12) The cost/income ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by underlying net operating income.

(13) The ratio of impaired loans is calculated by dividing impaired loans and advances to customers by total gross loans and advances to customers.

(14) The ratio of past due over 90 days and impaired loans is calculated by adding past due over 90 days loans and advances to customers and impaired loans and advances to customers, and dividing the sum by total gross loans and advances to customers.

(15) Forbearance cases is the number of cases for which the Group has granted concession to the borrower due to reasons relating to actual or apparent financial stress.

(16) Forbearance principal employed is the sum of the principal employed in each of the forbearance cases.

(17) The loan-to-deposit ratio is calculated as loans and advances to customers divided by customer deposits.

(18) Encumbrance is calculated as encumbered assets (as described in note 33 to the Group's historical financial information contained in Part XV (*Historical Financial Information*)) divided by total assets.

(19) The liquidity ratio is calculated as the liquidity reserve (as described in note 33 to the Group's historical financial information contained in Part XV (*Historical Financial Information*)) divided by customer deposits. See Section 7.1 of Part XI (*Operating and Financial Review*).

(20) The ratio of liquidity buffer eligible assets to liquidity balances is calculated as the proportion of liquidity balances that are eligible for use in the liquidity buffer to total liquidity balances. See Section 7.1 of Part XI (*Operating and Financial Review*).

(21) The CET1 (i.e. Common Equity Tier 1) ratio is calculated as common equity tier 1 capital divided by risk-weighted assets. See Section 7.2 of Part XI (*Operating and Financial Review*).

(22) The total capital ratio is calculated as total regulatory capital divided by risk-weighted assets. See Section 7.2 of Part XI (*Operating and Financial Review*).

(23) The leverage ratio is calculated as common equity tier 1 capital divided by the sum of total assets less intangible assets.

## 2.1.1 Half-year Group KPIs

### Income statement KPIs

	FY 2014	H2 2014	H1 2014
	(unaudited)		
<b>Profitability</b>			
Net interest margin (%) <sup>(1)</sup> .....	6.1	6.3	5.8
Management expenses ratio (%) <sup>(2)</sup> .....	(3.1)	(3.0)	(3.1)
Cost of risk (%) <sup>(3)</sup> .....	(0.36)	(0.28)	(0.46)
Return on lending assets before tax (%) <sup>(4)</sup> .....	2.6	2.9	2.2
Return on tangible equity (%) <sup>(5)</sup> .....	26.9	29.9	21.9
Cost-income ratio (%) <sup>(6)</sup> .....	50.5	48.7	53.1
<b>Other</b> .....			
Full time equivalents (period average) .....	414	441	388

(1) Net interest margin is calculated as underlying net operating income divided by average principal employed.

(2) Management expenses ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by average principal employed.

(3) Cost of risk is calculated as impairment losses on financial assets divided by average principal employed.

(4) Return on lending assets before tax is calculated as underlying profit/(loss) before taxation divided by average principal employed.

(5) Return on tangible equity is calculated as underlying profit/(loss) for the period attributable to owners divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period, divided by two.

(6) The cost/income ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by underlying net operating income.

### Balance sheet KPIs

	As at and for the 12-month period ended 31 December 2014	As at and for the six-month period ended 30 June 2014 (unaudited)	As at and for the 12-month period ended 31 December 2013
<b>Assets and liabilities</b>			
Average principal employed (£m) <sup>(1)</sup> .....	1,855.5	1,593.4	1,041.8
<b>Balance sheet</b>			
Loan-to-deposit ratio (%) <sup>(2)</sup> .....	94.4	90.8	92.1
<b>Liquidity</b>			
Liquidity ratio (%) <sup>(3)</sup> .....	21.1	19.0	19.7
<b>Capital and leverage</b>			
CET1 ratio (%) <sup>(4)</sup> .....	11.5	11.9	13.8
Total capital ratio (%) <sup>(5)</sup> .....	13.8	14.5	17.3
Leverage ratio (%) <sup>(6)</sup> .....	6.3	6.2	6.9

(1) Average principal employed is calculated as the average of monthly closing loans and advances to customers, net of provision, from the Group's financial reporting and management information systems, including operating leases, which are classified as property, plant and equipment in the Group's statutory accounts.

(2) The loan-to-deposit ratio is calculated as loans and advances to customers divided by customer deposits.

(3) The liquidity ratio is calculated as liquidity balances divided by customer deposits.

(4) The CET1 (i.e. Common Equity Tier 1) ratio is calculated as common equity tier 1 capital divided by risk-weighted assets.

(5) The total capital ratio is calculated as total regulatory capital divided by risk-weighted assets.

(6) The leverage ratio is calculated as common equity tier 1 capital divided by the sum of total assets less intangible assets.

### 2.1.2 Lending division KPIs

#### Commercial Mortgages

	FY 2014	FY 2013	FY 2012
	(unaudited)		
<b>Assets and liabilities</b>			
Average principal employed (£m) <sup>(1)</sup> .....	725.7	361.3	123.2
Originations (£m) .....	550.9	400.6	175.4
<b>Profitability</b>			
Gross asset yield (%) <sup>(2)</sup> .....	6.5	6.5	6.5
Liability yield (%) <sup>(3)</sup> .....	(2.3)	(3.5)	(4.1)
Net interest margin (%) <sup>(4)</sup> .....	4.2	3.0	2.4
Management expenses ratio (%) <sup>(5)</sup> .....	(0.9)	(1.0)	(1.7)
Cost of risk (%) <sup>(6)</sup> .....	(0.1)	(0.1)	(0.1)
Return on lending assets (%) <sup>(7)</sup> .....	3.2	1.9	0.6
<b>Asset quality</b>			
Ratio of impaired loans (%) <sup>(8)</sup> .....	0.2	0.3	—
Ratio of past due over 90 days and impaired loans (%) <sup>(9)</sup> .....	0.2	0.4	—
Forbearance cases <sup>(10)</sup> .....	—	—	—
Forbearance principal employed (£m) <sup>(11)</sup> .....	—	—	—

## Asset Finance

	FY 2014	FY 2013 (unaudited)	FY 2012
<b>Assets and liabilities</b>			
Average principal employed (£m) <sup>(1)</sup> . . . . .	495.4	388.1	260.2
Originations (£m) . . . . .	386.1	305.4	150.5
<b>Profitability</b>			
Gross asset yield (%) <sup>(2)</sup> . . . . .	10.3	11.0	11.5
Liability yield (%) <sup>(3)</sup> . . . . .	(2.5)	(3.6)	(4.2)
Net interest margin (%) <sup>(4)</sup> . . . . .	7.8	7.4	7.3
Management expenses ratio (%) <sup>(5)</sup> . . . . .	(1.5)	(1.8)	(3.7)
Cost of risk (%) <sup>(6)</sup> . . . . .	(0.3)	(0.3)	(0.6)
Return on lending assets (%) <sup>(7)</sup> . . . . .	6.0	5.4	3.0
<b>Asset quality</b>			
Ratio of impaired loans (%) <sup>(8)</sup> . . . . .	0.4	0.7	0.8
Ratio of past due over 90 days and impaired loans (%) <sup>(9)</sup> . . . . .	0.8	0.8	1.0
Forbearance cases <sup>(10)</sup> . . . . .	19	13	—
Forbearance principal employed (£m) <sup>(11)</sup> . . . . .	2.2	1.0	—

## Business Credit

	FY 2014	FY 2013 (unaudited)	FY 2012
<b>Assets and liabilities</b>			
Average principal employed (£m) <sup>(1)</sup> . . . . .	105.3	—	—
Originations (£m) . . . . .	47.9	—	—
<b>Profitability</b>			
Gross asset yield (%) <sup>(2)</sup> . . . . .	10.2	—	—
Liability yield (%) <sup>(3)</sup> . . . . .	(2.5)	—	—
Net interest margin (%) <sup>(4)</sup> . . . . .	7.7	—	—
Management expenses ratio (%) <sup>(5)</sup> . . . . .	(3.1)	—	—
Cost of risk (%) <sup>(6)</sup> . . . . .	(0.3)	—	—
Return on lending assets (%) <sup>(7)</sup> . . . . .	4.3	—	—
<b>Asset quality</b>			
Ratio of impaired loans (%) <sup>(8)</sup> . . . . .	0.2	—	—
Ratio of past due over 90 days and impaired loans (%) <sup>(9)</sup> . . . . .	0.2	—	—
Forbearance cases <sup>(10)</sup> . . . . .	—	—	—
Forbearance principal employed (£m) <sup>(11)</sup> . . . . .	—	—	—
Sale volume (£m) <sup>(12)</sup> . . . . .	2,800	—	—

## Secured Lending

	FY 2014	FY 2013 (unaudited)	FY 2012
<b>Assets and liabilities</b>			
Average principal employed (£m) <sup>(1)</sup> . . . . .	354.1	226.8	111.2
Originations (£m) . . . . .	191.3	180.8	122.2
<b>Profitability</b>			
Gross asset yield (%) <sup>(2)</sup> . . . . .	9.7	10.2	11.1
Liability yield (%) <sup>(3)</sup> . . . . .	(3.2)	(3.7)	(4.2)
Net interest margin (%) <sup>(4)</sup> . . . . .	6.5	6.5	6.8
Management expenses ratio (%) <sup>(5)</sup> . . . . .	(1.2)	(1.6)	(1.7)
Cost of risk (%) <sup>(6)</sup> . . . . .	0.0	(0.4)	(0.7)
Return on lending assets (%) <sup>(7)</sup> . . . . .	5.4	4.6	4.4
<b>Asset quality</b>			
Ratio of impaired loans (%) <sup>(8)</sup> . . . . .	0.6	0.9	0.4
Ratio of past due over 90 days and impaired loans (%) <sup>(9)</sup> . . . . .	1.4	1.2	0.7
Forbearance cases <sup>(10)</sup> . . . . .	122	33	12
Forbearance principal employed (£m) <sup>(11)</sup> . . . . .	3.7	0.9	0.3

## Consumer Lending

	<b>FY 2014</b>	<b>FY 2013</b>	<b>FY 2012</b>
	<b>(unaudited)</b>		
<b>Assets and liabilities</b>			
Average principal employed (£m) <sup>(1)</sup> .....	175.0	65.6	13.3
Originations (£m) .....	190.2	112.9	31.7
<b>Profitability</b>			
Gross asset yield (%) <sup>(2)</sup> .....	11.5	11.7	13.5
Liability yield (%) <sup>(3)</sup> .....	(2.9)	(3.5)	(4.5)
Net interest margin (%) <sup>(4)</sup> .....	8.6	8.2	9.0
Management expenses ratio (%) <sup>(5)</sup> .....	(3.1)	(5.2)	(10.5)
Cost of risk (%) <sup>(6)</sup> .....	(2.3)	(2.0)	(2.3)
Return on lending assets (%) <sup>(7)</sup> .....	3.1	1.1	(3.8)
<b>Asset quality</b>			
Ratio of impaired loans (%) <sup>(8)</sup> .....	2.8	1.4	1.7
Ratio of past due over 90 days and impaired loans (%) <sup>(9)</sup> .....	2.8	1.4	1.7
Forbearance cases <sup>(10)</sup> .....	390	114	9
Forbearance principal employed (£m) <sup>(11)</sup> .....	2.8	0.8	0.1

(1) Average principal employed is calculated as the average of monthly closing loans and advances to customers, net of provision, from the Group's financial reporting and management information systems, including operating leases for the Asset Finance division, which are classified as property, plant and equipment in the Group's statutory accounts.

(2) Asset yield is calculated as the sum of underlying interest receivable and similar income, net income from operating leases and net fee and commission income, divided by average principal employed.

(3) Liability yield is calculated as interest expense and similar charges divided by average principal employed.

(4) Net interest margin is calculated as underlying net operating income divided by average principal employed.

(5) Management expenses ratio is calculated as underlying administrative expenses divided by average principal employed.

(6) Cost of risk is calculated as impairment losses on financial assets divided by average principal employed.

(7) Return on lending assets is calculated as product contribution divided by average principal employed. Because returns on lending assets by division are calculated using divisional product contributions, they are not reflective of certain Group costs which are accounted for within the Group's Central Function reportable segment. See Section 6.10 of Part XI (*Operating and Financial Review*) for a full breakdown of the results for each of the Group's reportable segments.

(8) The ratio of impaired loans is calculated by dividing impaired loans and advances to customers by total gross loans and advances to customers.

(9) The ratio of past due over 90 days and impaired loans is calculated by adding past due over 90 days loans and advances to customers and impaired loans and advances to customers, and dividing the sum by total gross loans and advances to customers.

(10) Forbearance cases is the number of cases for which the Group has granted concession to the borrower due to reasons relating to actual or apparent financial stress.

(11) Forbearance principal employed is the sum of the principal employed in each of the forbearance cases.

(12) Sale volume is calculated as the sum of total customer turnover in the Business Credit division.

## PART XI — OPERATING AND FINANCIAL REVIEW

*The following discussion of the financial condition and results of operations of the Group should be read in conjunction with the audited consolidated financial statements of the Group and the accompanying notes for FY (fiscal year ended 31 December) 2014, 2013 and 2012 and with the information relating to the business of the Group included elsewhere in this Prospectus. The discussion includes forward-looking statements that reflect the current view of the Group's management and involve risks and uncertainties. The actual results of the Group could differ materially from those contained in any forward-looking statements as a result of factors discussed below and elsewhere in this Prospectus, particularly in the sections headed "Risk Factors" and "Presentation of Information — Forward-looking Statements". Prospective investors should read the whole of this Prospectus and not just rely upon summarised information set out in this Part XI (Operating and Financial Review).*

### 1. Overview

The Group is an independent specialist lending and savings bank serving UK SMEs and consumers.

The Group focuses its specialist lending activities on selected sectors of the UK banking market in which it can provide differentiated offerings through its strong relationships, commitment to service and expertise and where it has identified opportunities for high risk-adjusted margins and significant growth.

The Group operates the following five lending divisions, each of which represents a reportable operating segment: Commercial Mortgages, Asset Finance, Business Credit, Secured Lending and Consumer Lending. The Group has positioned itself as offering a high quality service proposition for its customers and Business Partners combined with high touch, human underwriting and innovative product design, executed through experienced teams and longstanding relationships.

In addition to its five lending divisions, the Group has a sixth central function operating segment, which consists of the Group's Retail Savings division and its central corporate functions and common costs.

The Group sources its deposits directly. Most deposits are sourced through an online origination platform that enables the Group to raise significant volumes of retail and SME deposits within relatively short periods of time and with minimal manual input. This direct sourcing model also enables the Group to be flexible in its approach to funding, including managing inflows and tailoring maturity of deposits to manage liquidity risk.

Additional funding is provided by the Group's participation in the FLS, in which it participated in 2014 and 2013, but not in 2012. Treasury Bills are eligible to be counted towards a bank's liquidity resources and are also available for repurchase transactions. Funding from the FLS is due for repayment in four years from the date of first drawing the Treasury Bills.

### 2. Recent developments

Since 31 December 2014, the Group has continued to focus on its carefully selected sub-sectors of the lending market and has seen a strong level of organic originations, which exceeded £270 million for the period ending 28 February 2015, with the loan book increasing to £2,491 million as at 28 February 2015. The Group is focused on organic origination as its core growth strategy, but it also added to its Commercial Mortgages loan book in February 2015 with the acquisition of a second tranche of the Acquired Portfolio described below in Section 3.6 for £11 million, and it will continue to consider inorganic opportunities in the future as they arise.

### 3. Factors affecting results of operations

The Group's results of operations are significantly influenced by the following factors and trends:

#### 3.1 Operating environment

The macroeconomic environment in the UK has affected, and will continue to affect, the Group's results of operations. The Group is focused solely on the UK and has successfully grown its business despite the UK economy having endured turbulent economic conditions and a recession in the period

following the onset of the global financial crisis in 2008. The UK economy continues to recover from the low point experienced during 2009, and this trend is expected to continue throughout 2015. GDP growth reached 2.6 per cent. in 2014, representing the fastest pace of growth since 2007, and up from 1.7 per cent. in 2013.

The overall performance of the UK economy drives SME performance, employment levels, property prices and aggregate savings balances, all of which can impact the Group's performance. The impact of these macroeconomic factors on the Group can be direct or, to the extent these factors impact business activity and consumer confidence, indirect. The Directors believe that the signs of improved economic activity, together with gradual ongoing improvements in labour market conditions, will support continued growth in the Group's chosen specialist sectors. The Directors believe that improvements affecting the Group's SME customers will drive increased demand for the Group's Commercial Mortgages, Asset Finance and Business Credit loan products and that improvements affecting the Group's consumer customers will drive increased demand for the Group's Secured Lending and Consumer Lending loan products.

Levels of unemployment affect the default levels experienced by banks, including the Group. Employment prospects have continued to improve during 2014 with the unemployment rate dropping from 7.2 per cent. at the end of 2013 to 5.7 per cent. at the end of 2014. Focus on the unemployment rate increased following initial indications from the Bank of England's Monetary Policy Committee ("MPC") that the MPC would not consider a rise in the Bank of England's base rate until the unemployment rate had fallen below 7.0 per cent. The Directors believe the MPC is likely to delay increasing interest rates which have remained unchanged since March 2009 until it sees evidence that suggests the recovery in the economy is widespread and sustainable. Consensus forecasts and guidance from the Governor of the Bank of England suggest gently rising interest rates over the coming years.

Property prices, which can affect the Group's Secured Lending and Commercial Mortgages divisions, are broadly correlated with economic growth and have increased since 2010. Consumer savings balances, which represent the supply of savings held by depositors and available for banks as a source of funding, and which are the Group's primary source of funding, have also grown recently. These developments reflect UK GDP growth and have, in addition to other factors, supported the Group's growth.

Price competition between banks eased after the financial crisis as the larger UK institutions addressed their structural imbalance between wholesale and retail funding and regulators facilitated access to lower marginal cost liquidity, for example, through the FLS. The Group's average rate paid on retail deposits (calculated as interest expense on customer deposits as a percentage of average customer deposits) was 2.5 per cent., 3.2 per cent. and 4.0 per cent. for 2014, 2013 and 2012, respectively. This decreased cost of funds for retail deposits has been a contributing factor to the Group's improved net interest margin over the past two years.

The introduction of the FLS in 2012 has, in addition to other factors, supported improving liquidity in the funding markets for UK lenders. Supplemented by the UK Government's Help to Buy scheme, these initiatives have helped to support UK property prices, particularly since the middle of 2013. The Group is a participant in the FLS and as such can borrow, supported by assets from both the Commercial Mortgages and Asset Finance divisions, highly liquid UK Treasury Bills, at a fee of 25 basis points (provided the Group maintains or expands its lending over the reference period), in exchange for eligible collateral, which has been pre-positioned with the Bank of England. These initiatives have contributed to improvements in the Group's net interest margin over the period under review, particularly during FY 2014, although the Group may not be able to take advantage of the FLS to the same extent as some of its competitors because certain collateral taken by some of the Group's divisions is ineligible for exchange under the FLS. In addition, the UK Treasury Bills borrowed under the FLS are eligible to be counted towards the Group's liquidity resources under the PRA's Individual Liquidity Guidance framework, and they are also available for, but not required to be used in, repurchase transactions. As at 31 December 2014, 34 per cent. (£163.1 million) of the Group's liquidity buffer eligible assets comprised UK Treasury Bills drawn under the FLS.

### 3.2 New business volumes

The Group's ability to increase loan originations has a significant impact on its interest income and profit. During the period under review, the Group grew originations from £479.8 million in FY 2012 to £999.7 million in FY 2013 and to £1,366.4 million in FY 2014<sup>7</sup>. As a result of increased new business lending and the maturing of the Group's balance sheet, gross loan balances grew from £686.3 million as at 31 December 2012 to £1,352.3 million as at 31 December 2013 and to £2,295.9 million as at 31 December 2014, with the acquisition of Centric's loan book in June 2014 contributing to this overall growth. In turn, this growth has contributed to net interest income increasing from £21.0 million for FY 2012 to £54.9 million for FY 2013 and to £102.7 million for FY 2014 and has also contributed to profit/(loss) increasing from £(6.8) million for FY 2012 to £12.8 million for FY 2013 and to £34.5 million for FY 2014. The Group's ability to grow its balance sheet through new lending will continue to have a direct impact on reported profitability.

The Group seeks to identify growth opportunities in carefully selected sub-sectors of the UK banking market where the Directors see significant opportunities for superior margins, growth and returns and where the Group can differentiate itself based on its expertise, insights into the market and collateral values, strong relationships and commitment to service. By definition, there is less competition in underserved sub-sectors of the market, which tends to result in higher risk adjusted returns. The availability of credit remains constrained for many credit-worthy borrowers, and opportunity exists where major lenders are absent. In addition, a number of factors mitigate against the likelihood of a substantial increase in competition, including the bespoke approach required to underwrite business in these sub-sectors, which does not fit within the operating strategy of the larger lenders, and the Group's strong relationships with its Business Partners, who introduce new business to the Group, and certain direct customers (particularly within the Asset Finance division).

The Group has established strong distribution channels in each of its targeted lending markets and has been recognised for providing expertise, superior customer service and flexible, straightforward products.

### 3.3 Net interest margin

The Group's ability to increase its net interest income and thus its profit for a given period depends on both balance sheet growth and the net interest margin it can achieve. Net interest margin is the spread between rates charged on assets relative to cost of funding and is calculated by dividing the Group's net interest income by its average loans and advances to customers for a given period. The Group's net interest margin is dependent on, amongst other things, the interest income that the Group earns on its lending, which in turn is dependent on the rates it charges on its loans and the fees it charges its borrowers, which are offset by the commissions it pays to Business Partners. The cost of the Group's liabilities is dependent on the rate of interest paid on its sources of funding.

Since FY 2012, the growth in the Group's balance sheet, coupled with the widening of its net interest margin, generated a more than doubling of its net interest income from £21.0 million in FY 2012 to £54.9 million in FY 2013 and then a further near doubling to £102.7 million in FY 2014. The Group's net interest margin (calculated based on underlying measures as set forth in Section 2.1 of Part X (*Selected Financial Information and Key Performance Indicators*)) widened from 5.0 per cent. in 2012 to 5.8 per cent. in 2013 and to 6.1 per cent. in 2014 as the Group offset reductions in gross asset yields from 10.4 per cent. in FY 2012 to 9.5 per cent. in FY 2013 to 9.0 per cent. in FY 2014, which resulted primarily from changes in business mix, with reduced costs of retail deposits from 4.0 per cent. in FY 2012 to 3.2 per cent. in FY 2013 to 2.5 per cent. in FY 2014.

A competitive environment between lenders can place downward pressure on asset yields and therefore net interest margins; however, the Group's strategy of focusing on specialist sub-sectors within the UK banking market enables it to operate in areas that are not dominated by large high street banks. Within these specialist sub-sectors, where bespoke solutions are in higher demand, the Directors believe that the Group is able to add significant value for customers and as a result achieve higher margins than in mainstream lending markets.

<sup>7</sup> Includes gross originations of Business Credit from June 2014 (when Centric was acquired by the Group) to December 2014.

The Group is funded predominantly through online retail and SME deposits, and as such changes in the cost of deposits could have a significant impact on the Group's net interest income, net interest margin and profitability. A large proportion of the Group's lending is linked or hedged to LIBOR or linked to the base rate, and as such the spread between deposit rates and LIBOR and base rate will affect the Group's net interest margin. The Directors believe that the outlook for the Group's net interest margin will remain stable, due in part to continued access to the FLS, the introduction of additional deposit products and the potential normalisation of spreads between retail deposit costs and the base rate.

### **3.4 Asset quality**

Defaults by the Group's customers on their loan payment obligations could adversely affect the Group's balance sheet and results of operations. The Directors believe that the Group has a high quality balance sheet and that the Group's robust asset quality has been maintained since its inception, with loans more than 90 days in arrears and impaired loans of 0.7 per cent., 0.8 per cent. and 0.8 per cent. as at 31 December 2012, 2013 and 2014, respectively. In addition, as at 31 December 2014, 98.0 per cent. of the Group's loan accounts were up-to-date, and the Group's collateralised loan book had a weighted average LTV of 63.8 per cent.

The Group has a limited operating history and has been growing its loan book since formation. While the Group has credit management processes and procedures in place to address potential impairment of its balance sheet, such policies and procedures have not been subject to severe stress and may not prove to be effective.

The Group's impairment losses have grown in absolute sterling amounts during the period under review as the balance sheet has grown and the loan books have begun to season, reflecting management's prudent application of a provisioning policy aligned to stress scenario conditions. The Group recorded total impairment losses on financial assets of £2.7 million, £3.5 million and £6.7 million in FY 2012, FY 2013 and FY 2014, respectively. However, as a percentage of the Group's total loans and advances to customers on an annualised basis, impairment losses declined from FY 2012 (0.68 per cent.) to FY 2013 (0.34 per cent.) and stayed relatively flat in FY 2014 (0.37 per cent.). The Directors are aware that while the underlying performance of the portfolio has been strong, certain segments have not operated throughout a downturn. In recognition of this fact and to minimise future shocks, losses are provided for based upon through-the-cycle assumptions (rather than recent historical performance). For the Group's property-based businesses, the stress tests that determine today's provisions assume declines in property values in line with the UK variant stress scenario prescribed by the PRA. Even with this level of assumed property value decline, provisions remain low due to the Group's conservative approach to advance rates.

IFRS 9 becomes effective from 1 January 2018, although it is not yet endorsed by the EU. The standard replaces parts of IAS 39. Phase one of this process specifically requires financial assets to be classified at amortised cost or at fair value. Consequently, the available-for-sale category currently used by the Group will no longer be used. Further development phases for IFRS 9 are scheduled to cover key areas such as impairment and hedge accounting. Early adoption is permitted once endorsed by the EU. The Group is monitoring the development of IFRS 9 and considering the associated impact on the Group's financial statements.

### **3.5 Strong and sustainable balance sheet structure**

The Group is committed to maintaining a strong capital base, under both existing and anticipated future regulatory requirements and under both base case and stressed scenarios. As at 31 December 2014, the Group held a CET 1 ratio of 11.5 per cent. and a leverage ratio of 6.3 per cent. in each case calculated as described under Section 2.1 of Part X (*Selected Financial Information and Key Performance Indicators*) of this Prospectus.

The Group manages and monitors its liquidity levels by forecasting liquidity flows and stress testing the forecasted flows in order to maintain a stock of liquid assets that meets internal requirements and exceeds regulatory requirements. As at 31 December 2014, 92.8 per cent. of the Group's liquidity portfolio comprised monies held in the Group's Bank of England reserve account or UK Treasury Bills drawn under the FLS. The Group expects to be comfortably in excess of the anticipated CRD IV liquidity coverage ratio requirements. In addition, the Group's Basel III net stable funding ratio ("NSFR")

(which is the requirement for a minimum amount of so-called stable funding over a one-year period based on liquidity risk factors assigned to assets, off-balance sheet liquidity exposures and other contingent funding obligations) as at 31 December 2014 was 156 per cent.<sup>8</sup>, in excess of the proposed minimum NSFR that is expected to be applicable commencing in 2018.

The Group focuses on achieving a strong and sustainable balance sheet structure to support its lending growth and improve its results of operations. The Group's 2014 origination volumes drove average monthly balance sheet loan growth of £78 million per month for the year ended 31 December 2014 with a behavioural weighted average half-life of 3.25 years as at 31 December 2014. Were the 2014 gross origination run rate volumes<sup>9</sup> of £1.4 billion per annum (based on 2014 monthly average gross originations of £114 million per month) to continue, from an opening position as at 31 December 2014 of £2.3 billion, then, even without any incremental acceleration in originations, the loan book would grow by approximately £700 million — £800 million per annum (assuming there was no change in the behavioural weighted average half-life of the Group's loans).

The Group's lending activities are predominantly funded through customer deposits (representing 87.9 per cent. of total liabilities and equity as at 31 December 2014), and it also enters into repurchase agreements with UK banking counterparties that are collateralised using its UK Treasury Bills from the FLS, with £37.5 million of repurchase agreements (included within amounts due to banks on the Group's balance sheet) in effect as at 31 December 2014. The Directors believe that this funding structure has enabled the Group to achieve attractive net interest margins and, together with potential opportunistic expansions into new funding areas in the future, including ISAs, easy access accounts and wholesale funding, the Directors believe that the Group can continue to maintain net interest margins and achieve attractive results.

### **3.6 Acquisitions**

The Group's business, financial condition and results of operations have also been affected by acquisitions during the period under review, which are described below. The Group will continue to evaluate strategic business and loan portfolio acquisition opportunities in the future.

#### *Singers Asset Finance*

In March 2012, the Group acquired Singers Asset Finance with £325 million of leasing assets (classified as loans and advances to customers and operating leases within property, plant and equipment) from the administrators of the Kaupthing estate for a total consideration of £55.8 million (including goodwill of £9.0 million). The acquisition formed the foundation of the Group's Asset Finance division and brought in specialist financing capabilities such as financing of business critical asset classes including commercial and haulage vehicles, vehicle rental fleets, taxis and machine tools and equipment leasing solutions to NHS trusts and public and private healthcare providers.

#### *Money2Improve*

In November 2012, the Group expanded its Consumer Lending division with the acquisition of Money2Improve, which sourced supplier relationships for lending businesses in the division's key focus areas of home improvement products and holiday ownership.

#### *Centric Commercial Finance*

In June 2014, the Group acquired the asset-based lender Centric from funds managed by Cabot Square Capital LLP for a total consideration of £77.7 million. The Group acquired Centric with £195.5 million of SME advances to broaden its product offering and increase future growth. The acquired business was rebranded as the Group's Business Credit division, and the majority of the offering is loans to SMEs secured against invoices, which provides the division's SME customer base with immediate access to cash to support a number of business operations, including working capital, growth opportunities, mergers and acquisitions, refinancings, restructurings, management buy-outs and buy-ins and turnarounds. Loans are also made against stock, plant and machinery and property to create a total funding solution for the Group's customers.

<sup>8</sup> The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. The ratio is required to be 100 per cent. with effect from 2018. Available stable funding would include such items as equity capital, preferred stock with a maturity of over one year, or liabilities with a maturity of over one year.

<sup>9</sup> Includes gross loan origination volumes and behavioural weighted average half-life of loans for Business Credit from June 2014 (when Centric was acquired by the Group) to December 2014.

## Acquired Portfolio

In November 2014, the Group added to its Commercial Mortgages loan book with the acquisition of a portfolio of loans from the Commercial First Group Limited (the “**Acquired Portfolio**”). The Acquired Portfolio comprised £23.5 million of loans and advances to customers as at 31 December 2014.

## 4. Presentation of financial results

### 4.1 Preparation of financial statements

The Group prepares its financial statements under IFRS as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee (“**IFRIC**”). The Group’s year-end is 31 December.

## 5. Financial position

### 5.1 Consolidated balance sheet

	As at 31 December		
	2014	2013	2012
	(£m)		
<b>Assets</b>			
Cash and balances at central banks .....	313.1	206.6	0.2
Loans and advances to banks .....	36.6	23.8	117.2
Loans and advances to customers .....	2,284.8	1,346.9	683.5
Derivative financial assets .....	3.7	—	—
Investment securities — available for sale .....	—	—	144.9
Property, plant and equipment .....	49.7	53.8	61.1
Intangible assets .....	49.5	22.2	21.3
Deferred tax asset .....	9.8	8.6	11.2
Other assets .....	6.8	6.1	10.9
<b>Total assets</b> .....	<b>2,754.0</b>	<b>1,668.0</b>	<b>1,050.3</b>
<b>Liabilities</b>			
Customer deposits .....	2,421.0	1,463.0	923.7
Due to banks .....	41.0	24.6	—
Provisions for liabilities and charges .....	0.6	0.4	0.1
Other liabilities .....	41.9	16.9	21.6
Subordinated debt .....	30.8	27.6	—
<b>Total liabilities</b> .....	<b>2,535.3</b>	<b>1,532.5</b>	<b>945.4</b>
<b>Equity</b>			
Share capital .....	185.3	138.0	120.2
Share premium account .....	1.3	—	—
Retained earnings .....	32.1	(2.5)	(15.3)
<b>Total equity</b> .....	<b>218.7</b>	<b>135.5</b>	<b>104.9</b>
<b>Total equity and liabilities</b> .....	<b>2,754.0</b>	<b>1,668.0</b>	<b>1,050.3</b>

### 5.2 Assets

Total assets for the Group as at 31 December 2014 were £2,754.0 million, representing an increase of £1,086.0 million or 65.1 per cent. compared with £1,668.0 million as at 31 December 2013. The increase in total assets over the period was primarily due to organic loan originations across all of the Group’s lending divisions, supported by the launch of new product lines such as marine finance (within the Asset Finance division), personal loans (within the Consumer Lending division) and short-term loans (within the Commercial Mortgages division), and acquisition-supported growth following the acquisition of Centric.

Total assets for the Group as at 31 December 2013 of £1,668.0 million represented an increase of £617.7 million, or 58.8 per cent., compared with £1,050.3 million as at 31 December 2012. The increase in total assets over the period was primarily a product of organic loan originations across all of the Group's lending divisions (other than Business Credit, which was acquired in June 2014), supported by the launch of new product lines such as wholesale financing (within the Asset Finance division).

**(A) Cash and balances at central banks**

Cash and balances at central banks includes balances held with the Bank of England on the reserve account. During FY 2013, the Group established the Bank of England reserve account and holds funds in this account to support its liquidity buffer eligible assets. As at 31 December 2014, cash and balances at central banks accounted for 66 per cent. of the Group's liquidity buffer eligible assets. Cash and balances at central banks does not include UK Treasury Bills drawn under the FLS, which are eligible to be counted towards a bank's liquidity resources and are also available for repurchase transactions but are required under applicable accounting standards to be held off-balance sheet. As at 31 December 2014, UK Treasury Bills drawn under the FLS accounted for £163.1 million of the Group's liquidity buffer eligible assets.

**(B) Loans and advances to banks**

Loans and advances to banks includes bank loans and other non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the counterparty and where the Group has no intention of trading the loan. These assets are initially recognised at fair value, including direct and incremental transaction costs. Subsequent recognition is at amortised cost using the effective interest rate method, less any provision for impairment.

The table below presents an analysis of loans and advances to banks by rating agency designation, as at 31 December 2014, 2013 and 2012, based on Moody's long-term ratings.

	As at 31 December		
	2014	2013	2012
	(£m)		
A1 .....	18.6	—	—
A2 .....	1.1	0.1	78.9
A3 .....	—	23.6	33.3
Aa3 .....	—	0.1	5.0
Baa1 .....	16.9	—	—
<b>Total loans and advances to banks .....</b>	<b>36.6</b>	<b>23.8</b>	<b>117.2</b>

The Group only lends to large, mainstream UK banks. Deposits are placed either overnight or for a short term with a duration of less than three months. These balances form part of the Group's working capital for operational purposes.

**(C) Loans and advances to customers**

Loans and advances to customers (including loan receivables, finance lease receivables and instalment credit receivables) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the customer and where the Group has no intention of trading the loan or receivable. Loans and advances to customers comprise a substantial portion of the Group's assets.

Loans and advances to customers also include finance leases and instalment credit agreements. The net investment in finance leases and instalment credit agreements represents the future lease rentals and instalments receivable less profit and costs allocated to future periods. Income is recognised throughout the life of the agreement to provide a constant rate of return on the net investment in each lease or instalment credit agreement.

Certain arrears and impairment information with respect to the Group's loans and advances to customers is summarised in the following table.

	As at 31 December		
	2014	2013	2012
	(£m)		
Neither past due nor impaired . . . . .	2,249.4	1,322.3	663.3
Past due but not impaired			
Up to 30 days . . . . .	12.6	8.2	11.8
30-60 days . . . . .	12.7	10.4	6.0
60-90 days . . . . .	3.4	1.0	0.5
Over 90 days . . . . .	4.6	1.8	1.2
	<b>33.3</b>	<b>21.4</b>	<b>19.5</b>
Impaired . . . . .	13.2	8.6	3.5
	<b>2,295.9</b>	<b>1,352.3</b>	<b>686.3</b>
Less: allowances for impairment losses . . . . .	(11.1)	(5.4)	(2.8)
<b>Net loan receivables</b> . . . . .	<b>2,284.8</b>	<b>1,346.9</b>	<b>683.5</b>

As at 31 December 2014, loans and advances to customers of £535.2 million were pre-positioned with the Bank of England and HM Treasury for use as collateral within the FLS compared to £156.6 million as at 31 December 2013. Certain of these assets are prepositioned with the Bank of England's Discount Window Facility and are not encumbered until Treasury Bills are drawn under the FLS.

As at 31 December 2014 and 31 December 2013, the proportion of loans and advances to customers that were past due more than 90 days or impaired was 0.8 per cent. The provision coverage of impaired loans and loans past due more than 90 days increased from 51.9 per cent. as at 31 December 2013 to 62.4 per cent. as at 31 December 2014 as the portfolios seasoned through 2014 and management applied provisioning methodology based upon through-the-cycle assumptions (rather than recent historical performance).

The proportion of loans and advances to customers that were more than 90 days past due or impaired of 0.8 per cent. as at 31 December 2013 represented an increase of 0.1 per cent. from 0.7 per cent. as at 31 December 2012 as the loan book seasoned through 2013.

The following table and discussion sets out a segmental breakdown of net loans and advances to customers as at 31 December 2014, 2013 and 2012.

	2014			
	Loans and advances to customers (£m)	Property, plant & equipment (£m)	Total	Per cent. of total
Commercial Mortgages . . . . .	968.9	—	968.9	41.6%
Asset Finance . . . . .	517.9	46.2	564.1	24.2%
Business Credit . . . . .	169.8	—	169.8	7.3%
Secured Lending . . . . .	401.3	—	401.3	17.2%
Consumer Lending . . . . .	226.9	—	226.9	9.7%
<b>Total</b> . . . . .	<b>2,284.8</b>	<b>46.2</b>	<b>2,331.0</b>	<b>100.0%</b>

	2013			
	Loans and advances to customers (£m)	Property, plant & equipment (£m)	Total	Per cent. of total
Commercial Mortgages . . . . .	543.8	—	543.8	38.9%
Asset Finance . . . . .	392.5	51.9	444.4	31.8%
Secured Lending . . . . .	295.0	—	295.0	21.1%
Consumer Lending . . . . .	115.6	—	115.6	8.2%
<b>Total</b> . . . . .	<b>1,346.9</b>	<b>51.9</b>	<b>1,398.8</b>	<b>100.0%</b>

	2012			
	Loans and advances to customers	Property, plant & equipment	Total	Per cent. of total
	(£m)			
Commercial Mortgages .....	202.2	—	202.2	27.2%
Asset Finance .....	288.8	59.7	348.5	46.9%
Secured Lending .....	163.1	—	163.1	21.9%
Consumer Lending .....	29.4	—	29.4	4.0%
<b>Total .....</b>	<b>683.5</b>	<b>59.7</b>	<b>743.2</b>	<b>100.00%</b>

#### *Commercial Mortgages*

The Group's Commercial Mortgages loan book as at 31 December 2014 was £968.9 million, representing a 78.2 per cent. increase from £543.8 million as at 31 December 2013. The increase in the Group's Commercial Mortgages loan book was driven by growth in loan originations from £400.6 million in FY 2013 to £550.9 million in FY 2014, supported by the introduction of a new range of short-term loans and continued growth in the term lending products.

The Group's Commercial Mortgages loan book as at 31 December 2013 was £543.8 million, representing a 168.9 per cent. increase from £202.2 million as at 31 December 2012. The increase in the Group's Commercial Mortgages loan book over the period was driven by growth in loan originations from £175.4 million in FY 2012 to £400.6 million in FY 2013.

#### *Asset Finance*

The Group's Asset Finance loan book (including operating leases held on the Group's balance sheet as property, plant and equipment) as at 31 December 2014 was £564.1 million, representing a 26.9 per cent. increase from £444.4 million as at 31 December 2013. The increase was primarily due to growth in lending originations from £305.4 million in FY 2013 to £386.1 million in FY 2014 and the introduction of a new marine lending proposition.

The Group's Asset Finance loan book (including operating leases held as PPE) as at 31 December 2013 was £444.4 million, representing a 27.5 per cent. increase from £348.5 million as at 31 December 2012. The increase was driven primarily by lending originations of £305.4 million in FY 2013 reflecting continued growth and the introduction of wholesale finance within the division.

#### *Business Credit*

The Group's Business Credit loan book as at 31 December 2014 was £169.8 million following the acquisition of Centric in June 2014 and the re-branding to the Group's Business Credit division.

#### *Secured Lending*

The Group's Secured Lending loan book as at 31 December 2014 was £401.3 million, representing a 36.0 per cent. increase from £295.0 million as at 31 December 2013. The increase in the Group's Secured Lending loan book over the period was primarily due to growth in loan originations from £180.8 million in FY 2013 to £191.3 million in FY 2014.

The Group's Secured Lending loan book as at 31 December 2013 was £295.0 million, representing a 80.9 per cent. increase from £163.1 million as at 31 December 2012. The increase in the Group's Secured Lending loan book over the period was primarily due to growth in loan originations from £122.2 million in FY 2012 to £180.8 million in FY 2013.

#### *Consumer Lending*

The Group's Consumer Lending loan book as at 31 December 2014 was £226.9 million, representing a 96.3 per cent. increase from £115.6 million as at 31 December 2013. The increase in the Group's Consumer Lending loan book over the period was driven by growth in loan originations from £112.9 million in FY 2013 to £190.2 million in FY 2014 and the full roll-out of the e-signature proposition across the product range.

The Group's Consumer Lending loan book as at 31 December 2013 was £115.6 million, representing a 293.2 per cent. increase from £29.4 million as at 31 December 2012. The increase in the Group's Consumer Lending loan book over the period was primarily due to growth in loan originations from £31.7 million in FY 2012 to £112.9 million in FY 2013.

#### (D) Derivative financial assets

The Group uses derivatives to reduce exposure to market risks, and not for trading purposes. The Group uses the International Swaps and Derivatives Association Master Agreement to document these transactions in conjunction with a Credit Support Annex. The fair value of derivatives is set out below:

	Notional amount (£m)	Fair value of assets (£m)	Fair value of liabilities (£m)
<b>Interest rate swaps:</b>			
At 31 December 2014 .....	195.0	3.7	—
At 31 December 2013 .....	—	—	—
At 31 December 2013 .....	—	—	—
<b>Interest rate cap:</b>			
At 31 December 2014 .....	—	—	—
At 31 December 2013 .....	38.0	—	—
At 31 December 2013 .....	108.4	—	—

During 2014, the Group adopted hedge accounting following the acquisition of its interest rate swaps. The amortising interest rate cap had a notional principal that reduced to £nil during 2014.

Gains and losses from derivatives and hedge accounting are as follows:

	2014 (£m)	2013 (£m)	2012 (£m)
Gain on derivative financial assets .....	3.7	—	—
Fair value loss on hedged risk .....	(3.8)	—	—
<b>Change in fair value in year (loss)</b> .....	<b>(0.1)</b>	<b>—</b>	<b>—</b>

#### (E) Investment securities — available for sale

Available for sale financial assets are non-derivative financial assets that are designated available for sale and that are not classified in any of the other categories of financial assets. Subsequent to initial recognition they are measured at fair value, and changes therein, other than impairment losses, are recognised within other comprehensive income and presented within equity in the available for sale reserve. Interest income is recognised over the life of the asset using the effective interest method. On disposal, gains and losses accumulated in equity are reclassified to the income statement.

As part of the Group's 2012 liquidity management strategy, the Group invested in money market securities according to a Board approved investment policy that ensured these funds were invested in a prudent and diversified manner. As at 31 December 2013 and 31 December 2014, the Group had no investments in money market securities and all liquidity buffer eligible assets were held either in the Group's Bank of England reserve account or in the form of UK Treasury Bills drawn under the FLS.

#### (F) Property, plant and equipment

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	(£m)	(£m)	(£m)
Operating leases .....	46.2	51.9	59.7
Other PPE .....	3.5	1.9	1.4
<b>Total</b> .....	<b>49.7</b>	<b>53.8</b>	<b>61.1</b>

PPE is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of PPE. Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Included within PPE are assets leased to customers under operating leases in respect of medical equipment. The net book value of operating leases represents the original cost of the equipment less cumulative depreciation. Rentals are recognised on a straight line basis over the lease term. Depreciation of the assets leased to customers is recognised on a straight line basis to a residual value over the life of the associated agreement.

#### (G) Intangible assets

	As at 31 December		
	2014	2013	2012
	(£m)		
Goodwill . . . . .	44.8	21.1	21.1
Computer software . . . . .	4.7	1.1	—
Customer relationships . . . . .	—	—	0.2
<b>Total intangible assets . . . . .</b>	<b>49.5</b>	<b>22.2</b>	<b>21.3</b>

Goodwill has arisen on the acquisition of companies whose businesses have been integrated within the Group and reflects the difference between the consideration paid and the fair value of net assets acquired. Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment by reviewing detailed cash flow projections from the Group's latest approved forecast.

Goodwill arising on acquisitions is allocated to the following cash generating units ("CGUs"): Commercial Mortgages (£2.6 million), Asset Finance (£10.5 million), Business Credit (£24.2 million), Secured Lending (£6.4 million) and Consumer Lending (£1.1 million). This goodwill is attributable to the skills of the workforce.

Expenditure on software development activities is capitalised if (i) the product or process is technically and commercially feasible and the Group intends, has the technical ability and has sufficient resources to complete development, (ii) future economic benefits are probable and (iii) the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of direct labour and software licence costs. Other development expenditure is recognised in the income statement as an expense is incurred. Capitalised developments are stated at cost less accumulated amortisation and less accumulated impairment losses.

The Directors believe that long-standing customer relationships will enhance the Group's future income. Upon the acquisition of Singers Asset Finance, the future income stream arising from the loyalty of long-standing customer relationships was assessed and recognised as an intangible asset. The cost has been fully amortised.

#### (H) Deferred tax asset

	As at 31 December		
	2014	2013	2012
	(£m)		
Accelerated tax depreciation . . . . .	9.6	8.4	9.0
Tax value of losses carried forward . . . . .	—	—	1.9
Deferred tax on acquisition adjustments . . . . .	(0.2)	(0.2)	(0.2)
Other . . . . .	0.4	0.4	0.5
<b>Deferred tax asset . . . . .</b>	<b>9.8</b>	<b>8.6</b>	<b>11.2</b>

A deferred tax asset (“DTA”) is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. DTAs are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

The Group had a DTA of £9.8 million, £8.6 million and £11.2 million as at 31 December 2014, 2013 and 2012, respectively, resulting primarily from decelerated capital allowances and, in FY 2012, retained losses. The Group reached breakeven in 2012 and has generated profits since, fully utilising all tax losses recognised as at 31 December 2012. The tax assets will unwind over the remaining life of the underlying leased assets with which they are associated.

### 5.3 Liabilities

Total liabilities for the Group as at 31 December 2014 were £2,535.3 million, representing an increase of £1,002.8 million or 65.4 per cent. compared with £1,532.5 million as at 31 December 2013. The increase in total liabilities during 2014 was primarily due to increased deposit raising in order to support growth in the Group’s lending divisions and the Centric acquisition.

Total liabilities for the Group as at 31 December 2013 of £1,532.5 million represented an increase of £587.1 million or 62.1 per cent. compared with £945.4 million as at 31 December 2012. The increase in total liabilities during 2013 was primarily due to increased deposit raising to support growth in the Group’s lending divisions, the Group’s entry into the Tier 2 Facility described below under Section 5.3(E) in October 2013 and an increase in the amount due to banks, which represented monies arising from the sale and repurchase of drawings under the FLS (The UK Treasury Bills drawn under the FLS are to be repaid during 2017-2018 and beyond, depending on utilisation of the FLS extension).

The following table sets out certain balance sheet information of the Group as at 31 December 2014, 2013 and 2012:

	As at 31 December		
	2014	2013	2012
	(£m)		
Customer deposits .....	2,421.0	1,463.0	923.7
Due to banks .....	41.0	24.6	—
Provisions for liabilities and charges .....	0.6	0.4	0.1
Other liabilities .....	41.9	16.9	21.6
Subordinated debt .....	30.8	27.6	—
<b>Total liabilities .....</b>	<b>2,535.3</b>	<b>1,532.5</b>	<b>945.4</b>

#### (A) Customer deposits

Customer deposits include fixed-rate and administered-rate retail and SME deposits, and both fixed-term deposits and deposits available for withdrawal on demand or at notice. Customer deposits comprise a substantial portion of the Group’s liabilities.

The following table sets out a breakdown of the Group’s customer deposits as at 31 December 2014, 2013 and 2012.

	As at 31 December		
	2014	2013	2012
	(£m)		
Instant access .....	52.4	17.0	1.7
Term deposits and notice accounts .....	2,364.9	1,446.0	922.0
Fair value adjustment for hedged risk .....	3.7	—	—
<b>Total customer deposits .....</b>	<b>2,421.0</b>	<b>1,463.0</b>	<b>923.7</b>

### (B) Due to banks

The Group's liabilities due to banks primarily represent monies arising from the sale and repurchase of drawings under the FLS.

### (C) Provisions for liabilities and charges

The following table sets out a breakdown of the Group's provisions for liabilities and charges as at 31 December 2014, 2013 and 2012.

	As at 31 December		
	2014	2013	2012
	(£m)		
At 1 January .....	0.4	0.1	—
Provisions utilised .....	(0.9)	(0.4)	—
Provisions made during the year .....	1.1	0.7	0.1
<b>At 31 December .....</b>	<b>0.6</b>	<b>0.4</b>	<b>0.1</b>

In common with all regulated UK deposit takers, the Group pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The FSCS meets these current claims by way of loans received from HM Treasury. The payment terms of these loans were interest only for the first three years, and the FSCS seeks to recover the interest cost, together with on-going management expenses, by way of annual management levies on members over this period.

The Group's FSCS provision reflects market participation up to the reporting date. The above provision includes the estimated management expense levy for the scheme year 2014/15. This amount was calculated on the basis of the Group's current share of protected deposits taking into account the regulator's estimate of total management expense levies for the scheme year.

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012 and an instalment of this charge was paid by the Group during the year. No provision in respect of the capital compensation levy is included in the provision at 31 December 2014.

### (D) Other liabilities

The following table sets out a breakdown of the Group's other liabilities as at 31 December 2014, 2013 and 2012.

	As at 31 December		
	2014	2013	2012
	(£m)		
Other creditors .....	23.8	8.7	16.6
Corporation tax payable .....	5.3	—	0.1
Accruals .....	12.8	8.2	4.9
<b>Total other liabilities .....</b>	<b>41.9</b>	<b>16.9</b>	<b>21.6</b>

Other creditors includes £7.2 million, £3.8 million and £4.4 million of tax deducted at source from customer deposit interest as at 31 December 2014, 2013 and 2012, respectively.

### (E) Subordinated debt

Subordinated debt is comprised of the Group's 10-year Tier 2 subordinated debt facility, entered into in October 2013 with Drake Recoveries S.A.R.L., an investment vehicle of Carval Investors LLC (the "Tier 2 Facility"). The interest rate on the Tier 2 Facility is variable based on the Group's return on capital, with a floor of 11 per cent. and a cap of 13.25 per cent. The rate was 11 per cent. in 2014. The terms of the Tier 2 Facility allow for interest to be paid half yearly or capitalised into the balance of the loan, and provide for both interest and capital to be repaid in full at the end of the 10-year term. The Group currently capitalises interest and as at 28 February 2015 the total balance owing under the Tier 2 Facility was £31.3 million. The Group can redeem the Tier 2 Facility in whole or in part at any point from October 2018, on giving five days' notice. Redemption is permitted by the Group at any point if the regulatory classification of the instrument changes. The Tier 2 Facility qualifies as tier 2 capital in the resources or own funds of the Group, calculated in accordance with Regulation (EU) No 648/2012 and does not affect the Group's CET1 ratio. In certain circumstances, the Major Shareholder may be required to acquire the Tier 2 Facility from the lender at a price equal to its principal amount outstanding plus accrued interest. These circumstances include the Major Shareholder ceasing to hold at least 92,148,579 Ordinary Shares or the Group undertaking certain transactions which require shareholder approval under the Listing Rules. However, any such acquisition by the Major Shareholder would not affect the terms of the Tier 2 Facility. The Group's subordinated debt under the Tier 2 Facility is unsecured and ranks behind any claims against the Group from all depositors and creditors. The Major Shareholder's obligation to acquire the Tier 2 Facility is secured by a charge over the shares it holds in the Company from time to time.

The following table sets out a breakdown of the Group's subordinated debt.

	As at 31 December		
	2014	2013	2012
	(£m)		
At 1 January .....	27.6	—	—
Issued in year .....	—	27.1	—
Interest expense .....	3.2	0.5	—
<b>At 31 December</b> .....	<b>30.8</b>	<b>27.6</b>	<b>—</b>

### 6. Results of operations

The following table sets out the Group's results of operations for the period under review.

	FY 2014	FY 2013	FY 2012
	(£m)		
Interest receivable and similar income .....	156.7	93.3	48.4
Interest expense and similar charges .....	(54.0)	(38.4)	(27.4)
Net interest income .....	102.7	54.9	21.0
Operating lease rentals .....	15.7	17.1	15.1
Other income .....	1.1	1.1	0.3
Depreciation on operating leases .....	(13.1)	(13.8)	(12.1)
Net income from operating leases .....	3.7	4.4	3.3
Fee and commission income .....	7.6	0.8	0.5
Fee and commission expense .....	(1.7)	—	(0.1)
Net fee and commission income .....	5.9	0.8	0.4
Fair value (losses) on financial instruments .....	(0.1)	—	—
<b>Net operating income</b> .....	<b>112.2</b>	<b>60.1</b>	<b>24.7</b>
Administrative expenses .....	(59.1)	(39.8)	(29.0)
Impairment losses on financial assets .....	(6.7)	(3.5)	(2.7)
Provisions for liabilities and charges .....	(1.1)	(0.7)	(0.1)
<b>Profit/(Loss) before taxation</b> .....	<b>45.3</b>	<b>16.1</b>	<b>(7.1)</b>
Income tax (charge)/credit .....	(10.8)	(3.3)	0.3
<b>Profit/(loss) for the year, attributable to owners</b> .....	<b>34.5</b>	<b>12.8</b>	<b>(6.8)</b>

## 6.1 Interest receivable and similar income

Interest receivable and similar income includes interest income on all interest-bearing financial assets measured at amortised cost, interest income on available for sale investments and interest on derivatives hedging financial assets.

Interest income on financial assets measured at amortised cost (loans and receivables and held to maturity investments) is recognised in profit or loss using the effective interest rate ("EIR") method. The EIR is the rate that discounts the expected future cash flows, over the expected life of the financial asset, to the net carrying value of the financial asset. In calculating the EIR the Group estimates the cash flows considering all contractual terms (such as prepayment options) but not future credit losses. Interest receivable and similar income includes net fee and other income where it is directly attributable to individual loans and forms an integral part of that loan's EIR. Potential early repayment charges, origination fees received and paid on loan assets, together with any premium paid, or discount received, on acquired portfolios and acquisition costs of mortgage books are included within loans and advances to customers and are amortised over the expected life of the mortgage assets using the EIR method.

Interest receivable and similar income increased by £63.4 million, or 68.0 per cent., to £156.7 million for FY 2014 from £93.3 million for FY 2013. This increase was primarily the result of increases in the total balance of loans and advances to customers from £1,346.9 million at 31 December 2013 to £2,284.8 million at 31 December 2014. The increase in the total balance of loans and advances to customers was driven by the maturing of the Group's balance sheet, controlled growth in origination capability across all divisions as new lending originations grew from £1.0 billion in FY 2013 to £1.4 billion in FY 2014, the acquisition of Centric, the introduction of a new short-term loan proposition, a new personal loans product and a new marine lending proposition and the full roll out of the e-signature proposition across the Consumer Lending product range.

Interest receivable and similar income increased by £44.9 million, or 92.8 per cent., to £93.3 million for FY 2013 from £48.4 million for FY 2012. This increase was primarily the result of increases in the total balance of loans and advances to customers from £683.5 million at 31 December 2012 to £1,346.9 million at 31 December 2013. The increase in the total balance of loans and advances to customers was driven by increased origination capability across all divisions as new lending originations grew from £0.48 billion in FY 2012 to £1.0 billion in FY 2013 and the introduction of wholesale lending within the Asset Finance division and secured buy-to-let lending within the Commercial Mortgages division.

The following table sets out the components of interest receivable and similar income for FY 2014, FY 2013 and FY 2012.

	FY 2014	FY 2013	FY 2012
	(£m)		
Interest paid by customers .....	153.8	92.1	48.1
Interest received and realised gains/(losses) on available for sale			
investment securities .....	—	—	(0.1)
Interest received from derivative financial instruments .....	1.0	—	—
Interest on loans and advances to banks .....	1.9	1.2	0.4
<b>Total interest receivable and similar income .....</b>	<b>156.7</b>	<b>93.3</b>	<b>48.4</b>

## 6.2 Interest expense and similar charges

Interest expense and similar charges represent the Group's cost of funding after associated swap costs/income. Interest expense and similar charges include interest payable on the following financial liabilities, together with interest on derivatives hedging them, to the extent applicable:

- retail customer deposits;
- the Group's Tier 2 Facility;
- other subordinated liabilities;

- wholesale borrowings (including UK Treasury Bills drawn under the FLS); and
- securities sold subject to repurchase agreements at a pre-determined price.

Interest expense and similar charges increased by £15.6 million, or 40.6 per cent., to £54.0 million for FY 2014 from £38.4 million for FY 2013. This increase was primarily due to an increase in customer deposits from £1,463.0 million at 31 December 2013 to £2,421.0 million at 31 December 2014 and the inclusion of the subordinated debt under the Tier 2 Facility for the full 12 months of FY 2014 compared to two months for FY 2013, offset by reductions in the cost of retail deposits from 3.2 per cent. for FY 2013 to 2.5 per cent. for FY 2014, driven in part by the run off in 2014 of higher cost fixed term deposits raised in 2012 to fund the acquisition of Singers Asset Finance. In addition, the cost of retail deposits continued to fall as competition for retail funds declined due to the increased availability of liquidity in the market following the introduction and extension of the FLS and continued delay in the market's expectation of base rate increases. In the first quarter of 2015, the Group introduced the ISA product to its deposit range that is expected to contribute to a further reduction in the Group's retail cost of funds.

Interest expense and similar charges increased by £11.0 million, or 40.1 per cent., to £38.4 million for FY 2013 from £27.4 million for FY 2012. This increase was primarily due to a 58.4 per cent. increase in customer deposits from £923.7 million at 31 December 2012 to £1,463.0 million at 31 December 2013 and interest due on subordinated debt under the Tier 2 Facility of £27.1 million, offset by reductions in the cost of retail deposits from 4.0 per cent. for FY 2012 to 3.2 per cent. for FY 2013.

The following table sets out the components of interest expense and similar charges for FY 2014, FY 2013 and FY 2012.

	<b>FY 2014</b>	<b>FY 2013</b>	<b>FY 2012</b>
	(£m)	(£m)	(£m)
Interest paid to depositors .....	50.2	37.7	27.4
Interest on amounts due to banks .....	0.5	0.2	—
Interest on subordinated debt .....	3.2	0.5	—
Interest on loan notes .....	0.1	—	—
<b>Total interest expense and similar charges .....</b>	<b>54.0</b>	<b>38.4</b>	<b>27.4</b>

### 6.3 Net interest income

Net interest income increased by £47.8 million, or 87.1 per cent., to £102.7 million for FY 2014 from £54.9 million for FY 2013 due to the movements in interest receivable and similar income and interest payable and similar expense explained above.

Net interest income increased by £33.9 million, or 161.4 per cent., to £54.9 million for FY 2013 from £21.0 million for FY 2012 due to the movements in interest receivable and similar income and interest payable and similar expense explained above.

Net interest margin (calculated as described under Section 2.1 of Part X (*Selected Financial Information and Key Performance Indicators*)) increased from 5.0 per cent. in 2012 to 5.8 per cent. in 2013 and to 6.1 per cent. in 2014. The improvement in net interest margin reflected the stability in the pricing of new loan originations and the continued reduction in the cost of raising retail deposits.

### 6.4 Net income from operating leases

Net income from operating leases decreased by £0.7 million, or 15.9 per cent., to £3.7 million for FY 2014 from £4.4 million for FY 2013 due to a decrease in the operating lease portfolio from £51.9 million at 31 December 2013 to £46.2 million at 31 December 2014.

Net income from operating leases increased by £1.1 million, or 33.3 per cent., to £4.4 million for FY 2013 from £3.3 million for FY 2013 due primarily to operating leases having been recognised for the full 12 months of FY 2013 compared to only part of FY 2012 following the acquisition of Singers Asset Finance.

## 6.5 Net fee and commission income

Fee and commission income includes fees and commissions relating to services provided to customers that are not an integral part of the EIR of a financial asset. They are recognised on an accruals basis as services are provided or on the performance of a significant act. These fees and commissions include: arrangement fees, service fees, termination fees and early settlement fees.

Fee and commission expense include fees and commissions payable that are not an integral part of the EIR of a financial liability, which includes broker commission and trail commission. Fee and commission expense is recognised on an accruals basis as services are received.

The following table sets out the components of fee and commission income for FY 2014, FY 2013 and FY 2012.

	FY 2014	FY 2013	FY 2012
	(£m)		
Fees from loans and advances to customers . . . . .	5.4	0.5	0.2
Credit facility related fees . . . . .	2.2	0.3	0.2
Other fees and commission . . . . .	—	—	0.1
<b>Total fee and commission income . . . . .</b>	<b>7.6</b>	<b>0.8</b>	<b>0.5</b>

Fee and commission income increased by £6.8 million, or 850.0 per cent., to £7.6 million for FY 2014 from £0.8 million for FY 2013 primarily due to service fee income recognised by the new Business Credit division (service fee income is accounted for on an accruals basis).

Fee and commission income increased by £0.3 million, or 60.0 per cent., to £0.8 million for FY 2013 from £0.5 million for FY 2012 due primarily to increased lending volumes over the same period.

Fee and commission expense increased to £1.7 million in FY 2014 from £15,000 in FY 2013, primarily due to the introduction, in early 2014, of on-going commissions to certain “elite” Business Partners of the Group’s Commercial Mortgages division to align the Groups interests with their Business Partners. Fee and commission expense was £0.1 million in FY 2012.

## 6.6 Administrative expenses

Administrative expenses include all operating expenses of the Group. Administrative expenses principally consist of staffing, facilities, outsourced transactional costs, marketing and support costs, professional adviser fees and other costs. These expenses are recognised on an accruals basis as services are received or on the performance of a significant act by the supplier.

The following table sets out the components of administrative expenses for FY 2014 and FY 2013.

	FY 2014	FY 2013	FY 2012
	(£m)		
Staff costs . . . . .	31.2	23.8	15.8
Profit on disposal of fixed assets . . . . .	—	—	(0.1)
Depreciation (excluding operating lease assets) . . . . .	1.0	0.7	0.5
Amortisation of intangible assets . . . . .	0.4	0.2	0.9
Operating lease rentals — land and buildings . . . . .	0.7	0.6	0.7
Other administrative expenses . . . . .	25.8	14.5	11.2
<b>Total administrative expenses . . . . .</b>	<b>59.1</b>	<b>39.8</b>	<b>29.0</b>

The £7.4 million increase in staff costs between FY 2013 and FY 2014 was principally driven by an increase in the average number of employees from 281 in 2013 to 414 in 2014. Additional staff were hired during 2013 and 2014 to help support growth in the business, meet the demands of new regulations and continue the enhancement of the control and risk management framework. Headcount increases during 2014 also reflected the acquisition of 48 full-time employees from Centric. The £8.0 million increase in staff costs between FY 2012 and FY 2013 was principally driven by an increase in the average number of employees from 179 in FY 2012 to 281 in FY 2013.

The Group's management expense ratio (calculated as described under Section 2.1 of Part X (*Selected Financial Information and Key Performance Indicators*)) was 3.1 per cent. for FY 2014, compared to 3.8 per cent. for FY 2013 and 4.7 per cent. for FY 2012, reflecting the continued maturity of the Group's operations and the scalable platform which has been built to facilitate continued growth in the lending portfolios within the confines of the risk management framework.

The Group's cost/income ratio (calculated as described under Section 2.1 of Part X (*Selected Financial Information and Key Performance Indicators*)) was 50.5 per cent. for FY 2014, compared to 66.1 per cent. for FY 2013, reflecting a year-on-year increase in underlying operating expense of 43.6 per cent., which was offset by a 87.7 per cent. increase in underlying operating income.

## **6.7 Impairment losses on financial assets**

On an on-going basis, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses on financial assets increased by £3.2 million, or 91.4 per cent., to £6.7 million for FY 2014 from £3.5 million for FY 2013. This increase was primarily due to the growth in the business, with gross loans and advances to customers increasing by 69.8 per cent. from £1,352.3 million as at 31 December 2013 to £2,295.9 million as at 31 December 2014. The Group's cost of risk (calculated based on underlying measures as set forth in Section 2.1 of Part X (*Selected Financial Information and Key Performance Indicators*)) remained stable between 34 basis points in FY 2013 and 36 basis points in FY 2014 and highlights the Group's emphasis upon the importance of the "First Line of Defence" within its integrated three lines of defence model. The Directors are aware that while the underlying performance of the portfolio has been strong, certain segments have not operated throughout a downturn. In recognition of this fact and to minimise future shocks, losses are provided for based upon through-the-cycle assumptions (rather than recent historical performance). As noted above, for the Group's property-based businesses, the stress tests that determine today's provisions assume declines in property values in line with the UK variant stress scenario prescribed by the PRA. Even with this level of assumed property value decline, provisions remain low due to the Group's conservative approach to advance rates.

Impairment losses on financial assets increased by £0.8 million, or 29.6 per cent., to £3.5 million for FY 2013 from £2.7 million for FY 2012. This increase was primarily due to the growth in the business with gross loans and advances to customers increasing by 97.0 per cent. from £686.3 million as at 31 December 2012 to £1,352.3 million as at 31 December 2013.

## **6.8 Provisions for liabilities and charges**

Provisions for liabilities and charges relate to the FSCS levy discussed further within Section 5.3(C) above.

## **6.9 Income tax (charge)/credit**

Income tax (charge)/credit includes income tax at the applicable weighted average rate on the Group's profit/(loss) before taxation, adjusted for expenses not deductible for taxation purposes, non-taxable income, timing differences and other adjustments. It also includes the initial recognition of DTAs for acquired trading losses and the impact of changes in taxation rates on the Group's DTAs once the rate change has been substantially enacted. DTAs are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset.

Income tax (charge)/credit increased by £7.5 million, or 227.3 per cent., to £10.8 million for FY 2014 from a charge of £3.3 million for FY 2013, which represented an increase of £3.6 million, or 1,200.0 per cent., from a credit of £0.3 million in FY 2012.

The following table sets out the components of income tax (charge)/credit for FY 2014, FY 2013 and FY 2012.

	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>
	(£m)		
Current tax:			
Current year .....	(11.5)	(1.8)	(0.2)
Adjustment in respect of prior years .....	(0.5)	1.1	—
Total current tax .....	(12.0)	(0.7)	(0.2)
Deferred tax:			
Origination and reversal of temporary difference .....	0.8	(2.3)	1.3
Adjustment in respect of prior years .....	0.4	1.0	(0.1)
Reduction in tax rate .....	—	(1.3)	(0.7)
Total deferred tax .....	1.2	(2.6)	0.5
<b>Total income tax (charge)/credit .....</b>	<b>(10.8)</b>	<b>(3.3)</b>	<b>0.3</b>

Income tax (charge)/credit increased by £7.5 million, or 227.3 per cent., to £10.8 million for FY 2014 from a charge of £3.3 million for FY 2013. The increase was primarily due to the increase in Group taxable profits.

The £3.6 million increase in total income tax (charge)/credit from FY 2012 to FY 2013 was principally attributable to the increase in Group taxable profits. In addition, in FY 2013, there was a credit adjustment arising from the group relief losses acquired at a significant discount from Kaupthing Singer & Friedlander Limited, which was offset by a rate change effect on the valuation of the deferred tax balance at 20 per cent. (from 23 per cent.) and other permanent differences including the disallowance of Money2Improve deferred consideration payments.

The Group's effective tax rate (calculated as total income tax charge as a percentage of profit before tax for the reporting period) in FY 2014 was 23.8 per cent., compared to 20.5 per cent. for FY 2013. The change was primarily due to increased profitability through 2014 partially offset by decrease in corporation tax rate from 23 per cent. to 21 per cent. from April 2014.

The Group's effective tax rate in FY 2012 was 4.2 per cent., and the increase to 20.5 per cent. for FY 2013 was primarily due to a prior year adjustment of £2.1 million primarily representing the purchase of tax losses in connection with the acquisition of Singers Asset Finance and permanent differences arising from change in tax rate on deferred tax balances.

## 6.10 Segmental analysis

The Group has six reportable operating segments, which are based on the Group's five lending segments plus a Central Function segment which includes the Retail Savings division, the Group's central corporate functions and common costs. The Group's operating segments are reported in a manner consistent with the internal reporting provided to the Directors.

Information regarding the results of each reportable segment for FY 2014, FY 2013 and FY 2012, and their reconciliation to the total results of the Group, are set out in the tables below. Performance is measured using the segment contribution included in the Group's internal management reports.

	FY 2014						
	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending (£m)	Consumer Lending	Central Function	Total
<b>Income statement data</b>							
Interest receivable and similar income	47.4	45.3	5.9	35.0	20.3	2.8	156.7
Interest expense and similar charges	(16.6)	(12.6)	(2.6)	(11.2)	(5.1)	(5.9)	(54.0)
Net interest income	30.8	32.7	3.3	23.8	15.2	(3.1)	102.7
Operating lease rentals	—	15.7	—	—	—	—	15.7
Other income	—	1.1	—	—	—	—	1.1
Depreciation on operating leases	—	(13.1)	—	—	—	—	(13.1)
Net income from operating leases	—	3.7	—	—	—	—	3.7
Fee and commission income	—	2.2	5.0	0.2	0.2	—	7.6
Fee and commission expense	(0.2)	—	(0.2)	(0.9)	(0.4)	—	(1.7)
Net fee and commission income	(0.2)	2.2	4.8	(0.7)	(0.2)	—	5.9
Fair value losses on financial instruments	—	—	—	—	—	(0.1)	(0.1)
<b>Net operating income</b>	<b>30.6</b>	<b>38.6</b>	<b>8.1</b>	<b>23.1</b>	<b>15.0</b>	<b>(3.2)</b>	<b>112.2</b>
Administrative expenses	(6.3)	(7.3)	(3.3)	(4.2)	(5.5)	(32.5)	(59.1)
Impairment losses on financial assets	(1.0)	(1.5)	(0.3)	0.1	(4.0)	—	(6.7)
Provisions for liabilities and charges	—	—	—	—	—	(1.1)	(1.1)
<b>Profit/(Loss) before taxation</b>	<b>23.3</b>	<b>29.8</b>	<b>4.5</b>	<b>19.0</b>	<b>5.5</b>	<b>(36.8)</b>	<b>45.3</b>
Income tax (charge)/credit							(10.8)
<b>Profit/(loss) for the year, attributable to owners</b>							<b>34.5</b>
<b>Balance sheet data</b>							
Loans and advances to customers	968.9	517.9	169.8	401.3	226.9	—	2,284.8
Property, plant and equipment	—	46.2	—	—	—	3.5	49.7
<b>Total Lending Assets<sup>(1)</sup></b>	<b>968.9</b>	<b>564.1</b>	<b>169.8</b>	<b>401.3</b>	<b>226.9</b>	<b>3.5</b>	<b>2,334.5</b>

(1) Group total lending assets includes operating leases within PPE that are recognised within the Asset Finance division.

	FY 2013						
	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending (£m)	Consumer Lending	Central Function	Total
<b>Income statement data</b>							
Interest receivable and similar income	23.6	37.8	—	23.0	7.6	1.3	93.3
Interest expense and similar charges	(12.8)	(13.8)	—	(8.4)	(2.3)	(1.1)	(38.4)
Net interest income	10.8	24.0	—	14.6	5.3	0.2	54.9
Operating lease rentals	—	17.1	—	—	—	—	17.1
Other income	—	1.1	—	—	—	—	1.1
Depreciation on operating leases	—	(13.8)	—	—	—	—	(13.8)
Net income from operating leases	—	4.4	—	—	—	—	4.4
Fee and commission income	—	0.5	—	0.2	0.1	—	0.8
Fee and commission expense	—	—	—	—	—	—	—
Net fee and commission income	—	0.5	—	0.2	0.1	—	0.8
<b>Net operating income</b>	<b>10.8</b>	<b>28.9</b>	—	<b>14.8</b>	<b>5.4</b>	<b>0.2</b>	<b>60.1</b>
Administrative expenses	(3.7)	(7.0)	—	(3.6)	(3.4)	(22.1)	(39.8)
Impairment losses on financial assets	(0.3)	(1.1)	—	(0.8)	(1.3)	—	(3.5)
Provisions for liabilities and charges	—	—	—	—	—	(0.7)	(0.7)
<b>Profit/(Loss) before taxation</b>	<b>6.8</b>	<b>20.8</b>	—	<b>10.4</b>	<b>0.7</b>	<b>(22.6)</b>	<b>16.1</b>
Income tax (charge)/credit							(3.3)
<b>Profit/(loss) for the year, attributable to owners</b>							<b>12.8</b>

#### Balance sheet data

Loans and advances to customers	543.8	392.5	—	295.0	115.6	—	1,346.9
Property, plant and equipment	—	51.9	—	—	—	1.9	53.8
<b>Total Lending Assets<sup>(1)</sup></b>	<b>543.8</b>	<b>444.4</b>	—	<b>295.0</b>	<b>115.6</b>	<b>1.9</b>	<b>1,400.7</b>

(1) Group total lending assets includes operating leases within PPE that are recognised within the Asset Finance division.

	FY 2012						
	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending (£m)	Consumer Lending	Central Function	Total
<b>Income statement data</b>							
Interest receivable and similar income .....	8.0	26.3	—	12.1	1.9	0.1	48.4
Interest expense and similar charges .....	(5.1)	(11.0)	—	(4.7)	(0.6)	(6.0)	(27.4)
Net interest income .....	2.9	15.3	—	7.4	1.3	(5.9)	21.0
Operating lease rentals .....	—	15.1	—	—	—	—	15.1
Other income .....	—	0.3	—	—	—	—	0.3
Depreciation on operating leases .....	—	(12.1)	—	—	—	—	(12.1)
Net income from operating leases .....	—	3.3	—	—	—	—	3.3
Fee and commission income .....	—	0.3	—	0.2	—	—	0.5
Fee and commission expense .....	—	—	—	—	(0.1)	—	(0.1)
Net fee and commission income .....	—	0.3	—	0.2	(0.1)	—	0.4
<b>Net operating income</b> .....	<b>2.9</b>	<b>18.9</b>	—	<b>7.6</b>	<b>1.2</b>	<b>(5.9)</b>	<b>24.7</b>
Administrative expenses .....	(2.1)	(9.6)	—	(1.9)	(1.4)	(14.0)	(29.0)
Impairment losses on financial assets .....	(0.1)	(1.5)	—	(0.8)	(0.3)	—	(2.7)
Provisions for liabilities and charges .....	—	—	—	—	—	(0.1)	(0.1)
<b>Profit/(Loss) before taxation</b> .....	<b>0.7</b>	<b>7.8</b>	—	<b>4.9</b>	<b>(0.5)</b>	<b>(20.0)</b>	<b>(7.1)</b>
Income tax (charge)/credit .....							0.3
<b>Profit/(Loss) for the year, attributable to owners</b> .....							<b>(6.8)</b>

#### Balance sheet data

Loans and advances to customers .....	202.2	288.8	—	163.1	29.4	—	683.5
Property, plant and equipment .....	—	59.7	—	—	—	1.4	61.1
<b>Total Lending Assets<sup>(1)</sup></b> .....	<b>202.2</b>	<b>348.5</b>	—	<b>163.1</b>	<b>29.4</b>	<b>1.4</b>	<b>744.6</b>

(1) Group total lending assets includes operating leases within PPE that are recognised within the Asset Finance division.

## 7. Liquidity and capital resources

### 7.1 Funding and liquidity

The Group has adopted a conservative approach to asset and liability management and aims to manage its liability structure to ensure that it has a prudent level of maturity transformation while maintaining an appropriate level of liquidity. To date, the Group's funding has been focused on the retail notice and term deposit market. The Group also receives funding from the FLS and intends to access the wholesale funding market in the future in order to expand its liquidity options. An analysis of the Group's liquidity position is shown below.

	As at 31 December		
	2014	2013	2012
	(£m except %) (unaudited)		
Liquidity reserve <sup>(1)</sup> .....	511.1	287.6	262.1
Ratio of liquidity balances to deposits .....	21.1%	19.7%	28.4%
Liquidity buffer eligible assets <sup>(1)</sup> .....	474.5	263.8	144.9
Ratio of liquidity buffer eligible assets to liquidity balances .....	92.8%	91.7%	55.3%
Loan-to-deposit ratio .....	94.4%	92.1%	74.0%

(1) Liquidity reserve consists of the assets as shown in note 33 to the Group's historical financial information contained in Part XV (*Historical Financial Information*). Liquidity buffer eligible assets consist of the Bank of England Reserve Account (held within cash and balances at central banks on the balance sheet), investment securities — available for sale and off balance sheet UK Treasury Bills drawn under the FLS. The Group had £163.1 million of UK Treasury Bills drawn under the FLS as at 31 December 2014 compared to £57.9 million as at 31 December 2013. The Group did not participate in the FLS in 2012.

As at 31 December 2014, the Group held customer deposits of £2,421.0 million with a loan to deposit ratio of 94.4 per cent. As at 31 December 2013, the Group held customer deposits of £1,463.0 million with a loan to deposit ratio of 92.1 per cent. As at 31 December 2012, the Group held customer deposits of £923.7 million with a loan to deposit ratio of 74.0 per cent.

Between 1 January 2012 and 31 December 2014, the number of deposit accounts at the Group grew from approximately 9,700 to approximately 57,000, and the average deposit balance grew from approximately £37,000 to approximately £42,000. This year-on-year growth in customer deposits was driven by the need to fund increased loans and advances to customers as such deposits remain the primary source of funding for the Group's loan portfolio.

The Group also held £41.0 million of wholesale deposits from banks as at 31 December 2014, compared with wholesale deposits of £24.6 million as at 31 December 2013. No wholesale deposits were held by the Group at 31 December 2012. The wholesale deposits as at 31 December 2014 include £37.5 million of repurchase transactions entered into with UK Treasury Bills drawn under the FLS.

As part of the Group's 2012 liquidity management strategy, the Group invested in money market securities according to a Board approved investment policy that ensured these funds were invested in a prudent and diversified manner. As at 31 December 2013 and 31 December 2014, the Group had no investments in money market securities and all liquidity buffer-eligible assets were held either in the Group's Bank of England reserve account or UK Treasury Bills drawn from the FLS. In addition, the Group maintains cash deposits with large UK clearing banks for daily operational cash requirements.

The Group regularly conducts an Individual Liquidity Adequacy Assessment ("ILAA") in accordance with the PRA's liquidity guidelines, and the Directors remain satisfied that the Group has sufficient liquid assets at its disposal, even under stressed scenarios, to meet its obligations as they fall due.

The Group manages liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations.

The following tables provide an analysis of the Group's gross contractual cash flows payable under financial liabilities as at 31 December 2014, 2013 and 2012. The analysis of gross contractual cash flows below differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity on the amounts outstanding at the balance sheet date.

	As at 31 December 2014					
	Less than one month	One month to three months	Three months to one year	One year to five years	More than 5 years	Total
Customer deposits .....	(172.9)	(188.9)	(1,023.5)	(1,150.0)	—	(2,535.3)
Due to banks .....	(16.6)	—	(0.2)	(24.9)	—	(41.7)
Subordinated debt .....	—	—	—	—	(79.6)	(79.6)
<b>Total</b> .....	<b>(189.5)</b>	<b>(188.9)</b>	<b>(1,023.7)</b>	<b>(1,174.9)</b>	<b>(79.6)</b>	<b>(2,656.6)</b>

	As at 31 December 2013					
	Less than one month	One month to three months	Three months to one year	One year to five years	More than 5 years	Total
Customer deposits .....	(138.9)	(90.0)	(702.8)	(611.6)	—	(1,543.3)
Due to banks .....	—	—	(0.2)	(25.2)	—	(25.4)
Subordinated debt .....	—	—	—	—	(79.6)	(79.6)
<b>Total</b> .....	<b>(138.9)</b>	<b>(90.0)</b>	<b>(703.0)</b>	<b>(636.8)</b>	<b>(79.6)</b>	<b>(1,648.3)</b>

	As at 31 December 2012					
	Less than one month	One month to three months	Three months to one year	One year to five years	More than 5 years	Total
	(£m)					
Customer deposits . . . . .	(164.6)	(350.9)	(352.9)	(515.5)	—	(1,383.9)
<b>Total</b> . . . . .	<b>(164.6)</b>	<b>(350.9)</b>	<b>(352.9)</b>	<b>(515.5)</b>	<b>—</b>	<b>(1,383.9)</b>

Stress testing is a major component of the Group's liquidity risk management. It provides insight into the factors that could give rise to liquidity problems for the Group and regularly focuses attention on the importance of maintaining adequate levels of available liquidity. The Group has sought to develop a range of scenarios covering a variety of market-wide and firm-specific factors, and the risk and treasury functions are responsible for the development of specific liquidity scenarios after discussions on each of the liquidity risk drivers with senior management and individual divisions. The Group's product suite is intended to be conservative and focuses on notice and fixed rate savings accounts, and the liquidity stress testing is conducted on the following basis:

- a comprehensive stress testing exercise is conducted at least once a year, following the Directors' review of business strategy and the re-approval of its risk appetite statement. This exercise is updated from time to time to reflect any changes in business strategy;
- the liquidity stress testing methodology is incorporated into the Group's balance sheet risk management model to ensure that stress tests can be run on a regular basis. Additional ad-hoc liquidity stress analysis is also undertaken from time to time; and
- the output of the stress testing is provided to the Group's asset and liability committee ("ALCO"). ALCO and the Directors then use the output of the stress testing to decide whether to amend the Group's risk appetite and liquidity limits.

## 7.2 Capital position and management

The Group conducts an internal capital adequacy assessment process ("ICAAP"), which is approved by the Directors. The ICAAP is used to assess the Group's capital adequacy and determine the levels of capital required to support the current and future risks in the business based on the Group's business plan. The ICAAP addresses all the Group's material risks and includes stress scenarios approved by the Directors which are intended, at a minimum, to meet regulatory requirements. The ICAAP is used by the PRA to set the Group's individual capital guidance ("ICG") requirements.

The Group's capital resources and requirements use the CRD IV CRR regulatory framework as implemented by the PRA:

- Pillar 1 – based on a Standardised Approach for credit risk, operational risk and market risk;
- Pillar 2 – set by the PRA via the ICG to address those risks not covered under Pillar 1.

The Directors are ultimately responsible for capital management. The Directors and the Executive Committee monitor the capital position of the Group on at least a monthly basis. The ICAAP is central to the capital management framework and is used to inform the Directors of the on-going assessment and quantification of the Group's risks, how the Group mitigates those risks and the capital adequacy of the Group.

The Group also includes a Capital Planning Buffer ("CPB") to mitigate the risks of exposures under appropriate stress scenarios as set out within its ICAAP. The CPB forms part of the overall capital requirements for the Group.

At all times the Group's capital position must be aligned with the capital adequacy limits approved by the Directors in the risk appetite statement, which is to maintain a robust capital and liquidity management under "normal" and "stressed" conditions. With regard to capital management this means:

- Maintain a level of capital at least equal to the minimum that is set by the PRA in the ICG; and
- Capital will be Common Equity Tier 1 and Tier 2 capital. Any change to this policy must be agreed by the Directors.

The following table shows the regulatory capital resources managed by the Group.

	As at 31 December		
	2014	2013	2012
	(£m)		
Share capital .....	185.3	138.0	120.2
Retained earnings .....	32.1	(2.5)	(15.3)
Share premium account .....	1.3	—	—
Intangible assets .....	(49.5)	(22.2)	(21.3)
<b>Common equity tier 1 capital</b> .....	<b>169.2</b>	<b>113.3</b>	<b>83.6</b>
Subordinated debt .....	30.8	27.6	—
Collective impairment allowance .....	3.0	1.3	0.7
<b>Tier 2 capital</b> .....	<b>33.8</b>	<b>28.9</b>	<b>0.7</b>
<b>Total regulatory capital</b> .....	<b>203.0</b>	<b>142.2</b>	<b>84.3</b>
Risk weighted assets .....	1,461.0	822.0	479.0
Total capital ratio <sup>(1)</sup> .....	13.8%	17.3%	17.6%

(1) Calculated as total regulatory capital of the regulated entity divided by risk-weighted assets.

The regulatory capital reconciles to the shareholders' equity in the Group's balance sheet as follows:

	As at 31 December		
	2014	2013	2012
	(£m)		
<b>Total regulatory capital</b> .....	<b>203.0</b>	<b>142.2</b>	<b>84.3</b>
Subordinated debt .....	(30.8)	(27.6)	—
Collective impairment allowance .....	(3.0)	(1.3)	(0.7)
Intangible assets .....	49.5	22.2	21.3
<b>Total equity</b> .....	<b>218.7</b>	<b>135.5</b>	<b>104.9</b>

### 7.3 Material indebtedness and other material liabilities

In October 2013, the Group entered into the Tier 2 Facility. See Section 5.3(E) of this Part XI (*Operating and Financial Review*) above.

## 8. Accounting policies requiring management judgement and discretion

The preparation of financial statements in conformity with IFRS requires the Group's management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge at the time, differing assumptions could yield different results and actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

### 8.1 Effective interest rate

IAS 39 requires interest earned from loans and advances to be measured under the effective interest method. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of the effective interest rate would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used to compare to actual outcomes and incorrect assumptions.

The Group has determined several loan profiles to model the expected experience across the consumer, commercial and secured portfolios. Management have reviewed these profiles on a quarterly basis and have recorded 'catch-up adjustments' as required in order to reflect the actual experience on the portfolios.

An increase in the behavioural life of a loan by 10 per cent. per calendar month would result in a net income statement charge of £0.1 million (2013: £0.1 million, 2012: £nil).

## **8.2 Share-based payments**

The fair value of shares in employee share scheme was determined using a valuation model. The significant inputs into this model were expected term, risk free interest rate, expected dividend yield and expected volatility.

## **8.3 Impairment losses on loans and advances**

Individual impairment losses on loans and advances are calculated based on the individual valuations of the underlying collateral. For the purpose of collective impairment, financial assets are grouped on the basis of similar risk characteristics. Collective provisions are calculated using twelve month roll rates on different segments of the loan book not subject to an individual provision. Management also consider the need for a management overlay to take into account additional risk factors of the portfolio.

These key assumptions are monitored regularly to ensure the impairment allowance is entirely reflective of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. For loans and advances to the extent that:

- there is a change of one month in the emergence period across all portfolios, this would have the effect of changing the collective provision by £0.5 million (2013: £0.4 million, 2012: £0.3 million);
- there is a change in the annual charge by 10 basis points, this would have the effect of changing the collective provision by £1.1 million (2013: £0.5 million, 2012: £0.3 million);
- there is an increase in the forced sale discount by 5 per cent., this would have the effect of increasing the individual provisions by £0.4 million (2013: £0.4 million, 2012: £0.3 million); and
- there is an increase in the propensity to default by 10 per cent., this would have the effect of increasing the individual provisions by £0.8 million (2013: £0.2 million, 2012: £0.1 million).

## **8.4 Fair value of identifiable net assets of Centric, Singers Asset Finance and Money2Improve**

Acquisitions have been accounted for in accordance with applicable accounting standards which require the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values.

This exercise was inherently subjective and required management to make a number of assumptions and estimates. Fair values were established using discounted cash flow models. For Centric, a 5.0 per cent. increase in the required return results in a £0.5 million decrease in the fair value of the acquired book, and a 5.0 per cent. decrease in the required return results in a £0.5 million increase in the fair value of the acquired book.

Since the acquisition dates, the effects of the fair value adjustments have started to unwind and be recognised in the Group's income statement. The determination of the extent to which the adjustments unwind often require significant judgement. The unwind of the acquisition date fair values on customer lending and property, plant and equipment is based on the estimated average life of the underlying asset and the credit risk fair value is re-assessed on an on-going basis.

## **8.5 Residual values**

Management uses a combination of historical experience and future projections to estimate the appropriate residual value for particular vehicles or items of plant and equipment at least on a monthly basis. The nature of the equipment, its state of condition and obsolescence factors are key determinants in estimating residual values at any point in time. Management performs sensitivity analysis and compares a range of outcomes to include the possibility of extension or in the event of non-extension the possibility of sale or rehire as part of the assessment as to whether impairments are

necessary. If future residual values materialise at 10 per cent. lower than predicted, then the impact on profitability would be £0.9 million (2013: £1.0 million, 2012: £1.0 million).

## **8.6 Impairment of goodwill**

Goodwill has arisen on the acquisition of companies whose businesses have been integrated within the Group and reflects the difference between the consideration paid and the fair value of net assets acquired. Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment by reviewing detailed cash flow projections from the Group's latest approved forecast. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is not amortised but is tested for impairment on an annual basis. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed. Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to CGUs. An impairment loss is recognised if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of pre-tax profits for the subsequent five years, and a residual value, discounted at a risk-adjusted interest rate appropriate to the cash generating unit. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. An impairment loss is recognised if the carrying amount of an asset is greater than its recoverable amount. No impairment losses were recognised during 2014 (2013: £nil, 2012: £nil).

## PART XII — SELECTED STATISTICAL DATA

The statistical data presented below are derived from the audited consolidated IFRS historical financial information of the Group set out in Part XV (*Historical Financial Information*) of this Prospectus and the Group's financial reporting and management information systems.

### 1. Average balance sheets

The following table sets forth the Group's average balances of assets and liabilities for FY 2014, FY 2013 and FY 2012, together with the amount of interest earned or paid and the average rate of interest for each category of interest-earning asset and interest-bearing liability. The information in the following table has been extracted from the Group's management accounts which differ from the Group's statutory accounts. The primary difference between the Group's management accounts and statutory accounts relates to operating leases, which are included within interest-earning assets in the management accounts, and in the table below, but are treated as PPE in the statutory accounts. Averages presented in the following table are calculated on the basis of the monthly closing balances throughout the relevant period. The calculated average yields below are not directly comparable to the Group's KPIs as the former are calculated using total assets (including cash balances) whereas the latter are calculated using average principal employed.

	FY 2014			FY 2013			FY 2012		
	Average Balance	Interest	Average yield/ rate	Average Balance	Interest	Average yield/ rate	Average Balance	Interest	Average yield/ rate
(£m, except %)									
<b>Assets Interest-earning assets</b>									
Total liquid assets .....	373.2	1.9	0.5%	243.7	1.2	0.5%	248.0	0.3	0.1%
Loans and advances to customers .....	1,855.5	164.3 <sup>(1)</sup>	8.9%	1,041.8	97.3	9.3%	507.9	51.8	10.2%
<b>Total average interest-earning assets .....</b>	<b>2,228.7</b>	<b>166.2</b>	<b>7.5%</b>	<b>1,285.5</b>	<b>98.5</b>	<b>7.7%</b>	<b>755.9</b>	<b>52.1</b>	<b>6.9%</b>
<b>Non-interest earning assets</b>									
Derivative financial assets .....	0.7	—	—	—	—	—	—	—	—
Property, plant and equipment .....	2.5	—	—	1.5	—	—	1.0	—	—
Intangible assets .....	36.2	—	—	21.3	—	—	14.7	—	—
Other assets .....	17.1	—	—	17.6	—	—	14.0	—	—
<b>Total average assets ...</b>	<b>2,285.2</b>	<b>—</b>	<b>—</b>	<b>1,325.9</b>	<b>—</b>	<b>—</b>	<b>785.6</b>	<b>—</b>	<b>—</b>
<b>Interest-bearing liabilities</b>									
Customer deposits .....	(2,028.4)	(50.2)	2.5%	(1,176.0)	(37.7)	3.2%	(689.3)	(27.4)	4.0%
Due to banks .....	(27.9)	(0.5)	1.7%	(9.4)	(0.2)	1.9%	—	—	—
Loan notes .....	(0.9)	(0.1)	14.9%	—	—	—	—	—	—
Subordinated debt .....	(28.7)	(3.2)	11.0%	(4.5)	(0.5)	11.0%	—	—	—
<b>Total average interest-bearing liabilities .....</b>	<b>(2,085.9)</b>	<b>(54.0)</b>	<b>2.6%</b>	<b>(1,189.9)</b>	<b>(38.4)</b>	<b>3.2%</b>	<b>(689.3)</b>	<b>(27.4)</b>	<b>4.0%</b>
<b>Non-interest-bearing liabilities</b>									
Other liabilities .....	(23.5)	—	—	(16.1)	—	—	(20.0)	—	—
<b>Total average liabilities .....</b>	<b>(2,109.4)</b>	<b>—</b>	<b>—</b>	<b>(1,206.0)</b>	<b>—</b>	<b>—</b>	<b>(709.3)</b>	<b>—</b>	<b>—</b>

(1) Interest income for FY 2014 is stated after allocation of interest on financial instruments entered into for hedging purposes to interest on loans and advances to customers.

## 2. Net interest margin and spread

The following table sets forth the Group's average interest-earning assets, average interest-bearing liabilities and net interest income and illustrates the comparative net interest margin and net interest spread for FY 2014, FY 2013 and FY 2012. Averages presented in the following table are calculated on the basis of the monthly closing balances throughout the relevant period.

	FY 2014	FY 2013	FY 2012
	(£m, except %)		
Average principal employed <sup>(1)</sup> . . . . .	1,855.5	1,041.8	507.9
Total average interest-earning assets . . . . .	2,228.7	1,285.5	755.9
Total average interest-bearing liabilities . . . . .	(2,085.9)	(1,189.9)	(689.3)
Net operating income <sup>(2)</sup> . . . . .	112.8	60.1	25.5
Average yield on interest-earning assets . . . . .	7.5%	7.7%	6.9%
Average rate on interest-bearing liabilities . . . . .	(2.6%)	(3.2%)	(4.0%)
Net interest spread <sup>(3)</sup> . . . . .	4.9%	4.5%	2.9%
Net interest margin <sup>(4)</sup> . . . . .	6.1%	5.8%	5.0%

(1) Average principal employed is calculated based on underlying measures as set forth in Section 2.1 of Part X (*Selected Financial Information and Key Performance Indicators*).

(2) Net operating income is calculated using the underlying results as presented in Part X (*Selected Financial Information and Key Performance Indicators*).

(3) Net interest spread is calculated as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

(4) Net interest margin is calculated as underlying net operating income divided by average principal employed.

## 3. Changes in interest income and expense

The following table sets forth changes in the Group's net interest income for FY 2014 and FY 2013, attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities and to changes in their respective interest rates for the periods presented. Changes to net interest income due to changes in volume have been calculated by multiplying the change in volume during the year by the average rate for the year. Changes to net interest income due to changes in rates have been calculated by multiplying the change in the year's average rate by the volume for the preceding year. The changes are calculated on the basis of the monthly average balances used in calculating the averages in the preceding tables, unless otherwise stated.

	2014 vs. 2013			2013 vs. 2012		
	Total change in interest	Due to change in volume	Due to change in rate	Total change in interest	Due to change in volume	Due to change in rate
	(£m)					
<b>Interest-earning assets</b>						
Total Liquid Assets . . . . .	0.7	0.7	—	0.9	—	0.9
Loans and advances to customers . . . . .	67.0	72.0	(5.0)	45.5	49.8	(4.3)
<b>Total</b> . . . . .	<b>67.7</b>	<b>72.7</b>	<b>(5.0)</b>	<b>46.4</b>	<b>49.8</b>	<b>(3.4)</b>
<b>Interest-bearing liabilities</b>						
Customer deposits . . . . .	(12.5)	(21.1)	8.6	(10.3)	(15.6)	5.3
Due to banks . . . . .	(0.3)	(0.3)	—	(0.2)	(0.2)	—
Loan notes . . . . .	(0.1)	(0.1)	—	—	—	—
Subordinated debt . . . . .	(2.7)	(2.7)	—	(0.5)	(0.5)	—
<b>Total</b> . . . . .	<b>(15.6)</b>	<b>(24.2)</b>	<b>8.6</b>	<b>(11.0)</b>	<b>(16.3)</b>	<b>5.3</b>

#### 4. Portfolio maturities

The following table analyses the Group's contractual undiscounted cash flows of its financial assets and liabilities.

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
<b>At 31 December 2014</b>							
<b>Assets</b>							
Cash and balances at central banks							
banks .....	313.1	313.1	311.4	—	—	—	1.7
Loans and advances to banks ...	36.6	36.6	36.6	—	—	—	—
Loans and advances to customers .....	2,284.8	2,337.2	40.8	60.2	333.7	1,121.2	781.3
	<b>2,634.5</b>	<b>2,686.9</b>	<b>388.8</b>	<b>60.2</b>	<b>333.7</b>	<b>1,121.2</b>	<b>783.0</b>
<b>Liabilities</b>							
Customer deposits .....	(2,421.0)	(2,535.3)	(172.9)	(188.9)	(1,023.5)	(1,150.0)	—
Due to banks .....	(41.0)	(41.7)	(16.6)	—	(0.2)	(24.9)	—
Subordinated debt .....	(30.8)	(79.6)	—	—	—	—	(79.6)
	<b>(2,492.8)</b>	<b>(2,656.6)</b>	<b>(189.5)</b>	<b>(188.9)</b>	<b>(1,023.7)</b>	<b>(1,174.9)</b>	<b>(79.6)</b>
<b>At 31 December 2013</b>							
<b>Assets</b>							
Cash and balances at central banks							
banks .....	206.6	206.6	205.9	—	—	—	0.7
Loans and advances to banks ...	23.8	23.8	23.8	—	—	—	—
Loans and advances to customers .....	1,346.9	1,408.4	23.6	42.0	193.0	657.4	492.4
	<b>1,577.3</b>	<b>1,638.8</b>	<b>253.3</b>	<b>42.0</b>	<b>193.0</b>	<b>657.4</b>	<b>493.1</b>
<b>Liabilities</b>							
Customer deposits .....	(1,463.0)	(1,543.3)	(138.9)	(90.0)	(702.8)	(611.6)	—
Due to banks .....	(24.6)	(25.4)	—	—	(0.2)	(25.2)	—
Subordinated debt .....	(27.6)	(79.6)	—	—	—	—	(79.6)
	<b>(1,515.2)</b>	<b>(1,648.3)</b>	<b>(138.9)</b>	<b>(90.0)</b>	<b>(703.0)</b>	<b>(636.8)</b>	<b>(79.6)</b>
<b>At 31 December 2012</b>							
<b>Assets</b>							
Cash and balances at central banks							
banks .....	0.2	0.2	—	—	—	—	0.2
Loans and advances to banks ...	117.2	117.2	107.2	10.0	—	—	—
Loans and advances to customers .....	683.5	728.4	15.0	28.8	130.6	344.5	209.5
Investment securities — available for sale .....	144.9	145.0	95.5	47.5	2.0	—	—
	<b>945.8</b>	<b>990.8</b>	<b>217.7</b>	<b>86.3</b>	<b>132.6</b>	<b>344.5</b>	<b>209.7</b>
<b>Liabilities</b>							
Customer deposits .....	(923.7)	(1,383.9)	(164.6)	(350.9)	(352.9)	(515.5)	—
	<b>(923.7)</b>	<b>(1,383.9)</b>	<b>(164.6)</b>	<b>(350.9)</b>	<b>(352.9)</b>	<b>(515.5)</b>	<b>—</b>

Note: The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity on the amounts outstanding at the balance sheet date.

## 5. Summary of loan loss experience

The following table sets forth an analysis of the Group's allowance for loan losses during FY 2014, FY 2013 and FY 2012.

	FY 2014	FY 2013	FY 2012
	(£m)		
<b>Balance at beginning of period</b>	<b>5.4</b>	<b>2.8</b>	<b>0.3</b>
Charge for impairment losses	6.7	3.5	2.7
Provisions utilised	(1.0)	(0.9)	(0.2)
<b>Balance at end of period</b>	<b>11.1</b>	<b>5.4</b>	<b>2.8</b>

The following table sets forth certain key ratios with respect to loan losses as at 31 December 2014, 2013 and 2012. The coverage ratios remain high due to management's provisioning methodology that accommodates through-the-cycle stress haircuts and valuation discounts for property-based lending.

	As at 31 December		
	2014	2013	2012
Impairment provision as a percentage of gross loans and advances to customers	0.5%	0.4%	0.4%
Impairment provision as a percentage of loans and advances to customers past due over 90 days and impaired loans	62.4%	51.9%	59.6%
Impairment losses as a percentage of average gross loans and advances to customers	0.4%	0.3%	0.7%

The following table provides a segmental breakdown of the Group's allocation of the allowance for loan losses as at 31 December 2014, 2013 and 2012.

	As at 31 December					
	2014		2013		2012	
	Amount (£m)	Per cent. of Provisions	Amount (£m)	Per cent. of Total Provisions	Amount (£m)	Per cent. of Total Provisions
Commercial Mortgages	1.4	12.6%	0.4	7.4%	0.2	7.1%
Asset Finance	2.1	18.9%	1.7	31.5%	1.3	46.5%
Business Credit	0.4	3.6%	—	—	—	—
Secured Lending	1.6	14.4%	1.7	31.5%	0.9	32.1%
Consumer Lending	5.6	50.5%	1.6	29.6%	0.4	14.3%
<b>Total</b>	<b>11.1</b>	<b>100.0%</b>	<b>5.4</b>	<b>100.0%</b>	<b>2.8</b>	<b>100.0%</b>

## 6. Deposits

The following table sets out the Group's average balances of fixed rate and variable rate customer accounts for FY 2014, FY 2013 and FY 2012. Average balances are calculated on the basis of the average monthly closing balances throughout the relevant period.

	As at 31 December		
	2014	2013	2012
Fixed	1,505.7	862.7	519.8
Variable	522.7	313.3	169.5
<b>Total</b>	<b>2,028.4</b>	<b>1,176.0</b>	<b>689.3</b>

The following table sets forth a breakdown of the Group's deposits by maturity.

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	£m	%	£m	%	£m	%
On demand and less than 1 month .....	235.6	9.7%	139.9	9.6%	42.3	4.6%
Between 1 month and 3 months .....	205.4	8.5%	125.7	8.6%	123.5	13.4%
Between 3 months and 1 year .....	928.6	38.4%	652.4	44.6%	314.2	34.0%
Between 1 and 5 years .....	1,047.7	43.4%	545.0	37.2%	443.7	48.0%
Over 5 years .....	—	—	—	—	—	—
<b>Total</b> .....	<b>2,417.3</b>	<b>100.0%</b>	<b>1,463.0</b>	<b>100.0%</b>	<b>923.7</b>	<b>100.0%</b>

Note: Accrued interest as at 31 December 2013 has been included within "on demand and less than 1 month." The fair value adjustment for hedged risk of £3.7 million as at 31 December 2014 has been excluded above.

## 7. Returns on equity and assets

The following table sets out the Group's average equity and average tangible equity for FY 2014, FY 2013 and FY 2012. These figures are used in the calculation of the Group's returns on equity and tangible equity below.

	As at 31 December		
	2014	2013	2012
		(£m)	
Total equity — start of period .....	135.5	104.9	36.1
Total equity — end of period .....	218.7	135.5	104.9
Simple average equity <sup>(1)</sup> .....	177.1	120.2	70.5
Intangible assets — start of period .....	22.2	21.3	11.7
Intangible assets — end of period .....	49.5	22.2	21.3
Simple average intangible assets <sup>(2)</sup> .....	35.9	21.8	16.5
Simple average tangible equity <sup>(3)</sup> .....	141.2	98.4	54.0

(1) Simple average equity is calculated as the sum of the start and end period values, divided by two.

(2) Simple average intangible assets is calculated as the sum of the start and end period values, divided by two.

(3) Simple average tangible equity is calculated as the simple average equity for the period, minus the simple average intangible assets for the period.

The following table sets forth certain information regarding the Group's returns on equity and assets during FY 2014, FY 2013 and FY 2012.

	FY 2014	FY 2013	FY 2012
Return on assets <sup>(1)</sup> .....	2.0%	1.3%	(0.4)%
Return on equity <sup>(2)</sup> .....	21.5%	11.1%	(3.0)%
Return on tangible equity <sup>(3)</sup> .....	26.9%	13.6%	(3.9)%
Equity to assets ratio <sup>(4)</sup> .....	8.0%	8.8%	11.1%

(1) Return on assets is calculated as underlying profit/(loss) for the year attributable to owners divided by average principal employed.

(2) Return on equity is calculated as underlying profit/(loss) for the year attributable to owners divided by average equity.

(3) Return on tangible equity is calculated as underlying profit/(loss) for the year attributable to owners divided by average tangible equity.

(4) Equity to assets ratio is calculated as average equity divided by average total assets.

## PART XIII — RISK MANAGEMENT

### 1. Overview

As a bank, the Group is exposed to a number of risks. The effective management of these risks is at the heart of the Group's operating model, consistent with its overall careful and conservative approach to business, in order to protect its customers, its reputation and its Shareholders and so as to maintain robust levels of capital and liquidity in its balance sheet. The Group's risk management framework is led by a team of experienced risk professionals who are experts in their area. While certain individuals and functions within the Group have particular responsibilities with respect to effective risk management, the Directors believe that every employee must play a part in controlling and managing risks. As such, an open, transparent and rigorous culture of risk management is embedded throughout the Group.

Given the nature of the Group's activities, the principal risks to which the Group is exposed are strategic business risk, credit risk, market risk, liquidity risk, operational risk and conduct and compliance risk. These principal risks are examined in more detail below.

The Group's approach to risk management has three key components:

- a clearly defined risk strategy, developed by the Board, which is supported by risk appetite statements and metrics;
- a proactive risk management framework which is executed through a "Three Lines of Defence" model; and
- a robust risk management governance structure.

The key components are explained in detail below.

### 2. Risk strategy and risk appetite statement

The Board determines the Group's risk strategy to ensure that the key risks to which the Group is or may be exposed are understood and appropriately managed. The risk management strategy seeks to identify the significant risks faced by the Bank in the pursuit of its operations and to ensure the business is fully supported by an effective risk infrastructure. The risk strategy is designed to ensure that the key risks undertaken by the business in pursuit of its strategy are understood.

The Board has adopted a risk appetite statement ("RAS") which is formally reviewed at least once a year, with the status of each metric monitored monthly. The RAS sets out the limits to particular risks which are considered acceptable in accordance with the overall strategy of the Group. Articulating and measuring risk appetite is an essential part of the Group's overall approach to corporate governance and risk management.

The key objectives set out in the Group's current RAS are as follows:

- to achieve business objectives as stated in the Board-approved business plan;
- to maintain a comprehensive risk management framework focused on the provision of debt facilities to UK SMEs and UK consumer finance markets;
- to operate a broadly diversified business model across SME, retail/consumer and real estate borrowers;
- to acquire credit assets that deliver what the Board considers to be a high minimum reward at an appropriate level of risk. In achieving this balance, the Group favours customers with an established track record, which are intrinsically well managed and where the risk is spread appropriately at both a transactional and overall portfolio level;
- to manage its treasury positions across counterparties with a minimum rating of Moody's long-term A3 or equivalent in the money market, or limit exposures to systemically critical UK clearers or invest in other products with an equivalent risk profile;
- to maintain a robust capital and liquidity management regime under both normal and stressed conditions;

- to manage market and liquidity risks to ensure minimal earnings volatility and meet obligations;
- to operate a “no tolerance” policy with respect to material unfair customer outcomes arising from any element of the conduct risk life-cycle, which includes product design, sales or after sales processes and culture;
- to minimise operational and compliance risk exposures by ensuring that staff are adequately and appropriately trained, policies and procedures are documented and adhered to, and effective controls are in place;
- to ensure full compliance with the letter and spirit of all relevant legal and regulatory requirements; and
- to maintain a level of capital at least equal to the ICG and fixed add-on, as set by the PRA in the Individual Capital Guidance.

These objectives are supported by specific metrics presented in a Group-wide RAS dashboard.

### **3. Risk management framework**

In order to achieve its strategic objectives within the limits set by the RAS, the Group employs a comprehensive risk management framework which addresses each of the significant risks to which it is exposed.

The risk management framework is underpinned by the following four principles:

- the Board determines the RAS based on business and risk strategy;
- the business divisions execute the Board’s strategy within the RAS;
- the risk function identifies, measures, monitors and reports on the risk within the activities of the business functions and reports to the Board on the Group’s compliance with its RAS and overall risk management policy framework; and
- the risk function remains at all times outside the influence of the operational and support functions, reporting to the Chairman of the Board Risk Committee, and also to the Chief Executive Officer.

The Group’s risk management framework is established through a series of policies, setting out the intent to manage each of the major risks identified and aligned to the RAS for each risk category. Such policies are reviewed annually and any gaps that require a new or updated policy are identified through comprehensive risk event logs instituted as part of the Group’s quality assurance and quality control programmes. Adherence to such policies is monitored by management and through the formal governance processes. Performance of the Group’s risk management framework is measured for and reported to the relevant risk committees, with any material risks reported to the Board. Work is currently ongoing to augment the Group’s risk management framework in light of the Group’s continued development.

### **4. Risk governance**

Under the “Three Lines of Defence” risk management model adopted by the Group and described in detail below, each line of defence plays a distinct role in the cumulative risk governance policy. All three lines of defence are responsible for risk management in their own ways.

The effective functioning of the “Three Lines of Defence” is contingent upon the integration of the Group’s strategy within business practice and governance functions and accurate reporting to the Board and the various risk committees, including Board Risk Committee and the Executive Committee. The risk committees are therefore tasked with ensuring that all of the risks presented across the Group are considered and that the correct areas of focus are prioritised across the “Three Lines of Defence”.

#### **4.1 First Line of Defence**

The First Line of Defence is primarily responsible for identifying and managing risks in the customer-facing business units. This comprises each of the Group’s lending divisions and the Retail Savings division. The First Line of Defence also includes the Group’s Treasury function. Elements of the Group’s support functions, such as finance, human resources and IT, are also in the First Line of

Defence as they provide support and back-up to the customer-facing divisions and share in many operational functions that could ultimately impact the Group's exposure to market, liquidity, credit, conduct, compliance and operational risks.

Each of the Group's divisions and support functions set policies and controls to ensure that its respective activities remain within the Board's RAS for that area of the Group. The policies and controls are approved by the authorised committee in accordance with their terms of reference. Approvals are cascaded from the Board to the various Board and Executive Sub-Committees. This includes the Board Risk Committee, Board Audit Committee, Executive Committee, Asset and Liability Committee, Group Credit Committee, Group Product and Pricing Committee and Conduct and Risk Committee. Changes to these policies and controls must be approved by the relevant committee. Adherence to these policies and controls is measured, monitored and reviewed through the Group's "Three Lines of Defence".

The First Line of Defence employs its own operational procedures to demonstrate and document its adherence to the approved policies and controls set by the Group's risk management framework. Under the First Line of Defence, quality control programmes monitor and measure adherence to, and effectiveness of, such procedures. All employees within a customer-facing division fall within the First Line of Defence. Each employee is trained in risk awareness with respect to the risks faced by the Group in that particular division and division heads are responsible for ensuring there is a "risk aware" culture within the First Line of Defence.

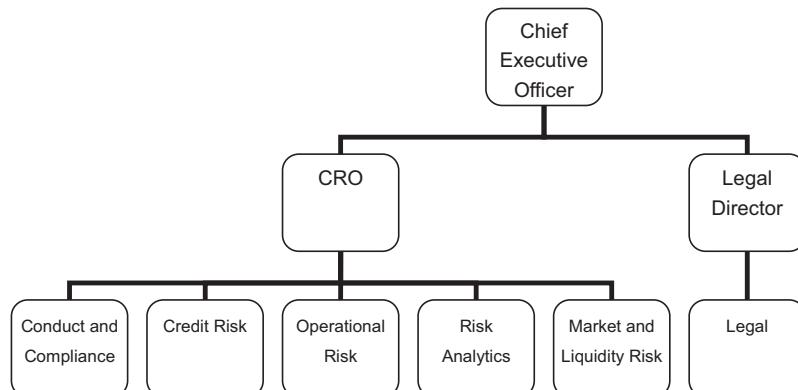
#### 4.2 Second Line of Defence

The Second Line of Defence performs the Group's risk management and compliance function. It is responsible for independent oversight of the Group's risk management activities and controls in the First Line of Defence and monitors the Group's risk appetite and adherence to risk management policies. The Second Line of Defence provides advice and direction to the managers of each of the Group's business units in order to ensure that the risk strategy, risk framework and RAS has relevance and meaning. It independently monitors the Group's activities against the limits established under the RAS, ensures adequate provision and maintenance of policies, frameworks, principles, training, tools and analysis (in line with good industry practice) and performs stress testing to assess the Group's risk exposures and its contingency arrangements under a range of adverse environments.

The Second Line of Defence is independent from the First Line of Defence. Its principal functions are concerned with credit, market and liquidity, legal and regulatory, operational and conduct and compliance risk. In conjunction with the Group's risk reporting and analytics teams, these functions measure, monitor and review the activities of the First Line of Defence.

The Second Line of Defence is led by the Chief Risk Officer, who reports to the Chairperson of the Board Risk Committee and laterally to the Chief Executive Officer. The Legal Director and Company Secretary (who is also the money laundering reporting officer) reports to the Chief Executive Officer on legal and regulatory risk. The Legal Director also attends meetings of the Executive Committee, Board and other committees and management meetings as appropriate.

The risk function organisation structure is presented below:



The Second Line of Defence does not have volume or sales targets, which are specifically excluded from its objectives. The Second Line has, at any time, the right to review business unit activity at a portfolio or individual account level.

#### **4.3 Third Line of Defence**

The Third Line of Defence comprises the Group's independent internal audit function, conducted by Deloitte LLP. The Third Line of Defence provides independent assurance on the activities of the Group directly to the Board and Board Audit Committee. The Third Line of Defence reports directly to the non-executive Chair of the Board Audit Committee as well as the Chief Executive Officer and is independent of the First and Second Lines of Defence. Specifically, the Third Line of Defence independently reviews the First Line of Defence for adherence to the policies and controls established under the Group's risk management framework and the Second Line of Defence for its monitoring and policy-setting functions. As such, the Third Line of Defence does not independently establish policies or controls itself, outside of those necessary to implement its recommendations with respect to the other two Lines of Defence.

The Third Line of Defence's scope of work is determined in conjunction with the Audit Committee. Its role is to provide an independent assessment of the governance, risk management and internal control frameworks operated by the Group and to note the extent to which the Group is operating within its risk appetite. It does this by reviewing aspects of the control environment, key processes and specific risks and includes review of the operation of the Second Line of Defence.

The Group's engagement of Deloitte LLP to carry out the functions of the Third Line of Defence provides the Group with access to specialist capabilities beyond its current scale and insights into best practice.

### **5. Risk management governance structure**

The monitoring and control of risk is a fundamental part of the management process within the Group.

The Board oversees the management of the key risks across the Group, including its capital adequacy.

The Group's risk management governance structure is led by experienced individuals organised into committees as shown below. This structure is designed to ensure that the Board has adequate oversight and control of the Group's risk appetite. The current structure, which was approved by the Board in January 2015, is intended to ensure that there is consistent Director and Executive representation across the risk committee structure.

#### **5.1 Board Risk Committee**

The Board Risk Committee is the Board sub-committee that is responsible for providing recommendations to the Board in respect of the Group's risk strategy and RAS. It provides oversight and advice to the Board with respect to the Group's current and potential future risk exposures, including its determination of risk appetite and tolerance. Significant risk-related matters are escalated to the Board Risk Committee which will formally approve proposed response measures.

The Board Risk Committee meets bi-monthly and is chaired by an Independent Non-Executive Director. Its membership comprises all independent Non-Executive Directors. Optional attendees are the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Managing Director — Secured Lending, Legal Director, Head of Credit Risk, Head of Operational Risk, Head of Conduct Risk, Head of Market and Liquidity Risk, Deloitte LLP (as internal auditors), KPMG (as external auditors) and the Major Shareholder.

The Chief Risk Officer also reports independently to the Chairperson of the Board Risk Committee.

#### **5.2 Executive Committee**

The Board delegates daily management responsibility for the Group to the Executive Committee, which meets monthly. The Executive Committee is responsible for developing the business and delivering against a Board-approved strategy, putting in place effective monitoring and control mechanisms and setting out a framework of reporting to the Board.

The following five risk committees are sub-committees of the Executive Committee:

#### *Asset and Liability Committee*

The Asset and Liability Committee oversees the asset, liability and other solvency risks, specifically market risk, Treasury wholesale credit risk and liquidity risk.

The Asset and Liability Committee meets monthly and is chaired by the Chief Financial Officer or the Chief Executive Officer as his alternate, with the other members comprising the Chief Risk Officer, the divisional Managing Directors, the Group Treasurer, the Managing Director of Savings and Outsourced Services and the Head of Market and Liquidity Risk. Optional attendees are the Non-Executive Directors and representatives from the Group's business units who are requested to attend for specific items or to make presentations.

#### *Conduct and Risk Committee*

The Conduct and Risk Committee provides a forum to review, assess and respond to conduct risks affecting the Bank, which include all regulatory, compliance and operational risks.

The Conduct and Risk Committee meets monthly and is chaired by the Chief Risk Officer, with the other members comprising any Executive Director of the Group, including but not limited to the Chief Executive Officer and Chief Financial Officer, the Head of Conduct Risk and Compliance, the Legal Director and Company Secretary, the divisional Managing Directors, the Human Resources Director and the IT Director. Optional attendees are a Non-Executive Director, the Head of Operational Risk, the Compliance Manager and the Major Shareholder.

#### *Group Product and Pricing Committee*

The Group Product and Pricing Committee is responsible for sanctioning changes to existing lending products together with all new lending products.

The Group Product and Pricing Committee meets monthly and is chaired by the Chief Executive Officer, with the other members comprising the Chief Risk Officer, Chief Financial Officer, and the divisional Managing Directors (or the division's Head of Risk as an alternate). Optional attendees are the Major Shareholder, a Non-Executive Director, the Head of Credit Risk, the Head of Conduct and Compliance Risk, the Head of Business Planning and Analysis, the Legal Director and the Head of Operations.

#### *Group Credit Committee*

The Group Credit Committee reviews arrears management and provisioning policy, as well as detailed portfolio monitoring reports to ensure the performance and quality of credit portfolios across each individual business division remains within agreed risk appetite limits.

The Group Credit Committee meets monthly and is chaired by the Chief Risk Officer, with the other members comprising the Chief Executive Officer, Chief Financial Officer, Head of Credit Risk, and divisional Managing Directors (or the division's Head of Risk as an alternate). Optional attendees are the Major Shareholder, a Non-Executive Director and the divisional Heads of Lending/Credit Directors (only as required to present specific agenda items).

#### *Credit Approval Committee*

The Credit Approval Committee considers and approves individual credit proposals submitted by the business units of the Bank which fall outside their permitted delegated lending authority.

The Credit Approval Committee is convened twice weekly, or as required from time to time and is chaired by the Chief Executive Officer, with the other members comprising the Chief Risk Officer, Chief Financial Officer, head of Credit Risk and the divisional Managing Directors (or the division's Head of Risk as an alternate).

## 6. Principal Risks

The Group believes the following areas of risk are the most significant for its business:

### 6.1 Strategic business risk

#### *Definition*

Strategic business risk is the risk of the Group not being able to achieve its strategic and commercial objectives.

#### *Strategic business risk appetite*

The strategic business risk appetite is measured in terms of the deviation against key performance indicators which form part of the Group's business plan, budget and corporate plan. Performance against the strategic risk appetite is measured every month and reported to the Board and to the Board Risk Committee on a bi-monthly basis.

#### *Principal risks*

The Group includes the following risk categories within strategic business risk:

- **Business risk** — risks arising out of the corporate planning process. Such risks may include the selection of the wrong strategy, the incorrect implementation of the strategy, external changes in the business environment, forcing deviation from the planned strategy, inaccurate expectations of business performance and changing competitive dynamics in the market.
- **Reputational risk** — risks arising when a situation, business practice or event has the potential to materially influence public and stakeholder perception, trust or confidence in the Group, resulting in a measurable, negative impact on financial performance, on a short- or long-term basis or the value of the brand. Such risks might require prompt/fundamental changes to underlying business processes.
- **Legal and regulatory risk** — the risk that the Group is subject to regulatory censure or intervention through its non-compliance with regulation or legislation or the development of regulations that affect the Group's ability to generate an adequate return on the capital employed in its target markets. Regulatory risk may also include changes in the overall regulatory environment causing changes to competitive dynamics or the Group's business performance.

#### *Mitigation*

The management of strategic business risks is taken into account as part of corporate planning and, in particular, through careful preparation, stress testing and review of the Group's business plan (updated annually), budget (updated quarterly) and corporate plan (updated at least annually). The Group also employs forecasting tools to estimate the return and run-off of the back-book, new business volumes, prices and the liquidity implications and capital implications of its planned actions.

The Group's risk management framework includes a compliance policy within which the Board has set a zero risk appetite (that is, full compliance is required) in relation to legal and regulatory risk and the standards within which the business is expected to operate. The framework also includes the governance and policy controls to enable identification of key legal and regulatory risks, and of prevailing and emerging legal and regulatory risk developments, issues and trends. The impacts of these developments on the Group are then assessed by the business and legal functions within the Second Line of Defence.

### 6.2 Credit risk

#### *Definition*

Credit risk is the risk of financial loss resulting from a borrower or counterparty failing to meet its financial obligations to the Group.

### *Credit risk appetite*

The Group operates a business division-specific credit risk appetite, as well as an overall credit risk appetite for its lending activities. Expected losses are factored into the Group's budgeting forecast and pricing processes, which reflect the Group's expected view of lending performance and take into account recent performance data, prevailing economic environments and through the cycle stress conditions.

### *Principal risks*

Credit risk arises from the Group's lending activities, resulting from potential defaults on mortgage, leases and loan contracts. Credit risk is the most significant risk faced by the Group.

### *Mitigation*

The Board, through the establishment of the Group's lending policies and mandates, prescribes the controls necessary to manage credit risks. Each of the Group's lending divisions has adapted these controls as appropriate for their respective lending activities. The key elements of the lending policies are as follows:

- a rigorous, carefully tailored approach to underwriting which, depending on the lending division, may make use of manual underwriting by experienced credit risk professionals and automated credit scoring to assess the potential default risks associated with each borrower;
- the verification of supplied information from the applicant, supported by information from credit reference agencies to support decision-making;
- an affordability assessment to confirm that the borrower is expected to have the financial resources necessary to maintain the commitment;
- valuation of the collateral assets securing the loan; and
- regular ongoing audits of portfolio assets.

The Group operates delegated lending mandates such that all transactions involving an aggregate exposure in excess of £2.5 million (£300,000 in the case of Secured Lending) to a single counterparty or group of connected counterparties are subject to objective overview and countersignature from at least one nominated individual who sits outside of the business division (being the Chief Executive Officer, Chief Risk Officer, Head of Credit or Senior Manager, Group Credit). Any exposure in excess of £4 million (£500,000 in the case of Secured Lending) will be reviewed by a credit approval committee chaired by the Chief Executive Officer and of which there are a number of standing members and a number of members who sit for specific cases by rotation. Loans in the Consumer Lending division are subject to an absolute maxima of £50,000 with referral outside the division required for non-standard decision referrals above £25,000. Following their approval, transaction and portfolio monitoring is carried out, which is summarised through monthly reporting to the Group Credit Committee and is circulated to the Board as part of the monthly board pack.

Executive management regularly reviews and challenges portfolio credit practices and results. They may act in various ways to limit the impact of credit risk events on the Group, including:

- reducing the levels of new lending in a stress environment to preserve capital resources; and
- managing the realisation of collateral in the Group's possession to achieve better sale prices and reduce the level of loss discount.

#### **6.2.1 Non-performing loans, provisioning and forbearance**

The Group applies a consistent approach to provisioning across all lending activities, either through collective or specific provisioning. Collective provisioning reflects the estimated amount of losses incurred on a collective basis, but which have yet to be individually identified. Specific provisions are raised against non-performing or defaulted agreements.

In the case of the Group's Commercial Mortgages and Secured Lending portfolios, specific provisions are raised when a loan becomes impaired. The provision is determined by comparing the outstanding

loan balance against the stressed value of the security. The Asset Finance division determines specific provisions where asset values are lower than the outstanding debt. Asset values are initially attributed on a desktop basis and adjusted on inspection post-recovery. Invoice finance facilities provided by the Group's Business Credit division will attract a full specific provision for any balance remaining outstanding on expiry of six months following commencement of a "collect-out" or termination event. A specific provision will be raised earlier if there is an immediate anticipation of loss. Within the Consumer Lending division, specific provisions are made when loans go into arrears, and such provisions are incrementally increased at each further month in arrears, reaching 90 per cent. at five payments in arrears.

When specific provisions are made for defaulted agreements, in most cases a loan-by-loan analysis is undertaken to understand the probability of recovery, whether the agreement can be restored to order or, if not, what the recovery is likely to be. For the Group's Consumer Lending division, a specific provision is raised which is formulaically linked to arrears which will apply to the majority of cases, with loan-by-loan analysis carried out only where a trigger event has occurred but arrears are not yet in evidence. The majority of the Group's loans have adequate security, such as property, which leads in most cases to a full or high level of recovery. Any potential shortfall is calculated and forms the basis of the specific provision, taking into account the costs of recovery and expected timing.

The Group regularly monitors the performance of loan assets, especially where there is any sign of potential or actual impairment. Late payments and arrears cases are reported in detail and reviewed on a regular basis and detailed credit reports are submitted for review to the Group Credit Committee.

The Group maintains a forbearance policy for the servicing and management of any customers falling into arrears across its lending products. As at 31 December 2014, the number of such forbearance arrangements was 531, of which the carrying value was £8.7 million and against which impairment provisions of £2.9 million were held.

### 6.2.2 Counterparty credit risk

Counterparty credit risk arises from the wholesale investments made by the Group's Treasury function in order to meet its liquidity requirements. The Treasury function is responsible for managing this credit risk in line with Board approved risk appetite and wholesale credit policies. Wholesale counterparty limits are reviewed monthly by the ALCO based on analyses of counterparties' financial performance, credit ratings and other market information to ensure that limits remain within the defined RAS. The wholesale credit risk is analysed by its contractual maturity profile as set forth in the table below:

Exposure Category	Under	3 Months	Over	Over	Exposure
	3 Months	to 1 Year	1 Year to	5 Years	Value
	£m	£m	£m	£m	£m
Cash & Balances at Central Banks .....	311.4	—	—	1.7	313.1
A1 Rated UK Banks .....	18.6	—	—	—	18.6
A2 Rated UK Banks .....	1.1	—	—	—	1.1
Baa1 Rated UK Banks .....	16.9	—	—	—	16.9
<b>Total .....</b>	<b>348.0</b>	<b>—</b>	<b>—</b>	<b>1.7</b>	<b>349.7</b>

### 6.2.3 Concentration risk

Concentration risk is the risk arising from having exposures concentrated in one sector, asset class, collateral type, geographical area or product or from a large individual exposure or a number of exposures to a group of related borrowers or counterparties. Concentration risk can also arise from concentrations in funding and liquidity mix.

The Group has identified a potential concentration risk in its significant Greater London and South East England residential property exposure, which accounts for a material portion of both the Secured Lending and Commercial Mortgages portfolios (60 per cent. of the Commercial Mortgages loan portfolio and 54 per cent. of the Secured Lending portfolio as at 31 December 2014).

The Group has also identified that there are potential concentration risks with its funding and liquidity mix. The majority of the Group's funding comes from retail and SME deposits, with a small amount of wholesale funding accessed via the FLS. The primary risk associated with retail savings is widespread withdrawal or a run on the bank.

The Group monitors the concentration risk in its residential property exposure and seeks to avoid excess concentrations in its other lending divisions, where it benefits from product diversity between both personal and corporate customers and secured and unsecured products and also from geographic diversity throughout the UK.

To mitigate the Group's concentration risk from its funding and liquidity mix, the Group has developed a prudent term structure of deposits. As at 31 December 2014, the average contractual maturity of deposits was 14 months and 85 per cent. of the Group's deposits had a contractual duration of greater than 90 days. The Group's terms and conditions for deposit accounts also prevent withdrawal before the end of the contractual term except in limited circumstances.

The Group has also identified a number of large exposures in its lending portfolio — as at 31 December 2014, the Group had 43 loans with exposures at default of greater than £4.0 million and an aggregate exposure at default of £352.5 million, and an outstanding balance of £269.2 million, representing 12 per cent. of the Group's overall loan book at that date. The Group manages these exposures by requiring exposures in excess of £4 million (£500,000 in the case of Secured Lending) to be reviewed by a credit approval committee. Loans in the Consumer Lending division are subject to an absolute maxima of £50,000 with referral outside the division required for non-standard decision referrals above £25,000.

### **6.3 Market risk**

#### *Definition*

Market risk is the risk that changes in market prices, particularly interest rates, will affect the Group's income and/or the value of the financial instruments it holds (i.e. the assets and liabilities on its consolidated balance sheet).

#### *Market risk appetite*

The Group does not have a trading book or engage in any trading activities, other than for liquidity management purposes, and therefore has limited appetite for market risk.

The Group currently undertakes limited foreign currency activity, through a small volume (£13.9 million equivalent) of US dollar, Canadian dollar and euro assets generated by the Business Credit division, which represented 0.5 per cent. of the Group's total assets as at 31 December 2014. All foreign currency assets are fully funded in the relevant currency and thus do not present any actual exposure to fluctuations in foreign currency rates. Accordingly, this is not considered to be a material risk.

However, the Group has some exposure to interest rate risk through its banking book, as discussed under "Principal risks" below.

#### *Principal risks*

The Group incurs some market risk as its asset base comprises a mixture of fixed and floating rate loans of various maturities and its deposit base is made up of a mixture of deposits attracting fixed and floating interest rates for varying maturities. It is therefore exposed to the risk of loss arising from adverse movements in market interest rates and from the loan and savings products that the Group offers.

#### *Mitigation*

The Group's Treasury function manages and controls interest rate risk through its treasury investment and hedging policy. Reports detailing interest rate exposure are monitored and reported on a monthly basis to the Asset and Liability Committee, using the Group's asset liability management system, ALMIS.

The Group's strategy is to minimise interest rate risk by taking advantage of natural hedging opportunities where possible (i.e. by balancing floating rate exposures and fixed rate exposures within its loan and deposit books). In addition, the Group undertakes appropriate interest rate swaps where required (e.g. by swapping longer-dated fixed rate deposits to 3 month LIBOR, thus matching the re-pricing index of assets in the Commercial Mortgages portfolio).

## 6.4 Liquidity risk

### *Definition*

Liquidity risk is the risk that the Group will have insufficient liquid resources (i.e. cash and cash equivalents) to meet current and future financial commitments as they become due.

### *Liquidity risk appetite*

The Group's liquidity risk appetite is set by the Board and documented in the Group's liquidity policy, which is reviewed at least once per year. The Group has developed comprehensive funding and liquidity policies to ensure that it maintains sufficient liquid assets to meet its financial obligations during an extended period of stress.

### *Principal risks*

The Group's current funding is primarily obtained through SME and retail deposits, with additional funding provided through the FLS. The Group faces the risk that it has insufficient liquid resources to meet its financial obligations or support the Group's continued growth, as well as the systemic risk of one or more events which trigger unexpected material outflows of SME and/or retail deposits.

### *Mitigation*

The Group has adopted a prudent approach to liquidity management, demonstrated by 85 per cent. of the deposit book having a contractual duration of more than 90 days (as at 31 December 2014). As at 31 December 2014, the average contractual maturity was 14 months, providing the Group with a stable deposit book.

To protect the Group and its depositors against liquidity risk, the Group maintains a liquidity buffer, which is based on its liquidity needs under stressed conditions. The liquidity buffer is monitored on a daily basis to ensure that the Group has sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding and to enable the Group to meet all of its financial obligations and to support anticipated asset growth. Liquidity requirements under stressed conditions are considered as part of the ILAA process.

The ILAA requires the Group to consider all material liquidity risks in detail. It sets a liquidity risk appetite with respect to each key liquidity risk driver, based on the Group's analysis of each such driver, which is considered, together with liquidity risks generally, by the ALCO each month.

Through the ILAA process, the Group has assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks. The ILAA process determines the appropriate liquidity buffer, taking into account the specific nature of the deposit base.

Based on the Group's model of funding primarily through retail and SME deposits, together with the FLS, the liquidity risk appetite, as set by the Group, provides assurance to the Board that the relevant liquidity risk drivers have been considered and appropriately stressed and that the Group is able to meet liabilities beyond the targeted survival period.

## 6.5 Operational risk

### *Definition*

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

#### *Operational risk appetite*

The Group aims to maintain robust operational systems and controls and seeks to operate within a defined level of operational risk. The Group's operational risk management function (part of the Group Risk function) reviews risk events and assesses internal controls, as well as potential additional capital requirements stemming from certain operational risks.

#### *Principal risks*

Operational risks can arise in many ways, including from business interruptions associated with IT or other system failures, delivery failures on the part of third party suppliers, reputational damage, regulatory censures or fines, frauds perpetrated against the Group or the loss of key people pivotal to the delivery of the Group's business plans. In addition, the Group's cybersecurity measures may not detect or prevent all attempts to compromise its systems, including denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, security breaches or other attacks and similar disruptions that may jeopardise the security of information stored in and transmitted by the Group's systems or that the Group otherwise maintains.

#### *Mitigation*

The Group's operational risk management function is designed to ensure appropriate strategies and policies are in place to manage, control and mitigate the risks that could impact the ability of the Group to meet its business objectives while protecting its reputation and operating within the Board-approved operational risk appetite.

The Directors, management and staff across the Group are responsible for the identification and management of potential operational risks and receive training for this purpose. Within the Group risk function, a separate team exists specifically to monitor operational risk, assessing and measuring the potential impact of operational risks across the organisation; and monitoring the implementation of any mitigating actions as appropriate. This team is also responsible for regularly reviewing and updating the Group's business continuity framework and arrangements to protect the Group in the event of a disruption. The Group maintains detailed, up-to-date risk event logs and has procedures for the timely recording of risk events. Managers of each of the Group's business divisions complete control self-assessments on a periodic basis. The Second Line of Defence monitors the Group's management of this risk to ensure that the controls and, where appropriate, mitigation action plans, are robust.

## **6.6 Conduct and compliance risk**

#### *Definition*

Conduct risk is the risk of detriment caused to the Group's customers due to the inappropriate execution of its business activities and processes.

#### *Conduct risk appetite*

The Group aims to maintain effective procedures to mitigate conduct risk and seeks to operate within a minimum level of conduct risk.

#### *Principal risks*

Conduct risk may arise in many ways, for example, through mis-selling of products, poor product design and insufficient or misleading advice given to the Group's customers. Poor conduct which contravenes regulations may result in regulatory censure and/or fines.

#### *Mitigation*

The Group relies on its "Three Lines of Defence" to ensure there is an adequate safeguard against conduct risk and compliance breaches. The Group has dedicated specialists within each of its Lines of Defence covering core compliance functions. The First Line of Defence is responsible for day-to-day implementation of the conduct risk strategy and compliance policies, while the Second Line of Defence monitors the Group's management of this risk and ensures that the Group's risk-aware culture is firmly embedded in all employees through mandatory training and awareness programmes. The Group also mitigates conduct risk by undertaking conduct risk focus area plans and risk reporting to cover changes to regulatory legislation.

## PART XIV — CAPITALISATION AND INDEBTEDNESS

### 1. Capitalisation

The following table sets out the Group's capitalisation as at 31 December 2014. The capitalisation of the Group has been extracted without material adjustment from the historical financial information in Part XV (*Historical Financial Information*) of this Prospectus.

	<u>As at 31 December 2014</u>
	£m
<b>Shareholders' equity:</b>	
Share capital .....	185.3
Share premium account .....	1.3
Retained earnings .....	<u>32.1</u>
<b>Total .....</b>	<b><u>218.7</u></b>

There has been no material change to the Group's capitalisation since 31 December 2014.

### 2. Indebtedness

The following table sets out the Group's indebtedness as at 28 February 2015, which has been extracted from the Group's accounting records and is unaudited.

<u>Indebtedness</u>	<u>As at 28 February 2015</u>
	£m
Bank debt <sup>(1)</sup> .....	3.8
Subordinated debt .....	<u>31.3</u>
<b>Total indebtedness .....</b>	<b><u>35.1</u></b>

(1) Bank debt represents cash collateral posted by swap counterparties.

<u>Indirect and contingent indebtedness</u>	<u>As at 28 February 2015</u>
	£m
Guarantees and assets pledged as collateral security:	
Securities pledged in the FLS <sup>(1)</sup> .....	206.4
Other contingent liabilities .....	<u>—</u>
<b>Total indirect and contingent liabilities .....</b>	<b><u>206.4</u></b>

(1) Unencumbered FLS Treasury Bills.

## PART XV — HISTORICAL FINANCIAL INFORMATION

### Section A: Accountants' report on consolidated historical financial information of the Group



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1 April 2015

Ladies and Gentlemen

#### **Shawbrook Group plc**

We report on the financial information set out on pages 161 to 213 for the three years ended 31 December 2012, 31 December 2013 and 31 December 2014. This financial information has been prepared for inclusion in the prospectus dated 1 April 2015 of Shawbrook Group plc on the basis of the accounting policies set out in paragraph 1.3. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

The Directors of Shawbrook Group plc are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

#### **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant

estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion on financial information**

In our opinion, the financial information gives, for the purposes of the prospectus dated 1 April 2015, a true and fair view of the state of affairs of Shawbrook Group plc as at 31 December 2012, 31 December 2013 and 31 December 2014 and of its consolidated profits and losses, statements of cash flows and consolidated changes in equity for the three years ended 31 December 2012, 31 December 2013 and 31 December 2014 in accordance with the basis of preparation set out in note 1 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1.1.

### **Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

**Section B: Consolidated historical financial information of the Group**

**Shawbrook Group plc**

**Consolidated income statement**

	<i>Note</i>	2014 £m	2013 £m	2012 £m
Interest receivable and similar income .....	3	156.7	93.3	48.4
Interest expense and similar charges .....	4	(54.0)	(38.4)	(27.4)
Net interest income .....		102.7	54.9	21.0
Operating lease rentals .....		15.7	17.1	15.1
Other income .....		1.1	1.1	0.3
Depreciation on operating leases .....	19	(13.1)	(13.8)	(12.1)
Net income from operating leases .....		3.7	4.4	3.3
Fee and commission income .....	5	7.6	0.8	0.5
Fee and commission expense .....	6	(1.7)	—	(0.1)
Net fee and commission income .....		5.9	0.8	0.4
Fair value (losses) on financial instruments .....	18	(0.1)	—	—
<b>Net operating income</b> .....		<b>112.2</b>	<b>60.1</b>	<b>24.7</b>
Administrative expenses .....	7	(59.1)	(39.8)	(29.0)
Impairment losses on financial assets .....	16	(6.7)	(3.5)	(2.7)
Provisions for liabilities and charges .....	25	(1.1)	(0.7)	(0.1)
<b>Profit/(Loss) before taxation</b> .....		<b>45.3</b>	<b>16.1</b>	<b>(7.1)</b>
Income tax (charge)/credit .....	13	(10.8)	(3.3)	0.3
<b>Profit/(Loss) for the year, attributable to owners</b> .....		<b>34.5</b>	<b>12.8</b>	<b>(6.8)</b>

**Shawbrook Group plc**

**Consolidated statement of other comprehensive income**

	<u>2014</u> £m	<u>2013</u> £m	<u>2012</u> £m
<b>Profit/(Loss) for the year, attributable to owners .....</b>	<b>34.5</b>	<b>12.8</b>	<b>(6.8)</b>
<b>Other comprehensive income</b>			
Net change in fair value of investment securities — available for sale .....	—	0.1	0.6
Tax on other comprehensive income .....	—	(0.1)	(0.2)
<b>Total other comprehensive income for the year net of taxation .....</b>	<b>—</b>	<b>—</b>	<b>0.4</b>
<b>Total comprehensive income for the year, attributable to owners .....</b>	<b>34.5</b>	<b>12.8</b>	<b>(6.4)</b>
	<i>Note</i>	<u>2014</u> £	<u>2013</u> £
<b>Earnings per share</b>	39	<b>0.21</b>	<b>0.10</b>
Basic .....		0.21	(0.07)
Diluted .....		0.21	(0.07)

**Shawbrook Group plc**

**Consolidated statement of financial position**

	<i>Note</i>	2014 £m	2013 £m	2012 £m
<b>Assets</b>				
Cash and balances at central banks . . . . .		313.1	206.6	0.2
Loans and advances to banks . . . . .	14	36.6	23.8	117.2
Loans and advances to customers . . . . .	15	2,284.8	1,346.9	683.5
Derivative financial assets . . . . .	18	3.7	—	—
Investment securities — available for sale . . . . .	17	—	—	144.9
Property, plant and equipment . . . . .	19	49.7	53.8	61.1
Intangible assets . . . . .	20	49.5	22.2	21.3
Deferred tax asset . . . . .	21	9.8	8.6	11.2
Other assets . . . . .	22	6.8	6.1	10.9
<b>Total assets</b> . . . . .		<b>2,754.0</b>	<b>1,668.0</b>	<b>1,050.3</b>
<b>Liabilities</b>				
Customer deposits . . . . .	23	2,421.0	1,463.0	923.7
Due to banks . . . . .	24	41.0	24.6	—
Provisions for liabilities and charges . . . . .	25	0.6	0.4	0.1
Other liabilities . . . . .	26	41.9	16.9	21.6
Subordinated debt . . . . .	28	30.8	27.6	—
<b>Total liabilities</b> . . . . .		<b>2,535.3</b>	<b>1,532.5</b>	<b>945.4</b>
<b>Equity</b>				
Share capital . . . . .	29	185.3	138.0	120.2
Share premium account . . . . .		1.3	—	—
Retained earnings . . . . .		32.1	(2.5)	(15.3)
<b>Total equity</b> . . . . .		<b>218.7</b>	<b>135.5</b>	<b>104.9</b>
<b>Total equity and liabilities</b> . . . . .		<b>2,754.0</b>	<b>1,668.0</b>	<b>1,050.3</b>

**Shawbrook Group plc**

**Consolidated statement of changes in equity**

	Share Capital £m	Available for Sale Reserve £m	Share Premium £m	Retained Earnings £m	Total Equity £m
<b>Balance as at 1 January 2012</b> .....	45.2	(0.4)	—	(8.7)	36.1
<b>Total comprehensive income for the year:</b>					
Loss for the year .....	—	—	—	(6.8)	(6.8)
Other comprehensive income:					
Fair value reserve (available for sale financial assets) ..	—	0.6	—	—	0.6
Tax on other comprehensive income .....	—	(0.2)	—	—	(0.2)
<b>Total comprehensive income for the year</b> .....	—	0.4	—	(6.8)	(6.4)
Share-based payments .....	—	—	—	0.2	0.2
<b>Transactions with owners recorded directly in equity:</b>					
Contributions by and distributions to owners:					
Issue of shares .....	75.0	—	—	—	75.0
Total contributions by and (distributions) to owners .....	75.0	—	—	—	75.0
<b>Balance at 31 December 2012</b> .....	<u>120.2</u>	<u>—</u>	<u>—</u>	<u>(15.3)</u>	<u>104.9</u>
<b>Balance at 1 January 2013</b> .....	<u>120.2</u>	<u>—</u>	<u>—</u>	<u>(15.3)</u>	<u>104.9</u>
<b>Total comprehensive income for the year:</b>					
Profit for the year .....	—	—	—	12.8	12.8
Other comprehensive income:					
Fair value reserve (available for sale financial assets) ..	—	0.1	—	—	0.1
Tax on other comprehensive income .....	—	(0.1)	—	—	(0.1)
<b>Total comprehensive income for the year</b> .....	—	—	—	12.8	12.8
<b>Transactions with owners recorded directly in equity:</b>					
Contributions by and distributions to owners:					
Issue of shares .....	17.8	—	—	—	17.8
Total contributions by and (distributions) to owners .....	17.8	—	—	—	17.8
<b>Balance at 31 December 2013</b> .....	<u>138.0</u>	<u>—</u>	<u>—</u>	<u>(2.5)</u>	<u>135.5</u>
<b>Balance at 1 January 2014</b> .....	<u>138.0</u>	<u>—</u>	<u>—</u>	<u>(2.5)</u>	<u>135.5</u>
<b>Total comprehensive income for the year:</b>					
Profit for the year .....	—	—	—	34.5	34.5
<b>Total comprehensive income for the year</b> .....	—	—	—	34.5	34.5
Share-based payment .....	—	—	—	0.1	0.1
<b>Transactions with owners recorded directly in equity:</b>					
Contributions by and distributions to owners:					
Issue of shares .....	47.3	—	1.3	—	48.6
Total contributions by and (distributions) to owners .....	47.3	—	1.3	—	48.6
<b>Balance at 31 December 2014</b> .....	<u>185.3</u>	<u>—</u>	<u>1.3</u>	<u>32.1</u>	<u>218.7</u>

**Shawbrook Group plc**

**Consolidated statement of cash flows**

	<i>Note</i>	<b>2014</b> £m	<b>2013</b> £m	<b>2012</b> £m
<b>Cash flows from operating activities:</b>				
Profit/(Loss) for the year before taxation .....		45.3	16.1	(7.1)
Adjustments for non-cash items .....	30	23.8	17.6	15.9
<b>Cash flows from operating activities before changes in operating assets and liabilities .....</b>		<b>69.1</b>	<b>33.7</b>	<b>8.8</b>
<b>Increase/decrease in operating assets and liabilities:</b>				
Decrease/(Increase) in investment securities — available for sale .....		—	82.0	(63.5)
Increase in mandatory balances with central banks .....		(1.0)	(0.5)	(0.2)
Increase in loans and advances to customers .....		(749.0)	(665.6)	(312.3)
Increase in derivatives .....		(3.7)	—	—
Decrease/(Increase) in other assets .....		0.7	6.9	(3.7)
Increase in customer deposits .....		958.1	539.3	743.3
Increase in provisions for liabilities and charges .....		0.2	0.3	0.1
(Decrease)/Increase in other liabilities .....		12.0	(4.7)	3.4
		<b>217.3</b>	<b>(42.3)</b>	<b>367.1</b>
Purchase of Group tax losses .....		—	(0.6)	—
Tax paid .....		(4.6)	(2.2)	—
<b>Net cash flow generated from/ (used by) operating activities .....</b>		<b>281.8</b>	<b>(11.4)</b>	<b>375.9</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment .....		(11.0)	(11.2)	(12.5)
Sale of property, plant and equipment .....		2.2	3.8	3.7
Purchase of intangible assets .....		(3.9)	(1.1)	—
Investment in subsidiaries net of cash and cash equivalents acquired .....		(76.3)	—	(12.6)
<b>Net cash used by investing activities .....</b>		<b>(89.0)</b>	<b>(8.5)</b>	<b>(21.4)</b>
<b>Cash flows from financing activities</b>				
Due to banks .....		16.4	24.6	—
Repayment of third party funding .....		(138.2)	—	(325.1)
Issue of subordinated debt .....	28	—	27.1	—
Proceeds from the issue of ordinary share capital .....		47.3	17.8	75.0
<b>Net cash generated from / (used by) financing activities .....</b>		<b>(74.5)</b>	<b>69.5</b>	<b>(250.1)</b>
<b>Net increase in cash and cash equivalents .....</b>		<b>118.3</b>	<b>49.6</b>	<b>104.4</b>
Cash and cash equivalents at 1 January .....		229.7	180.1	75.7
<b>Cash and cash equivalent at 31 December .....</b>	31	<b>348.0</b>	<b>229.7</b>	<b>180.1</b>

## **Shawbrook Group plc**

### **Notes to the consolidated historical financial information**

#### **1.1 General information**

##### *Corporate information*

Shawbrook Group plc (the “**Operating Company**”) is domiciled in the UK. The Operating Company’s registered office is at Lutea House, Warley Hill Business Park, The Drive, Brentwood, Essex, CM13 3BE. The Group is an independent specialist lending and savings bank serving UK SMEs and individuals. The company was formed for the purpose of acquiring Whiteaway Laidlaw Bank from the Manchester Building Society in January 2011. The Group’s business, financial condition and results of operations have been affected by a number of significant acquisitions during the period under review, which are described below.

##### *Singers Asset Finance*

In March 2012, the Group acquired Singers Asset Finance with £325.0 million of leasing assets (classified as loans and advances to customers and operating leases within property, plant and equipment) from the administrators of the Kaupthing estate for a total consideration of £55.8 million (including goodwill of £9.0 million). The acquisition formed the foundation of the Group’s Asset Finance division and brought in specialist financing capabilities such as financing of business critical asset classes including commercial and haulage vehicles, vehicle rental fleets, taxis and machine tools and equipment leasing solutions to NHS trusts and public and private healthcare providers.

##### *Centric Group*

In June 2014, the Group acquired the asset-based lender Centric from funds managed by Cabot Square Capital LLP for a total consideration of £77.7 million. The Group acquired Centric with £195.5 million of SME advances to broaden its product offering. The acquired business was rebranded as the Group’s Business Credit division, and the majority of the offering is loans to SMEs secured against invoices, which provides the division’s SME client base with immediate access to cash for working capital purposes. Loans are also made against stock, plant and machinery and property to create a total funding solution for the Group’s customers.

##### *Accounting policies*

The consolidated historical financial information (“**HFI**”) comprised the financial information of each of the companies of the Group for the years ended 31 December 2014, 31 December 2013 and 31 December 2012.

##### *Basis of accounting*

The HFI has been prepared on a historical cost basis and in accordance with IFRS as adopted by the EU.

The HFI has been prepared in accordance with the requirements of the Prospectus Directive Regulation, and the Listing Rules.

The accounting policies have been applied consistently to all periods presented in the HFI.

##### *Functional and presentation currency*

The HFI is presented in Pounds Sterling, which is the Group’s functional currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in profit or loss.

Non-monetary items (which are assets and liabilities which do not attach to a right to receive or an obligation to pay currency) measured at amortised cost and denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rate at the date of valuation. Where these are held at fair value through profit and loss, exchange differences are reported as part of the fair value gain or loss.

#### *Going concern*

The HFI is prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including a range of stressed scenarios, taking into account the capital that is expected to be provided by the Offer, the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

#### *Basis of consolidation*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

These financial statements consolidate the results of the subsidiary companies set out in note 34. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### **1.2 Critical accounting estimates and judgements**

The preparation of the HFI in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on Management's best knowledge of the amount, actual results may ultimately differ from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed within the notes to the financial statements which the estimate or judgement relates to as follows:

#### *a. Effective interest rate*

IAS 39 requires interest earned from loans and advances to be measured under the effective interest method. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of the carrying value of loans and advances would therefore be affected by unexpected market movements resulting in altered customer behaviour models used to compare to actual outcomes and incorrect assumptions.

The Group has determined specific attributes of several loan profiles to model the expected experience across the consumer, commercial and secured portfolios. Management have reviewed these profiles on a quarterly basis and have recorded 'catch-up adjustments' as required in order to reflect the actual experience on the portfolios.

An increase in the behavioural life of a loan by 10% per calendar month would result in a net income statement charge of £0.1m (2013: £0.1m, 2012: £nil).

#### *b. Share-based payments*

The fair value of shares in employee share schemes was determined using a valuation model. The significant inputs into this model were expected term, risk-free interest rate, expected dividend yield and expected volatility.

*c. Impairment losses on loans and advances*

Individual impairment losses on loans and advances are calculated based on an assessment of the expected cash flows and the underlying collateral. For the purpose of collective impairment, financial assets are grouped on the basis of similar risk characteristics. Collective provisions are calculated using twelve month roll rates on difference segments of the loan book not subject to an individual provision. Management also consider the need for a management overlay to take into account additional risk factors of the portfolio.

These key assumptions are monitored regularly to ensure the impairment allowance is entirely reflective of the current portfolio.

The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. For loans and advances to the extent that:

- There is a change of one month in the emergence period across all portfolios, this would have the effect of changing the collective provision by £0.5m (2013: £0.4m, 2012: £0.3m)
- There is a change in the loss rate by 10 basis points, this would have the effect of changing the collective provision by £1.1m (2013: £0.5m, 2012: £0.3m)
- There is an increase in the forced sale discount by 5%, this would have the effect of increasing the individual provisions by £0.4m (2013: £0.4m, 2012: £0.3m)
- There is an increase in the propensity to default by 10%, this would have the effect of increasing the individual provisions by £0.8m (2013: £0.2m, 2012: £0.1m)

*d. Fair value of identifiable net assets of the Singers Group, Money2Improve and Centric Group*

Acquisitions have been accounted for in accordance with applicable accounting standards which require the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values.

This exercise was inherently subjective and required Management to make a number of assumptions and estimates. Fair values were established using discounted cash flow models. For the Centric Group, a 5% increase in the required return results in a £0.5m decrease in the fair value of the acquired book, and a 5% decrease in the required return results in a £0.5m increase in the fair value of the acquired book.

Since the acquisition dates, the effects of the fair value adjustments have started to unwind and be recognised in the Group's income statement. The determination of the extent to which the adjustments unwind often requires significant judgement. The unwind of the acquisition date fair values on customer lending and property, plant and equipment is based on the estimated average life of the underlying asset and the credit risk fair value is reassessed on an ongoing basis.

*e. Residual values*

Management uses a combination of historical experience and future projections to estimate the appropriate residual value for particular vehicles or items of plant and equipment at least on a monthly basis. The nature of the equipment, its state of condition and obsolescence factors are key determinants in estimating residual values at any point in time. Management performs sensitivity analysis and compare a range of outcomes to include the possibility of extension or in the event of non-extension the possibility of sale or rehire as part of the assessment as to whether impairments are necessary. If future residual values materialise at 10 per cent. lower than predicted then this could have an impact on profitability of approximately £0.9m (2013: £1.0m, 2012: £1.0m).

*f. Impairment of goodwill*

Goodwill has arisen on the acquisition of companies whose businesses have been integrated within the Group and reflects the difference between the consideration paid and the fair value of net assets acquired. Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment by reviewing detailed cash flow projections from the Group's latest approved forecast. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is not amortised but is tested for impairment on an annual basis. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed. Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to cash generating units ("CGU"). An impairment loss is recognised if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of pre-tax profits for the subsequent five years, and a residual value, discounted at a risk-adjusted interest rate appropriate to the cash generating unit. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. An impairment loss is recognised if the carrying amount of an asset is greater than its recoverable amount. No impairment losses were recognised during 2014 (2013: £nil, 2012: £nil).

### **1.3 Accounting policies**

#### ***Basis of consolidation***

A number of International Accounting Standards Board (IASB) pronouncements have been issued but are not effective for this financial year. The standards considered most relevant to the Group are as follows:

- IFRS 9 'Financial Instruments'**

Effective from 1 January 2018 and not yet endorsed by the EU. The standard replaces parts of IAS 39. Phase one of this process specifically requires financial assets to be classified at amortised cost or at fair value. Consequently, the available-for-sale category currently used will no longer be used. Further development phases for IFRS 9 are scheduled to cover key areas such as impairment and hedge accounting. Early adoption is permitted once endorsed by the EU. The Group is monitoring the development of IFRS 9 and considering the associated impact on the Group's financial statements.

- Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions'**

Effective from 1 February 2015 and endorsed by the EU on 9 January 2015. The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. This is unlikely to have a material impact on the Group.

- Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'**

Effective from 1 February 2016 and not yet endorsed by the EU. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. This is unlikely to have a material impact on the Group.

- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'**

Effective from 1 February 2016 and not yet endorsed by the EU. The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. While this is not an outright ban, it creates a high hurdle for when these methods may be used for intangible assets. This is unlikely to have a material impact on the Group.

- IFRS 15 'Revenue from Contracts with Customers'**

Effective from 1 January 2017 and not yet endorsed by the EU.

The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3. It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. It also does not apply if two companies under the same line of business exchange non-monetary assets to facilitate sales to other parties.

The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. This is unlikely to have a material impact on the Group.

***New standards and interpretations adopted in the current year***

- **IFRS 10 ‘Consolidated Financial Statements’**

Effective from 1 January 2014 and endorsed by the EU on 11 December 2012.

IFRS 10 supersedes IAS 27 and incorporates the existing accounting and disclosure requirements of IAS 27 with some additional minor clarifications. It also provides a single model to be applied in the control analysis for all investees. This does not have a material impact on the group.

- **IFRS 11 ‘Joint Arrangements’**

Effective from 1 January 2014 and endorsed by the EU on 11 December 2012.

This standard replaces the existing accounting for joint arrangements and makes limited amendments in relation to associates. This does not have a material impact on the group.

- **IFRS 12 ‘Disclosure of Interests in Other entities’**

Effective from 1 January 2014 and endorsed by the EU on 11 December 2012.

This standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. This does not have a material impact on the group.

- **Amendments to IAS 32 ‘Offsetting Financial Assets and Liabilities’**

Effective from 1 January 2014 and endorsed by the EU on 13 December 2012.

This standard was amended to clarify the offsetting criteria, specifically when an entity currently has a legal right of set off; and when gross settlement is equivalent to net settlement. This does not have a material impact on the group.

- **Amendments to IAS 36 ‘Recoverable amount disclosures for non-financial assets’**

Effective from 1 January 2014 and endorsed by the EU on 19 December 2013.

The amendments reverse the unintended requirement in IFRS 13 to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. There is no impact in the current year and thus this does not have a material impact on the group.

- **Amendments to IAS 39 ‘Continuing hedge accounting after derivative novations’**

Effective from 1 January 2014 and endorsed by the EU on 19 December 2013.

The amendments add a limited exception to IAS 39 to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. There is no impact in the current year. This does not have a material impact on the group.

### *Cash and cash equivalents*

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances at central banks, loans and advances to banks and building societies and short-term highly liquid debt securities with less than three months to maturity from the date of acquisition. Loans to banks and building societies comprise cash balances and call deposits.

### ***Financial assets and financial liabilities***

#### *Financial assets*

The Group classifies its financial assets in the following categories:

- At fair value through profit or loss;
- Loans and receivables; and
- Available for sale financial assets.

The Group's financial liabilities are designated as other financial liabilities at amortised cost and at fair value through profit or loss. A financial asset is measured initially at fair value plus the transaction costs that are directly attributable to its acquisition. A financial liability is measured initially at fair value less the transaction costs that are directly attributable to its issue.

Derivative financial assets are classified at fair value through profit or loss.

The Group has not classified any assets or liabilities as held to maturity.

#### *Loans and advances*

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances to banks and building societies are classified as loans and receivables. Loans and advances to customers include:

- those classified as loans and advances; and
- finance lease and instalment credit advances.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The net investment in finance leases and instalment credit agreements represents the future lease rentals and instalments receivable less profit and costs allocated to future periods. Income is recognised throughout the life of the agreement to provide a constant rate of return on the net investment in each lease or instalment credit agreement.

Where an agreement is classified as an operating lease at inception, but is subsequently reclassified as a finance lease following a change to the agreement or an extension beyond the primary term, then the agreement is accounted for as a finance lease.

#### *Available for sale financial assets*

Available for sale financial assets are non-derivative financial assets that are designated available for sale and that are not classified in any of the previous categories of financial assets. Subsequent to initial recognition they are measured at fair value and changes therein, other than impairment losses, are recognised within other comprehensive income and presented within equity in the available for sale reserve. Interest income is recognised in the income statement over the life of the asset. On disposal, gains and losses accumulated in equity are reclassified to the income statement. Interest income is recognised in profit or loss using the effective interest method.

Available for sale financial assets solely comprise UK Government debt securities.

#### *Derivatives and hedge accounting*

The Group's derivative activities are entered into for the purposes of matching or eliminating risk from potential movements in interest rates and foreign exchange rates in the Group's assets and liabilities.

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate. Fair values are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flow models and option pricing models. Derivatives are measured as assets where their fair value is positive and liabilities where their fair value is negative.

The Group has adopted hedge accounting in accordance with IAS 39 which specifies that the hedge relationship must be clearly documented at inception and the derivative must be expected to be highly effective in offsetting the hedged risk. Effectiveness is tested throughout the life of the hedge relationship.

#### *Fair Value Hedge*

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as a finance cost. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as a finance cost.

#### *Financial liabilities*

Customer deposits and amounts due to banks are non-derivative financial liabilities with fixed or determinable payments. Deposits and amounts due to banks are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

Derivative financial liabilities are classified at fair value through profit and loss.

#### *Derecognition of financial assets and liabilities*

Derecognition is the point at which an asset or liability is removed from the balance sheet. The Group's policy is to derecognise financial assets when the contractual rights to the cash flows from the financial asset have expired or where all the risks and rewards of ownership have been transferred.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

If the terms of the financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows from the original financial asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an unexpected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

#### *Impairment of financial assets*

On an on-going basis the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and

impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of impairment loss include, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest,
- Cash flow difficulties experienced by the borrower, and
- Initiation of bankruptcy proceedings.

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a financial asset is uncollectible it is written off against the related provision for impairment. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for impairment in the income statement.

Financial assets that are not written down individually become part of a portfolio which will be collectively assessed for impairment. Assessment of a portfolio assumes that loans, leases and instalment credit receivables have similar credit risk characteristics. Objective evidence of impairment of a portfolio of receivables exists if objective data indicate a decrease in expected future cash flows from a portfolio of receivables and the decrease can be measured reliably but cannot be identified with the individual receivables in the portfolio in which case a collective provision is applied.

The Group operates a forbearance policy in situations where it becomes aware that an individual customer is experiencing financial hardship, and will discuss repayment options with customers that are appropriate for the relevant customer’s specific situation. The Group seeks to ensure that any forbearance results in a fair customer outcome and will not repossess an asset unless all other reasonable attempts to resolve the position have failed.

#### *Assets acquired in exchange for loans*

Included within other debtors are non-financial assets acquired in exchange for instalment credit, finance lease receivables and operating leases as part of an orderly realisation. The asset acquired is recorded at the lower of its fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is charged in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Income Statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in the Income Statement, together with any realised gains on losses on disposal.

#### ***Property, plant and equipment***

##### *Operating Leases*

Included within property, plant and equipment are assets leased to customers under operating leases in respect of medical equipment. The net book value of operating leases represents the original cost of the equipment less cumulative depreciation. Rentals are recognised on a straight-line basis over the lease term. Depreciation is recognised on a straight-line basis to a residual value over the life of the associated agreement.

### *Depreciation*

Tangible fixed assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment as follows:

Office equipment	3 years / 5 years
Fixtures and fittings	5 years
Motor vehicles	4 years
Freehold property	50 years
Leasehold costs	life of the lease
Operating leases*	life of the lease

\* operating leases are assets leased to customers

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### ***Intangible assets***

#### *Goodwill*

Goodwill has arisen on the acquisition of companies whose businesses have been integrated within the Group and reflects the difference between the consideration paid and the fair value of net assets acquired. Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment by reviewing detailed cash flow projections from the Group's latest approved forecast. Goodwill is stated at cost less any accumulated impairment losses.

Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed. Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to cash generating units ("CGU"). An impairment loss is recognised if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of pre-tax profits for the subsequent five years, and a residual value, discounted at a risk-adjusted interest rate appropriate to the cash generating unit.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. An impairment loss is recognised if the carrying amount of an asset is greater than its recoverable amount. No impairment losses were recognised during 2014 (2013: £nil).

#### *Customer relationships*

The Directors believe that long-standing customer relationships will enhance the Group's future income. On acquisition of the Singers Group, the future income stream arising from the loyalty of long-standing customer relationships has been assessed and recognised as an intangible asset. The cost has been amortised over two years.

#### *Computer software*

Expenditure on software development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of direct labour and software licence costs. Other development expenditure is recognised in the income statement as an expense is incurred. Capitalised developments are stated at cost less accumulated amortisation and less accumulated impairment losses.

### *Amortisation*

Intangible assets are amortised on a straight-line basis through administrative expenses over the estimated useful life of the asset according to the following timescales:

Customer relationships	2 years
Computer software & licences	3 - 7 years

### *Revenue*

Revenue represents income derived from loans and advances to customers, operating lease rentals together with fees and commissions receivable.

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument, for example prepayment options, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Income from finance lease and instalment credit agreements is recognised over the period of the leases so as to give a constant rate of return on the net investment in the leases.

Fees and commissions which are not considered integral to the effective interest rate are recognised on an accruals basis when the service has been provided or received.

### *Operating lease rentals*

Rentals received from operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

### *Share-based incentive schemes*

Where the Group engages in share-based payment transactions in respect of services received from certain of its employees, these are accounted for as equity-settled share-based payments in accordance with IFRS 2. The equity is in the B and C Shares.

The grant date fair value of a share-based payment transaction is recognised as an employee expense, with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. In the absence of market prices, the fair value of the equity at the date of the acquisition is estimated using an appropriate valuation technique.

The amount recognised as an expense in the Income Statement is based on amortising the grant date fair value at a constant rate to vesting date.

### *Post — retirement obligations*

The Group does not operate a pension scheme. Pension contributions are paid to staff and Directors' personal pension schemes. The costs of the Group's contributions to defined contribution pension arrangements are recognised as an employee benefit expense when they are due.

### *Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### *Funding for Lending Scheme (FLS)*

The Group is a participant in the FLS which enables it to borrow highly liquid UK Treasury Bills in exchange for eligible collateral. The Treasury Bills issued are for an original maturity of nine months and if delivered back prior to their maturity date can be exchanged for further nine-month Bills. Costs of borrowing are charged directly to the income statement.

The Treasury Bills are not recorded on the Group's balance sheet as ownership remains with the Bank of England. The risk and rewards of the collateral provided remains with the Group and continues to be recognised in the Group's Financial Statements.

### *Subordinated debt*

The subordinated debt is a non-derivative financial liability with fixed or determinable payments. The subordinated debt is recognised initially at fair value and subsequently measured at amortised cost. Interest costs arising are capitalised in accordance with agreed terms and incorporated into the total debt payable and recognised on an effective interest rate basis.

### *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred in the consolidated accounts.

### *Acquisition accounting*

The Group recognises identifiable assets and liabilities at their acquisition date fair values. Fair values are determined from the estimated future cashflows generated by the assets. The cost of an

acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

## 2. Operating segments

The Group has six reportable operating segments as described below which are based on the Group's five lending divisions plus a Central segment which represents the Retail Savings business, Central functions and shared central costs. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is considered to be the Chief Decision-Making Officer.

The following summary describes the operations in each of the Group's reportable segments:

- Commercial Mortgages — provides the following key products, distributed primarily via a broker panel of c. 400 accredited brokers:
  - Residential: Loans to experienced buy-to-let property investors;
  - Semi Commercial: Loans for mixed use residential and commercial property operated by either seasoned SMEs or investors;
  - Commercial: Loans for properties operated by either seasoned SMEs or investors; and
  - Short term loans: Loans for property refurbishment for professional property investors.
- Secured Lending — leading second charge mortgage lender, loans typically used for home improvements, large consumer purchases and debt consolidation. The book is well seasoned and diversified book — weighted towards London and the South East, distributed through a broker panel of c.91 accredited brokers.
- Consumer Lending — provides the following key products, predominantly to prime home-owners:
  - Home Improvement loans sold by c.100 established suppliers focussing on products such as windows, kitchens, bedrooms, bathrooms, conservatories and solar panels;
  - Holiday Ownership loans sold through proven specialist time-share providers;
  - Retail Point of Sale loans sold through c20 retailers; and
  - Personal loans launched in January 2014.
- Asset Finance — provides the following key products, predominately originated via a direct origination team who have long-standing relationships with customers:
  - Corporate Asset Finance: provides full pay-out finance leases and hire purchase agreements to UK SMEs secured on hard, mainly wheeled, assets;
  - Block and Wholesale Finance: provides block lines and wholesale facilities to SMEs secured against loan receivables; and
  - Healthcare Finance: provides operating and finance leases to NHS Trusts and private healthcare providers.
- Business Credit — the Bank acquired Centric Commercial Finance (rebranded to Shawbrook Business Credit in October 2014) in June 2014 with a book size of £195.5m and a contribution margin in excess of 3%. It provides ABL facilities to SMEs with invoice discounting as the core product for all customers and accounts for 84% of the book. It also complements the invoice facility with other asset-backed lending secured with stock, plant and machinery and property. New business is originated direct through a national network of direct sales staff with full UK coverage.
- Central — this represents the reconciling items between the total of the five lending segments and the consolidated income statement. As well as common costs, Central includes the Group's Treasury function and Retail Savings business which are responsible for raising finance on behalf of the lending segments.

Information regarding the results of each reportable segment and their reconciliation to the total results of the Group are included below. Performance is measured based on the product contribution as included in the internal management reports. All revenue for each operating segment is earned from external customers.

Year ended 31 December 2014	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Savings/ Central	Total business
	£m	£m	£m	£m	£m	£m	£m
Interest receivable and similar income .....	47.4	45.3	5.9	35.0	20.3	2.8	156.7
Interest expense and similar charges .....	(16.6)	(12.6)	(2.6)	(11.2)	(5.1)	(5.9)	(54.0)
Net interest income .....	30.8	32.7	3.3	23.8	15.2	(3.1)	102.7
Operating lease rentals .....	—	15.7	—	—	—	—	15.7
Other income .....	—	1.1	—	—	—	—	1.1
Depreciation on operating leases .....	—	(13.1)	—	—	—	—	(13.1)
Net income from operating leases .....	—	3.7	—	—	—	—	3.7
Fee and commission income .....	—	2.2	5.0	0.2	0.2	—	7.6
Fee and commission expense .....	(0.2)	—	(0.2)	(0.9)	(0.4)	—	(1.7)
Net fee and commission income .....	(0.2)	2.2	4.8	(0.7)	(0.2)	—	5.9
Fair value (losses) on financial instruments .....	—	—	—	—	—	(0.1)	(0.1)
<b>Net operating income</b> .....	<b>30.6</b>	<b>38.6</b>	<b>8.1</b>	<b>23.1</b>	<b>15.0</b>	<b>(3.2)</b>	<b>112.2</b>
Administrative expenses .....	(6.3)	(7.3)	(3.3)	(4.2)	(5.5)	(32.5)	(59.1)
Impairment losses on financial assets .....	(1.0)	(1.5)	(0.3)	0.1	(4.0)	—	(6.7)
Provisions for liabilities and charges .....	—	—	—	—	—	(1.1)	(1.1)
<b>Product contribution</b> .....	<b>23.3</b>	<b>29.8</b>	<b>4.5</b>	<b>19.0</b>	<b>5.5</b>	<b>(36.8)</b>	<b>45.3</b>
Income tax charge .....	—	—	—	—	—	—	(10.8)
<b>Profit after tax</b> .....	—	—	—	—	—	—	<b>34.5</b>
Assets .....	968.9	564.1	169.8	401.3	226.9	423.0	2,754.0
Liabilities .....	—	—	—	—	—	(2,535.3)	(2,535.3)
<b>Net Assets / (Liabilities)</b> .....	<b>968.9</b>	<b>564.1</b>	<b>169.8</b>	<b>401.3</b>	<b>226.9</b>	<b>(2,112.3)</b>	<b>218.7</b>

Year ended 31 December 2013	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Savings/ Central	Total business
	£m	£m	£m	£m	£m	£m	£m
Interest receivable and similar income .....	23.6	37.8	—	23.0	7.6	1.3	93.3
Interest expense and similar charges .....	(12.8)	(13.8)	—	(8.4)	(2.3)	(1.1)	(38.4)
Net interest income .....	10.8	24.0	—	14.6	5.3	0.2	54.9
Operating lease rentals .....	—	17.1	—	—	—	—	17.1
Other income .....	—	1.1	—	—	—	—	1.1
Depreciation on operating leases .....	—	(13.8)	—	—	—	—	(13.8)
Net income from operating leases .....	—	4.4	—	—	—	—	4.4
Fee and commission income .....	—	0.5	—	0.2	0.1	—	0.8
Fee and commission expense .....	—	—	—	—	—	—	—
Net fee and commission income .....	—	0.5	—	0.2	0.1	—	0.8
<b>Net operating income</b> .....	<b>10.8</b>	<b>28.9</b>	<b>—</b>	<b>14.8</b>	<b>5.4</b>	<b>0.2</b>	<b>60.1</b>
Administrative expenses .....	(3.7)	(7.0)	—	(3.6)	(3.4)	(22.1)	(39.8)
Impairment losses on financial assets .....	(0.3)	(1.1)	—	(0.8)	(1.3)	—	(3.5)
Provisions for liabilities and charges .....	—	—	—	—	—	(0.7)	(0.7)
<b>Product contribution</b> .....	<b>6.8</b>	<b>20.8</b>	<b>—</b>	<b>10.4</b>	<b>0.7</b>	<b>(22.6)</b>	<b>16.1</b>
Income tax charge .....	—	—	—	—	—	—	(3.3)
<b>Profit after tax</b> .....	—	—	—	—	—	—	<b>12.8</b>
Assets .....	543.8	444.4	—	295.0	115.6	269.2	1,668.0
Liabilities .....	—	—	—	—	—	(1,532.5)	(1,532.5)
<b>Net Assets / (Liabilities)</b> .....	<b>543.8</b>	<b>444.4</b>	<b>—</b>	<b>295.0</b>	<b>115.6</b>	<b>(1,263.3)</b>	<b>135.5</b>

Year ended 31 December 2012	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Savings/ Central	Total business
	£m	£m	£m	£m	£m	£m	£m
Interest receivable and similar charges .....	8.0	26.3	—	12.1	1.9	0.1	48.4
Interest expense and similar charges .....	(5.1)	(11.0)	—	(4.7)	(0.6)	(6.0)	(27.4)
Net interest income .....	2.9	15.3	—	7.4	1.3	(5.9)	21.0
Operating lease rentals .....	—	15.1	—	—	—	—	15.1
Other income .....	—	0.3	—	—	—	—	0.3
Depreciation on operating leases .....	—	(12.1)	—	—	—	—	(12.1)
Net income from operating leases .....	—	3.3	—	—	—	—	3.3
Fee and commission income .....	—	0.3	—	0.2	—	—	0.5
Fee and commission expense .....	—	—	—	—	(0.1)	—	(0.1)
Net fee and commission income .....	—	0.3	—	0.2	(0.1)	—	0.4
<b>Net operating income</b> .....	<b>2.9</b>	<b>18.9</b>	—	<b>7.6</b>	<b>1.2</b>	<b>(5.9)</b>	<b>24.7</b>
Administrative expenses .....	(2.1)	(9.6)	—	(1.9)	(1.4)	(14.0)	(29.0)
Impairment losses on financial assets ...	(0.1)	(1.5)	—	(0.8)	(0.3)	—	(2.7)
Provisions for liabilities and charges .....	—	—	—	—	—	(0.1)	(0.1)
<b>Product contribution</b> .....	<b>0.7</b>	<b>7.8</b>	—	<b>4.9</b>	<b>(0.5)</b>	<b>(20.0)</b>	<b>(7.1)</b>
Income tax credit .....	—	—	—	—	—	—	0.3
<b>Loss after tax</b> .....							<b>(6.8)</b>
Assets .....	202.2	348.5	—	163.1	29.4	307.1	1,050.3
Liabilities .....	—	—	—	—	—	(945.4)	(945.4)
<b>Net Assets / (Liabilities)</b> .....	<b>202.2</b>	<b>348.5</b>	—	<b>163.1</b>	<b>29.4</b>	<b>(638.3)</b>	<b>104.9</b>

Fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

### 3. Interest receivable and similar income

	2014 £m	2013 £m	2012 £m
Interest paid by customers .....	153.8	92.1	48.1
Interest received and realised gains / (losses) on available for sale investment securities .....	—	—	(0.1)
Interest received from derivative financial instruments .....	1.0	—	—
Interest on loans and advances to banks .....	1.9	1.2	0.4
<b>Interest receivable and similar income</b> .....	<b>156.7</b>	<b>93.3</b>	<b>48.4</b>

The interest income recognised during the year on loans impaired was £1.0m (2013: £0.6m, 2012: £0.1m).

### 4. Interest expense and similar charges

	2014 £m	2013 £m	2012 £m
Interest paid to depositors .....	50.2	37.7	27.4
Interest on amounts due to banks .....	0.5	0.2	—
Interest on subordinated debt .....	3.2	0.5	—
Interest on loan notes .....	0.1	—	—
<b>Interest expense and similar charges</b> .....	<b>54.0</b>	<b>38.4</b>	<b>27.4</b>

## 5. Fee and commission income

	2014 £m	2013 £m	2012 £m
Fees from loans and advances to customers .....	5.4	0.5	0.2
Credit facility related fees .....	2.2	0.3	0.2
Other fees and commission .....	—	—	0.1
<b>Fee and commission income .....</b>	<b>7.6</b>	<b>0.8</b>	<b>0.5</b>

## 6. Fee and commission expense

	2014 £m	2013 £m	2012 £m
Fees on loans and advances to customers .....	1.7	—	0.1
<b>Fee and commission expense .....</b>	<b>1.7</b>	<b>—</b>	<b>0.1</b>

## 7. Administrative expenses

	Note	2014 £m	2013 £m	2012 £m
Staff costs .....	9	31.2	23.8	15.8
Profit on disposal of property, plant and equipment .....		—	—	(0.1)
Depreciation (excluding operating lease assets) .....	19	1.0	0.7	0.5
Amortisation of intangible assets .....	20	0.4	0.2	0.9
Operating lease rentals — land and buildings .....		0.7	0.6	0.7
Other administrative expenses .....		25.8	14.5	11.2
<b>Administrative expenses .....</b>		<b>59.1</b>	<b>39.8</b>	<b>29.0</b>

## 8. Auditor's remuneration

	2014 £000	2013 £000	2012 £000
Audit of these financial statements .....	50	10	10
Amounts receivable by the Company's auditor and their associates in respect of:			
Audit of financial statements of subsidiaries of the Operating Company .....	338	297	240
Tax compliance services .....	58	43	56
Other tax advisory services .....	—	41	16
Audit related assurance services .....	40	15	—
All other assurance services .....	92	21	12
All other services .....	497	70	14
<b>Total .....</b>	<b>1,075</b>	<b>497</b>	<b>348</b>

## 9. Employees

The average number of persons employed by the Group (including Directors) during the year was as follows:

	2014 No.	2013 No.	2012 No.
Sales .....	269	173	113
Administration .....	145	108	66
<b>Total .....</b>	<b>414</b>	<b>281</b>	<b>179</b>

The aggregate payroll costs of these persons were as follows:

	2014 £m	2013 £m	2012 £m
Wages and salaries .....	27.3	20.9	14.0
Social security costs .....	2.7	2.1	1.2
Pension costs .....	1.2	0.8	0.6
<b>Total</b> .....	<b>31.2</b>	<b>23.8</b>	<b>15.8</b>

## 10. Employee retirement obligations

The Group made contributions of £1.2m (2013: £0.8m, 2012: £0.6m) during the year.

## 11. Employee share-based payment transactions

On 31 January 2011, the Incentive Share scheme was introduced for Directors and senior employees of the Group. All shares were issued at a price of £1 per share, as were any share buy-backs. Holders are entitled to receive a return on the shares acquired in the event of a prescribed exit event of the A Shareholders. The Incentive Share scheme is governed by the Articles of Association and is deemed by management to be an equity settled scheme and has been accounted for as such in the financial statements. A participant has to remain in employment or be deemed as a good leaver to continue to qualify for the scheme.

Details of shares issued are shown in the table below:

	2014 No. of shares	2013 No. of shares	2012 No. of shares
<b>At 1 January</b> .....	<b>94,630</b>	<b>69,997</b>	<b>75,000</b>
Granted .....	19,750	37,300	8,997
Forfeited .....	(7,999)	(12,667)	(14,000)
<b>At 31 December</b> .....	<b>106,381</b>	<b>94,630</b>	<b>69,997</b>

The average fair value of shares issued was £5.15 (2013: £5.49, 2012: £3.51). The fair values of the shares at the date of grant were valued using the Black-Scholes valuation model. The assumptions used are as follows:

	2014	2013	2012
Expected volatility .....	20%	20.0% to 22.5%	35%
Risk-free rate .....	0.4%	0.4% to 0.5%	1.68%
Dividend yield .....	0%	0%	0%
Expected life .....	1-2 years	2-4 years	4 years

Although the Black-Scholes equation assumes predictable constant volatility, this is not observed in real markets. In order to estimate the annualised volatility we have assessed the past standard deviation of the stock price of comparable quoted banks over various time frames.

The charge to the Consolidated Income Statement was £60k (2013: £nil, 2012: £200k).

## 12. Directors' remuneration

£30k (2013: £30k, 2012: £30k) was paid to Pollen Street Capital Limited for director's services.

### 13. Taxation

#### *Recognised in the income statement*

	2014 £m	2013 £m	2012 £m
<b>Current tax:</b>			
Current year .....	11.5	1.8	0.2
Adjustment in respect of prior years .....	0.5	(1.1)	—
Total current tax .....	12.0	0.7	0.2
<b>Deferred tax:</b>			
Origination and reversal of temporary difference .....	(0.8)	2.3	(1.3)
Adjustment in respect of prior years .....	(0.4)	(1.0)	0.1
Reduction in tax rate .....	—	1.3	0.7
Total deferred tax .....	(1.2)	2.6	(0.5)
<b>Total tax charge / (credit)</b> .....	<b>10.8</b>	<b>3.3</b>	<b>(0.3)</b>

#### *Recognised in other comprehensive income*

	2014 £m	2013 £m	2012 £m
Change in fair value of assets classified as available for sale .....	—	(0.1)	(0.2)
<b>Tax on other comprehensive income</b> .....	<b>—</b>	<b>(0.1)</b>	<b>(0.2)</b>

#### *Tax reconciliation:*

	2014 £m	2013 £m	2012 £m
Profit / (Loss) for the year .....	45.3	16.1	(7.1)
Implied tax charge thereon at 21.5% (2013: 23.25%, 2012: 24.5%) .....	9.7	3.7	(1.7)
<i>Adjustments:</i>			
Prior year adjustment .....	0.1	(2.1)	0.1
Permanent differences arising from change in tax rate on deferred tax balances .....	—	1.3	0.7
Disallowable expenses and other permanent difference .....	1.0	0.4	0.6
<b>Total tax</b> .....	<b>10.8</b>	<b>3.3</b>	<b>(0.3)</b>

The 2013 prior year adjustment of £2.1m primarily represents the purchase of tax losses from Kaupthing Singer & Friedlander Limited.

### 14. Loans and advances to banks

	2014 £m	2013 £m	2012 £m
Placements with other banks included in cash and cash equivalents .....	36.6	23.8	117.2

### 15. Loans and advances to customers

Loans and advances to customers are summarised as follows:

	2014 £m	2013 £m	2012 £m
Loan receivables .....	1,861.4	981.2	394.7
Finance lease receivables .....	114.0	105.6	91.0
Instalment credit receivables .....	309.4	260.1	197.8
<b>Total loans and advances to customers</b> .....	<b>2,284.8</b>	<b>1,346.9</b>	<b>683.5</b>

At 31 December 2014 loans and advances to customers of £535.2 million (2013: £156.6m, 2012: £nil) were pre-positioned with the Bank of England and HM Treasury for use as collateral within the Funding for Lending Scheme.

<b>Loan receivables</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross loan receivables .....	1,870.4	984.9	396.2
Less: allowances for impairment losses .....	(9.0)	(3.7)	(1.5)
<b>Net loan receivables .....</b>	<b>1,861.4</b>	<b>981.2</b>	<b>394.7</b>
<b>Finance lease receivables</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross amounts receivable			
within one year .....	54.7	52.4	44.1
in the second to fifth year inclusive .....	78.8	72.6	64.2
after five years .....	1.0	1.1	1.6
	134.5	126.1	109.9
Less: unearned finance income .....	(19.8)	(19.8)	(18.5)
Less: allowances for impairment losses .....	(0.7)	(0.7)	(0.4)
<b>Net investment in finance leases .....</b>	<b>114.0</b>	<b>105.6</b>	<b>91.0</b>
Amounts falling due:			
within one year .....	41.2	42.2	36.5
in the second to fifth year inclusive .....	72.0	62.7	53.1
after five years .....	0.8	0.7	1.4
<b>Net investment in finance leases .....</b>	<b>114.0</b>	<b>105.6</b>	<b>91.0</b>
<b>Instalment credit receivables .....</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross amounts receivable			
within one year .....	149.3	125.4	109.0
in the second to fifth year exclusive .....	201.5	170.4	116.7
after five years .....	4.0	1.4	0.9
	354.8	297.2	226.6
Less: unearned finance income .....	(44.0)	(36.1)	(27.9)
Less: allowances for impairment losses .....	(1.4)	(1.0)	(0.9)
<b>Net investment in instalment credit .....</b>	<b>309.4</b>	<b>260.1</b>	<b>197.8</b>
Amounts falling due:			
within one year .....	118.5	106.8	95.1
in the second to fifth year inclusive .....	186.9	152.1	101.9
after five years .....	4.0	1.2	0.8
<b>Net investment in instalment credit .....</b>	<b>309.4</b>	<b>260.1</b>	<b>197.8</b>
<b>Cost of equipment acquired during the year:</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Finance leases .....	66.4	65.0	50.7
Instalment credit .....	270.8	207.3	117.9
<b>Total cost of equipment acquired during the year .....</b>	<b>337.2</b>	<b>372.3</b>	<b>168.6</b>

## 16. Impairment provisions on loans and advances to customers

The movement in the allowances for losses in respect of loans, finance leases and instalment credit agreements during the year was as follows:

	2014 £m	2013 £m	2012 £m
At 1 January . . . . .	5.4	2.8	0.3
Charge for impairment losses . . . . .	6.7	3.5	2.7
Provisions utilised . . . . .	(1.0)	(0.9)	(0.2)
<b>At 31 December . . . . .</b>	<b>11.1</b>	<b>5.4</b>	<b>2.8</b>

Analysis of impairment type:

Loan receivables . . . . .	9.0	3.7	1.5
Finance lease receivables . . . . .	0.7	0.7	0.4
Instalment credit receivables . . . . .	1.4	1.0	0.9
<b>At 31 December . . . . .</b>	<b>11.1</b>	<b>5.4</b>	<b>2.8</b>

## 17. Investment securities — available for sale

	2014 £m	2013 £m	2012 £m
UK government Treasury Bills . . . . .	—	—	144.9
Investment securities — available for sale . . . . .	—	—	144.9
<b>Analysis of movement:</b>			
At 1 January . . . . .	—	144.9	64.9
Additions . . . . .	—	98.4	991.6
Disposals and maturities . . . . .	—	(243.4)	(912.2)
Net gains from changes in fair value recognised in other comprehensive income . . . . .	—	0.1	0.6
<b>At 31 December . . . . .</b>	<b>—</b>	<b>—</b>	<b>144.9</b>

## 18. Derivative financial assets

The Group uses derivatives to reduce exposure to market risks, and not for trading purposes. The Group uses the International Swaps and Derivatives Association ("ISDA") Master Agreement to document these transactions in conjunction with a Credit Support Annex ("CSA"). The fair value of derivatives is set out below:

	Notional Amount £m	Fair value of assets £m	Fair value of liabilities £m
Interest rate swaps:			
<b>At 31 December 2014 . . . . .</b>	<b>195.0</b>	<b>3.7</b>	—
Interest rate swaps:			
<b>At 31 December 2013 . . . . .</b>	—	—	—
Interest rate swaps:			
<b>At 31 December 2012 . . . . .</b>	—	—	—
Interest rate cap:			
<b>At 31 December 2014 . . . . .</b>	—	—	—
Interest rate cap:			
<b>At 31 December 2013 . . . . .</b>	<b>38.0</b>	—	—
Interest rate cap:			
<b>At 31 December 2012 . . . . .</b>	<b>108.4</b>	—	—

During 2014, the Group adopted hedge accounting following the acquisition of its interest rate swaps. The amortising interest rate cap had a notional principal that reduced to £nil during 2014.

Gains and losses from derivatives and hedge accounting are as follows:

	2014 £m	2013 £m	2012 £m
Gain on derivative financial instrument .....	3.7	—	—
Fair value loss on hedged risk .....	(3.8)	—	—
<b>Change in fair value in year (loss) .....</b>	<b>(0.1)</b>	<b>—</b>	<b>—</b>

The table below illustrates the amounts that are covered by enforceable netting arrangements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. Loans and advances).

2014 Group	Amounts subject to enforceable netting arrangements						Amounts not subject to enforceable netting arrangements £m	
	Effect of offsetting on balance sheet			Related amounts not offset				
	Gross Amount £m	Amount offset %	Net amount reported on balance sheet £m	Cash collateral £m	Net amount £m			
<b>Assets</b>								
Derivative financial instruments .....	3.7	—	3.7	3.5	0.2	—	—	
<b>Total assets .....</b>	<b>3.7</b>	<b>—</b>	<b>3.7</b>	<b>3.5</b>	<b>0.2</b>	<b>—</b>	<b>—</b>	
2013 Group	Amounts subject to enforceable netting arrangements						Amounts not subject to enforceable netting arrangements £m	
	Effect of offsetting on balance sheet			Related amounts not offset				
	Gross Amount £m	Amount offset %	Net amount reported on balance sheet £m	Cash collateral £m	Net amount £m			
<b>Assets</b>								
Derivative financial instruments .....	—	—	—	—	—	—	—	
<b>Total assets .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	
2012 Group	Amounts subject to enforceable netting arrangements						Amounts not subject to enforceable netting arrangements £m	
	Effect of offsetting on balance sheet			Related amounts not offset				
	Gross Amount £m	Amount offset %	Net amount reported on balance sheet £m	Cash collateral £m	Net amount £m			
<b>Assets</b>								
Derivative financial instruments .....	—	—	—	—	—	—	—	
<b>Total assets .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	

Collateral amounts (cash and non-cash financial collateral) are reflected at their fair value; however this amount is limited to the net balance sheet exposure in order not to include any over-collateralisation.

## 19. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Fixtures, fittings & equipment £m	Motor vehicles £m	Assets on operating leases £m	Total £m
<b>Cost</b>						
At 1 January 2012 .....	—	—	0.6	—	—	0.6
Acquired in business combinations .....	0.2	0.1	0.5	0.1	63.4	64.3
Additions .....	—	—	0.6	—	11.9	12.5
Disposals .....	—	—	—	(0.1)	(1.8)	(1.9)
Transfer to finance leases .....	—	—	—	—	(2.7)	(2.7)
<b>At 31 December 2012</b> .....	<b>0.2</b>	<b>0.1</b>	<b>1.7</b>	—	<b>70.8</b>	<b>72.8</b>
Additions .....	—	—	1.2	—	10.0	11.2
Disposals .....	—	—	—	—	(5.3)	(5.3)
Transfer to finance leases .....	—	—	—	—	(2.4)	(2.4)
<b>At 31 December 2013</b> .....	<b>0.2</b>	<b>0.1</b>	<b>2.9</b>	—	<b>73.1</b>	<b>76.3</b>
Acquired in business combinations .....	—	—	0.1	—	—	0.1
Additions .....	—	—	2.5	—	9.0	11.5
Disposals .....	—	—	—	—	(3.5)	(3.5)
Transfer to finance leases .....	—	—	—	—	(1.1)	(1.1)
<b>Balance at 31 December 2014</b> .....	<b>0.2</b>	<b>0.1</b>	<b>5.5</b>	—	<b>77.5</b>	<b>83.3</b>
<b>Depreciation</b>						
At 1 January 2012 .....	—	—	0.1	—	—	0.1
Depreciation change for the year .....	—	0.1	0.4	—	12.1	12.6
Disposals .....	—	—	—	—	—	—
Transfer to finance leases .....	—	—	—	—	(1.0)	(1.0)
<b>At 31 December 2012</b> .....	—	<b>0.1</b>	<b>0.5</b>	—	<b>11.1</b>	<b>11.7</b>
Depreciation charge for the year .....	—	—	0.7	—	13.8	14.5
Disposals .....	—	—	—	—	(2.6)	(2.6)
Transfer to finance leases .....	—	—	—	—	(1.1)	(1.1)
<b>At 31 December 2013</b> .....	—	<b>0.1</b>	<b>1.2</b>	—	<b>21.2</b>	<b>22.5</b>
Depreciation charge for the year .....	—	—	1.0	—	13.1	14.1
Disposals .....	—	—	—	—	(2.1)	(2.1)
Transfer to finance leases .....	—	—	—	—	(0.9)	(0.9)
<b>Balance at 31 December 2014</b> .....	—	<b>0.1</b>	<b>2.2</b>	—	<b>31.3</b>	<b>33.6</b>
<b>Net book value</b>						
<b>At 31 December 2012</b> .....	<b>0.2</b>	—	<b>1.2</b>	—	<b>59.7</b>	<b>61.1</b>
<b>At 31 December 2013</b> .....	<b>0.2</b>	—	<b>1.7</b>	—	<b>51.9</b>	<b>53.8</b>
<b>At 31 December 2014</b> .....	<b>0.2</b>	—	<b>3.3</b>	—	<b>46.2</b>	<b>49.7</b>

## 20. Intangible assets

	Customer relationships £m	Goodwill £m	Computer software £m	Total £m
At 1 January 2012 .....	—	11.6	—	11.6
Acquired in business combinations .....	1.1	9.5	—	10.6
Amortised in the year .....	(0.9)	—	—	(0.9)
<b>At 31 December 2012</b> .....	<b>0.2</b>	<b>21.1</b>	—	<b>21.3</b>
At 1 January 2013 .....	0.2	21.1	—	21.3
Additions in the year .....	—	—	1.1	1.1
Amortised in the year .....	(0.2)	—	—	(0.2)
<b>At 31 December 2013</b> .....	—	<b>21.1</b>	<b>1.1</b>	<b>22.2</b>
At 1 January 2014 .....	—	21.1	1.1	22.2
Acquired in business combinations .....	—	23.7	0.1	23.8
Additions in the year .....	—	—	3.9	3.9
Amortised in the year .....	—	—	(0.4)	(0.4)
<b>At 31 December 2014</b> .....	—	<b>44.8</b>	<b>4.7</b>	<b>49.5</b>

Goodwill arising on acquisitions is allocated to the following Cash Generating Units ("CGU"): Secured Lending (£6.4m), Asset Finance (£10.5m), Consumer Lending (£1.1m), Business Credit (£24.2m) and Commercial Mortgages (£2.6m). This is attributable to the skills of the workforce.

The customer relationships intangible recognises the benefit to the Group of enduring relationships with existing customers and their beneficial impact on future new business advances and income. It is amortised over the period over which revenue is earned from the existing and enduring customer relationships.

(a) Impairment testing for CGUs containing goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

Group	2014 £m	2013 £m	2012 £m
Shawbrook Bank .....	—	6.2	6.2
Secured Lending .....	6.4	5.4	5.4
Asset Finance .....	10.5	9.0	9.0
Consumer Lending .....	1.1	0.5	0.5
Business Credit .....	24.2	—	—
Commercial Mortgages .....	2.6	—	—
<b>At 31 December .....</b>	<b>44.8</b>	<b>21.1</b>	<b>21.1</b>

At 31 December 2014, the identification of CGUs was altered to reflect all of the operating segments of the Group. The goodwill has been reallocated to CGUs based on their contribution to the overall Group. The goodwill has been reallocated to each of the CGUs upon the relative values of each CGU immediately prior to reallocation.

The recoverable amounts for the CGUs have been calculated based on their value in use, determined by discounting the cash flows expected to be generated from the continuing use of the CGU. No impairment losses were recognised in 2014 (2013: nil, 2012: nil) because the recoverable amounts of the CGUs were determined to be higher than their carrying values.

The key assumptions used in the calculation of value in use were as follows:

Group		Commercial Mortgages	Asset Finance	Consumer Lending	Business Credit	Secured Lending
Discount rate .....	%	7.6	10.5	10.7	9.5	8.5
Terminal value growth rate .....	%	2.0	2.0	2.0	2.0	2.0

The discount rate is an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset.

Three years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined as the long-term compound annual profit before tax growth rate estimated by Management.

Forecasted profit before tax was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth.

The key assumptions described above may change as economic and market conditions change. The Group estimated that reasonably possible changes in these assumptions would not cause the recoverable amount of any CGU to decline below the carrying amount.

No reasonably possible change in any key assumptions in the Group's cashflow forecasts would result in impairment as each CGU has significant headroom.

## 21. Deferred tax

Deferred tax assets are attributable as follows:

	2014 £m	2013 £m	2012 £m
Accelerated tax depreciation .....	9.6	8.4	9.0
Tax value of losses carried forward .....	—	—	1.9
Deferred tax on acquisition adjustments .....	(0.2)	(0.2)	(0.2)
Other .....	0.4	0.4	0.5
<b>Deferred tax asset .....</b>	<b>9.8</b>	<b>8.6</b>	<b>11.2</b>
<b>At 1 January .....</b>	<b>8.6</b>	<b>11.2</b>	<b>2.3</b>
Transfer Available for Sale debtor brought forward .....	—	—	0.2
Current period movement — recognised in income .....	0.8	(2.3)	1.3
Current period movement — recognised in equity .....	—	—	(0.2)
Prior year adjustment .....	0.4	1.0	(0.1)
Effect of tax rate changes .....	—	(1.3)	(0.7)
Deferred tax rate changes .....	—	—	(0.5)
Acquired in business combinations .....	—	—	8.9
<b>At 31 December .....</b>	<b>9.8</b>	<b>8.6</b>	<b>11.2</b>

The Group had a deferred tax asset of £9.8m at 31 December 2014 (2013: £8.6m, 2012: £11.2m) resulting from decelerated capital allowances. The business plan projects profits in future years sufficient to recognise the £9.8m deferred tax asset. The tax assets will unwind over the remaining life of the underlying leased assets with which they are associated.

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2014 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

## 22. Other assets

	2014 £m	2013 £m	2012 £m
Other debtors .....	4.1	2.3	7.6
Prepayments .....	2.7	1.7	3.3
Corporation tax recoverable .....	—	2.1	—
<b>Total other assets .....</b>	<b>6.8</b>	<b>6.1</b>	<b>10.9</b>

## 23. Customer deposits

	2014 £m	2013 £m	2012 £m
Instant access .....	52.4	17.0	1.7
Term deposits and notice accounts .....	2,364.9	1,446.0	922.0
Fair value adjustment for hedged risk .....	3.7	—	—
<b>Total customer deposits .....</b>	<b>2,421.0</b>	<b>1,463.0</b>	<b>923.7</b>

## 24. Due to banks

	2014 £m	2013 £m	2012 £m
<b>Due to banks .....</b>	<b>41.0</b>	<b>24.6</b>	<b>—</b>

Amounts due to banks include £37.5m of Treasury Bills which are monies arising from the sale and repurchase of Treasury Bills drawn under the Bank of England's Funding for Lending Scheme ("FLS") and fall due for repayment in 2015 and 2017 (2013: £24.6m, 2012: £nil).

## 25. Provisions for liabilities and charges

	2014 £m	2013 £m	2012 £m
At 1 January .....	0.4	0.1	—
Provisions utilised .....	(0.9)	(0.4)	—
Provisions made during the year .....	1.1	0.7	0.1
<b>At 31 December .....</b>	<b>0.6</b>	<b>0.4</b>	<b>0.1</b>

### Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Group pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest-only for the first three years, and the FSCS seeks to recover the interest cost, together with on-going management expenses, by way of annual management levies on members, including the Group, over this period.

The Group's FSCS provision reflects market participation up to the reporting date. The above provision includes the estimated management expense levy for the scheme year 2014/15. This amount was calculated on the basis of the Group's current share of protected deposits taking into account the regulator's estimate of total management expense levies for the scheme year.

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012 and an instalment of this was paid during the year. No provision in respect of the capital compensation levy is included in the provision at 31 December 2014.

## 26. Other liabilities

	Note	2014 £m	2013 £m	2012 £m
Other creditors .....		23.8	8.7	16.6
Corporation tax payable .....		5.3	—	0.1
Accruals .....		12.8	8.2	4.9
<b>Total other liabilities .....</b>		<b>41.9</b>	<b>16.9</b>	<b>21.6</b>

## 27. Operating Leases

### Leases as lessee

Non-cancellable operating lease rentals on land and buildings are payable as follows:

	2014 £m	2013 £m	2012 £m
Less than 1 year .....	0.8	0.6	0.6
Between 1 and 5 years .....	2.3	0.5	1.0
<b>3.1</b>	<b>1.1</b>	<b>1.6</b>	

### Leases as lessor

Operating lease rentals receivable from agreements classified as property, plant and equipment, as disclosed in note 19, are receivable as follows:

	2014 £m	2013 £m	2012 £m
Less than 1 year .....	14.4	15.1	14.3
Between 1 and 5 years .....	20.3	26.5	34.0
More than 5 years .....	0.5	0.5	1.4
<b>35.2</b>	<b>42.1</b>	<b>49.7</b>	

## 28. Subordinated debt

	2014 £m	2013 £m	2012 £m
1 January .....	27.6	—	—
Issued in year .....	—	27.1	—
Interest expense .....	3.2	0.5	—
<b>Total subordinated debt at 31 December .....</b>	<b>30.8</b>	<b>27.6</b>	<b>—</b>

On 31 October 2013, the Group entered into a subordinated facility agreement for a 10 year period at an interest rate of 11%. The terms of the agreement allow interest to be capitalised and repaid with the principal at the end of the agreement.

The subordinated debt is unsecured and ranks behind any claims against the Group from all depositors and creditors.

## 29. Share capital

Ordinary shares of £1 each: Authorised and issued

	Class A No.	Class B No.	Class C No.	Total No.
At 31 December 2012 .....	120,094,021	100,000	—	120,194,021
At 31 December 2013 .....	137,851,021	100,000	10,000	137,961,021
<b>At 31 December 2014 .....</b>	<b>185,147,511</b>	<b>100,000</b>	<b>10,000</b>	<b>185,257,511</b>

Ordinary shares of £1 each: Authorised, issued and fully paid

	Class A No.	Class B No.	Class C No.	Total No.
At 31 December 2012 .....	120,094,021	69,997	—	120,164,018
At 31 December 2013 .....	137,851,021	84,830	9,800	137,945,651
<b>At 31 December 2014 .....</b>	<b>185,147,511</b>	<b>99,181</b>	<b>7,200</b>	<b>185,253,892</b>

Ordinary shares of £1 each: Authorised, issued and not fully paid

	Class A No.	Class B No.	Class C No.	Total No.
At 31 December 2012 .....	—	30,003	—	30,003
At 31 December 2013 .....	—	15,170	200	15,370
<b>At 31 December 2014 .....</b>	<b>—</b>	<b>819</b>	<b>2,800</b>	<b>3,619</b>

During the year, the Group issued 47,296,490 (2013: 17,767,000, 2012: 75,000,000) Ordinary shares of £1 each. £40,816,327 (2013: £17,767,000, 2012: £75,000,000) shares were issued for cash at par value and £6,480,163 were issued in exchange for shares in Shawbrook Bank as part of the acquisition of Centric Group Holdings Limited.

	Class A No.	Class B No.	Class C No.	Total No.
<b>On issue at 1 January 2012 .....</b>	<b>45,094,021</b>	<b>100,000</b>	<b>—</b>	<b>45,194,021</b>
Issued during the year .....	75,000,000	—	—	75,000,000
<b>On issue at 31 December 2012 .....</b>	<b>120,094,021</b>	<b>100,000</b>	<b>—</b>	<b>120,194,021</b>
Issued during the year .....	17,757,000	—	10,000	17,767,000
<b>On issue at 31 December 2013 .....</b>	<b>137,851,021</b>	<b>100,000</b>	<b>10,000</b>	<b>137,961,021</b>
Issued during the year .....	47,296,490	—	—	47,296,490
<b>On issue at 31 December 2014 .....</b>	<b>185,147,511</b>	<b>100,000</b>	<b>10,000</b>	<b>185,257,511</b>

The holders of the A Ordinary shares are entitled to one vote per share. The holders of B and C Ordinary shares are not entitled to vote. The B and C Ordinary shares convert to A Ordinary shares in the event of an exit by the majority Class A shareholder.

### 30. Notes to the cash flow statement

#### Non-cash items in the cash flow statement

	Note	2014 £m	2013 £m	2012 £m
Capitalisation of subordinated debt interest .....	28	3.2	0.5	—
Depreciation .....	19	14.1	14.5	12.6
Amortisation of intangible assets .....	20	0.4	0.2	0.9
Provisions against loans and advances to customers .....	16	6.7	3.5	2.7
Amortisation of share scheme fair value .....		0.1	—	0.2
Profit on sale of operating leased assets .....		(0.8)	(1.1)	(0.4)
Profit on sale of property, plant and equipment .....		—	—	(0.1)
Fair value losses on financial instruments .....		0.1	—	—
<b>Total non-cash items .....</b>		<b>23.8</b>	<b>17.6</b>	<b>15.9</b>

### 31. Cash and cash equivalents

	2014 £m	2013 £m	2012 £m
Cash and balances at central banks .....	313.1	206.6	0.2
Loans and advances to banks .....	36.6	23.8	117.2
Investment securities — available for sale (less than 3 months maturity from acquisition date) .....	—	—	62.9
	349.7	230.4	180.3
Less: mandatory deposits with central banks .....	(1.7)	(0.7)	(0.2)
<b>Cash and cash equivalents .....</b>	<b>348.0</b>	<b>229.7</b>	<b>180.1</b>

Mandatory deposits are not available for use in the Group or Bank's day-to-day business and are non-interest bearing. Prior year mandatory deposits have been reclassified.

### 32. Financial instruments

Fair values of financial assets and financial liabilities are based on quoted market prices. If the market is not active the Group establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction. Fair value of liabilities reflect the effect of non-performance risk which includes the entity's own credit risk.

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with the determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads, assist in the judgement as to whether a market is active. If in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs, the instrument in its entirety is classified as valued using significant unobservable inputs. 'Unobservable' in this context means that there are little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there are no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

## Financial instruments

### Loans and advances to customers

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses if considered material.

### Customer deposits

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

### Derivatives

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses if considered material.

### Amounts due to banks

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

### Subordinated debt

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

### Fair value hierarchy

The table below analyses the Group's financial instruments measured at cost into a fair value hierarchy:

Group	2014 Level 3 £m	2014 Level 2 £m	2013 Level 3 £m	2013 Level 2 £m	2012 Level 3 £m	2012 Level 2 £m
<b>Financial assets</b>						
Cash and balances at central banks .....	313.1	—	206.6	—	0.2	—
Loans and advances to banks .....	36.6	—	23.8	—	117.2	—
Loans and advances to customers .....	2,340.6	—	1,352.1	—	683.5	—
<b>Financial liabilities</b>						
Customer deposits .....	—	2,447.8	—	(1,457.1)	—	(923.7)
Amounts due to banks .....	(41.0)	—	(24.6)	—	—	—
Subordinated debt .....	(30.8)	—	(27.6)	—	—	—

The table below analyses the Group's financial instruments measured at fair value into a fair value hierarchy:

Group	2014	2014	2013	2013	2012	2012
	Level 2 £m	Level 1 £m	Level 2 £m	Level 1 £m	Level 2 £m	Level 1 £m
<b>Financial assets</b>						
Derivative financial instruments .....	3.7	—	—	—	—	—
Investment securities — available for sale .....	—	—	—	—	—	144.9

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are shown in the following table:

	Loans and receivables £m	Available for sale financial assets £m	Other liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
<b>At 31 December 2014 .....</b>					
Cash and balances at central banks .....	313.1	—	—	313.1	313.1
Loans and advances to banks .....	36.6	—	—	36.6	36.6
Loans and advances to customers .....	2,284.8	—	—	2,284.8	2,340.6
<b>Financial assets .....</b>	<b>2,634.5</b>	<b>—</b>	<b>—</b>	<b>2,634.5</b>	<b>2,690.3</b>
Customer deposits .....	—	—	2,421.0	2,421.0	2,447.8
Due to banks .....	—	—	41.0	41.0	41.0
Subordinated debt .....	—	—	30.8	30.8	30.8
<b>Financial liabilities .....</b>	<b>—</b>	<b>—</b>	<b>2,492.8</b>	<b>2,492.8</b>	<b>2,519.6</b>
<b>At 31 December 2013 .....</b>					
Cash and balances at central banks .....	206.6	—	—	206.6	206.6
Loans and advances to banks .....	23.8	—	—	23.8	23.8
Loans and advances to customers .....	1,346.9	—	—	1,346.9	1,352.1
<b>Financial assets .....</b>	<b>1,577.3</b>	<b>—</b>	<b>—</b>	<b>1,577.3</b>	<b>1,582.5</b>
Customer deposits .....	—	—	1,463.0	1,463.0	1,457.1
Due to banks .....	—	—	24.6	24.6	24.6
Subordinated debt .....	—	—	27.6	27.6	27.6
<b>Financial liabilities .....</b>	<b>—</b>	<b>—</b>	<b>1,515.2</b>	<b>1,515.2</b>	<b>1,509.3</b>
<b>At 31 December 2012 .....</b>					
Cash and balances at central banks .....	0.2	—	—	0.2	0.2
Loans and advances to banks .....	117.2	—	—	117.2	117.2
Investment securities available for sale .....	—	144.9	—	144.9	144.9
Loans and advances to customers .....	683.5	—	—	683.5	683.5
<b>Financial assets .....</b>	<b>800.9</b>	<b>144.9</b>	<b>—</b>	<b>945.8</b>	<b>945.8</b>
Customer deposits .....	—	—	923.7	923.7	923.7
<b>Financial liabilities .....</b>	<b>—</b>	<b>—</b>	<b>923.7</b>	<b>923.7</b>	<b>923.7</b>

### 33. Risk management

The main areas of risk that the business is exposed to are:

- Credit risk;
- Liquidity risk;
- Market risk;
- Capital risk and management;
- Operational risk; and
- Conduct risk.

## Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. These risks are managed by the Board Risk Committee and Asset and Liability Committee. This risk has two main components:

- (a) Customer risk (individual and business lending); and
- (b) Treasury credit risk.

The Group's maximum exposure to credit risk after provisions for impairment is as follows:

	2014 £m	2013 £m	2012 £m
Cash and balances at central banks .....	313.1	206.6	0.2
Loans and advances to banks .....	36.6	23.8	117.2
Loans and advances to customers .....	2,284.8	1,346.9	683.5
Derivative financial instruments .....	3.7	—	—
Investment securities — available for sale .....	—	—	144.9
	<u>2,638.2</u>	<u>1,577.3</u>	<u>945.8</u>
Contractual commitments .....	469.3	138.2	73.7
<b>Total credit risk</b> .....	<b><u>3,107.5</u></b>	<b><u>1,715.5</u></b>	<b><u>1,019.5</u></b>

Contractual commitments represent agreements entered into but not advanced as at 31 December 2014.

The above table represents the maximum credit risk exposure to the Group at 31 December 2014 and 2013 without taking account of any underlying security. The amount of collateral held at 31 December 2014 is £1,637.9m (2013: £867.7m, 2012: £366.4m) of which £1,373.2m (2013: £840.9m, 2012: £366.4m) is in the form of residential and commercial property and £264.7m (2013: £26.8m, 2012: £nil) is secured on other assets and debt receivables. Collateral held in relation to secured loans is capped at the amount outstanding on an individual loan basis.

## Customer risk

The Group maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Group. A concession may be either of the following:

- A modification of the previous terms and conditions of a facility contract, which the borrower is considered unable to comply with due to its financial difficulties, to allow for sufficient debt service ability, that would not have been granted had the borrower not been in financial difficulties; or
- A total or partial refinancing of a facility contract that would not have been granted had the borrower not been in financial difficulties.

Forbearance can be temporary or permanent in nature depending on the circumstances, progress on financial rehabilitation and the detail of the concession(s) agreed. A forbearance classification can be discontinued when all of the following conditions have been met:

- The facility contract is considered as performing;
- A minimum 2 year probation period has passed from the date the forborne exposure was considered as performing;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- None of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

As at 31 December 2014, the number of forbearance arrangements in place was 531 (2013: 160, 2012: 21), the carrying value of which was £8.7m (2013: £2.7m, 2012: £0.4m) against which impairment provisions of £2.9m (2013: £1.1m, 2012: £0.1m) were held.

	<u>Number</u>	<u>Capital Balance</u> £m	<u>Provisions</u> £m	<u>Total</u> %
<b>At 31 December 2014:</b>				
Consumer .....	390	2.8	2.3	82.1
Secured .....	122	3.7	0.4	10.8
<b>Asset Finance .....</b>	<b>19</b>	<b>2.2</b>	<b>0.2</b>	<b>9.1</b>
	<b>531</b>	<b>8.7</b>	<b>2.9</b>	<b>33.3</b>
<b>At 31 December 2013:</b>				
Consumer .....	114	0.8	0.7	87.5
Secured .....	33	0.9	0.3	33.3
<b>Asset Finance .....</b>	<b>13</b>	<b>1.0</b>	<b>0.1</b>	<b>10.0</b>
	<b>160</b>	<b>2.7</b>	<b>1.1</b>	<b>40.7</b>
<b>At 31 December 2012:</b>				
Consumer .....	9	0.1	—	82.4*
Secured .....	12	0.3	0.1	17.0*
<b>Asset Finance .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
	<b>21</b>	<b>0.4</b>	<b>0.1</b>	<b>25.6</b>

\*2012 % totals are based on actual carrying values and impaired provisions.

There were 10 repossession during the year (2013: 1, 2012: 0).

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment and assets are categorised as detailed in the tables below:

<u>Type of impairment assessment</u>	<u>Description</u>
Individual impairment	Where specific circumstances indicate that a loss is likely to be incurred.
Collective impairment	Impairment allowances are calculated for each portfolio on a collective basis, given the homogeneous nature of the assets in the portfolio.
<hr/>	
<u>Risk categorisation</u>	<u>Description</u>
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Past due but not impaired	Loans that are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount.
Impaired assets	Loans that are in arrears or where there is objective evidence of impairment and where the carrying amount of the loan exceeds the expected recoverable amount.

The Group enters into agreements with customers and where appropriate takes security. Loan receivables include amounts secured against property (commercial and residential), secured against other asset backed loans and invoice receivables. Finance lease and instalment credit is secured on a variety of assets including but not limited to plant and machinery.

The security profiles of the loan receivable book is shown below:

	2014 £m	2013 £m	2012 £m
Loan receivables .....	1,861.4	981.2	394.7
Finance lease receivables .....	114.0	105.6	91.0
Instalment credit receivables .....	309.4	260.1	197.8
<b>Total loans and advances to customers .....</b>	<b>2,284.8</b>	<b>1,346.9</b>	<b>683.5</b>
 <b>Loan receivables</b>	 <b>2014 £m</b>	 <b>2013 £m</b>	 <b>2012 £m</b>
Neither past due nor impaired .....	1,841.4	966.0	388.1
Past due but not impaired:			
Up to 30 days .....	2.1	2.0	1.1
30-60 days .....	10.8	8.9	4.9
60-90 days .....	2.3	0.8	0.4
Over 90 days .....	2.8	1.3	0.6
	<u>18.0</u>	<u>13.0</u>	<u>7.0</u>
Impaired .....	11.0	5.9	1.1
	<u>1,870.4</u>	<u>984.9</u>	<u>396.2</u>
Less: allowances for impairment losses .....	(9.0)	(3.7)	(1.5)
<b>Net loan receivables .....</b>	<b>1,861.4</b>	<b>981.2</b>	<b>394.7</b>

The Group enters into agreements with customers and where appropriate takes security. The security profile of the loan book is shown below:

	2014 £m	2013 £m	2012 £m
Secured on property .....	1,373.2	840.9	366.4
Secured on other assets .....	264.7	26.8	—
Unsecured .....	232.5	117.2	29.8
	<u>1,870.4</u>	<u>984.9</u>	<u>396.2</u>

The amount of collateral held at 31 December 2014 is £1,637.9m (2013: £867.7m, 2012: £366.4m) of which £1,373.2m (2013: £840.9m, 2012: £366.4m) is in the form of residential and commercial property and £264.7m (2013: £26.8m, 2012: £nil) is secured on other assets and debt receivables. Collateral held in relation to secured loans is capped at the amount outstanding on an individual loan basis.

	2014 £m	2013 £m	2012 £m
<b>Finance lease receivables</b>			
Neither past due nor impaired .....	102.9	99.4	81.5
Past due but not impaired:			
Up to 30 days .....	6.9	3.6	7.9
30-60 days .....	1.5	0.9	0.6
60-90 days .....	0.9	0.1	0.1
Over 90 days .....	1.6	0.3	—
	<u>10.9</u>	<u>4.9</u>	<u>8.6</u>
Impaired .....	0.9	2.0	1.3
	<u>114.7</u>	<u>106.3</u>	<u>91.4</u>
Less: allowances for impairment losses .....	(0.7)	(0.7)	(0.4)
<b>Finance lease receivables .....</b>	<b>114.0</b>	<b>105.6</b>	<b>91.0</b>

<b>Instalment credit receivables</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Neither past due nor impaired .....	305.2	257.0	193.7
Past due but not impaired:			
Up to 30 days .....	3.6	2.5	2.8
30-60 days .....	0.4	0.6	0.5
60-90 days .....	0.2	0.2	—
Over 90 days .....	0.1	0.1	0.6
	<b>4.3</b>	<b>3.4</b>	<b>3.9</b>
Impaired .....	1.3	0.7	1.1
	<b>310.8</b>	<b>261.1</b>	<b>198.7</b>
Less: allowances for impairment losses .....	(1.4)	(1.0)	(0.9)
<b>Instalment credit receivables</b> .....	<b>309.4</b>	<b>260.1</b>	<b>197.8</b>

<b>2014</b>	<b>Commercial</b>	<b>Asset</b>	<b>Business</b>	<b>Secured</b>	<b>Consumer</b>	<b>Total</b>
	<b>Mortgages</b>	<b>Finance</b>	<b>Credit</b>	<b>Lending</b>	<b>Lending</b>	<b>£m</b>
<b>Neither past due nor impaired</b> .....	<b>963.8</b>	<b>502.6</b>	<b>169.9</b>	<b>387.0</b>	<b>226.1</b>	<b>2,249.4</b>
<b>Past due but not impaired:</b>						
Up to 30 days .....	0.4	10.5	—	1.7	—	12.6
30-60 days .....	4.4	1.9	—	6.4	—	12.7
60-90 days .....	—	1.1	—	2.3	—	3.4
Over 90 days .....	—	1.7	—	2.9	—	4.6
<b>Total past due but not impaired</b> .....	<b>4.8</b>	<b>15.2</b>	<b>—</b>	<b>13.3</b>	<b>—</b>	<b>33.3</b>
<b>Total impaired</b> .....	<b>1.7</b>	<b>2.2</b>	<b>0.3</b>	<b>2.6</b>	<b>6.4</b>	<b>13.2</b>
	<b>970.3</b>	<b>520.0</b>	<b>170.2</b>	<b>402.9</b>	<b>232.5</b>	<b>2,295.9</b>
Less: allowances for impairment losses .....	(1.4)	(2.1)	(0.4)	(1.6)	(5.6)	(11.1)
<b>Total loans and advances to customers</b> .....	<b>968.9</b>	<b>517.9</b>	<b>169.8</b>	<b>401.3</b>	<b>226.9</b>	<b>2,284.8</b>
<b>2013</b>	<b>Commercial</b>	<b>Asset</b>	<b>Business</b>	<b>Secured</b>	<b>Consumer</b>	<b>Total</b>
	<b>Mortgages</b>	<b>Finance</b>	<b>Credit</b>	<b>Lending</b>	<b>Lending</b>	<b>£m</b>
<b>Neither past due nor impaired</b> .....	<b>539.8</b>	<b>383.2</b>	<b>—</b>	<b>284.8</b>	<b>114.5</b>	<b>1,322.3</b>
<b>Past due but not impaired:</b>						
Up to 30 days .....	0.4	6.2	—	1.4	0.2	8.2
30-60 days .....	1.9	1.5	—	6.1	0.9	10.4
60-90 days .....	—	0.2	—	0.8	—	1.0
Over 90 days .....	0.5	0.4	—	0.9	—	1.8
<b>Total past due but not impaired</b> .....	<b>2.8</b>	<b>8.3</b>	<b>—</b>	<b>9.2</b>	<b>1.1</b>	<b>21.4</b>
<b>Total impaired</b> .....	<b>1.6</b>	<b>2.7</b>	<b>—</b>	<b>2.7</b>	<b>1.6</b>	<b>8.6</b>
	<b>544.2</b>	<b>394.2</b>	<b>—</b>	<b>296.7</b>	<b>117.2</b>	<b>1,352.3</b>
Less: allowances for impairment losses .....	(0.4)	(1.7)	—	(1.7)	(1.6)	(5.4)
<b>Total loans and advances to customers</b> .....	<b>543.8</b>	<b>392.5</b>	<b>—</b>	<b>295.0</b>	<b>115.6</b>	<b>1,346.9</b>

2012	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Total
	£m	£m	£m	£m	£m	£m
<b>Neither past due nor impaired</b>	<b>200.2</b>	<b>275.2</b>	—	<b>158.6</b>	<b>29.3</b>	<b>663.3</b>
<b>Past due but not impaired:</b>						
Up to 30 days	0.4	10.7	—	0.7	—	11.8
30-60 days	1.8	1.1	—	3.1	—	6.0
60-90 days	—	0.1	—	0.4	—	0.5
Over 90 days	—	0.6	—	0.6	—	1.2
<b>Total past due but not impaired</b>	<b>2.2</b>	<b>12.5</b>	—	<b>4.8</b>	—	<b>19.5</b>
<b>Total impaired</b>	—	2.4	—	0.6	0.5	3.5
	<b>202.4</b>	<b>290.1</b>	—	<b>164.0</b>	<b>29.8</b>	<b>686.3</b>
Less: allowances for impairment losses	(0.2)	(1.3)	—	(0.9)	(0.4)	(2.8)
<b>Total loans and advances to customers</b>	<b>202.2</b>	<b>288.8</b>	—	<b>163.1</b>	<b>29.4</b>	<b>683.5</b>

The Group's lending portfolio is geographically diversified across the UK as shown below:

2014	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Total
	£m	£m	£m	£m	£m	£m
East Anglia	34.8	26.1	36.2	14.1	13.3	124.5
East Midlands	29.6	21.2	6.7	16.7	19.7	93.9
Greater London	411.3	90.5	26.1	103.3	18.5	649.7
Guernsey/Jersey/Isle of Man	—	0.4	—	—	—	0.4
North East	15.5	5.1	2.1	8.2	14.5	45.4
North West	88.6	61.1	26.5	27.2	24.5	227.9
Northern Ireland	—	3.4	—	—	0.3	3.7
Scotland	43.4	85.7	3.7	27.9	34.8	195.5
South East	169.4	120.6	20.2	115.5	33.7	459.4
South West	82.1	45.9	6.6	35.8	19.0	189.4
Wales	17.8	20.8	8.8	13.5	8.5	69.4
West Midlands	31.9	22.3	21.1	21.2	27.5	124.0
Yorkshire/Humberside	45.9	16.9	12.2	19.5	18.2	112.7
	<b>970.3</b>	<b>520.0</b>	<b>170.2</b>	<b>402.9</b>	<b>232.5</b>	<b>2,295.9</b>
2013	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Total
	£m	£m	£m	£m	£m	£m
East Anglia	19.5	23.1	—	9.7	4.4	56.7
East Midlands	17.5	18.2	—	14.0	9.7	59.4
Greater London	224.2	66.9	—	68.0	8.4	367.5
North East	8.6	4.2	—	6.6	7.1	26.5
North West	43.2	40.7	—	23.1	13.2	120.2
Northern Ireland	—	5.0	—	—	0.1	5.1
Scotland	21.2	71.5	—	22.0	20.9	135.6
South East	97.9	78.4	—	81.4	17.9	275.6
South West	51.8	36.3	—	28.8	10.9	127.8
Wales	11.8	19.2	—	10.2	2.4	43.6
West Midlands	19.0	19.1	—	17.2	14.5	69.8
Yorkshire/Humberside	29.5	11.6	—	15.7	7.7	64.5
	<b>544.2</b>	<b>394.2</b>	—	<b>296.7</b>	<b>117.2</b>	<b>1,352.3</b>

2012	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Total
	£m	£m	£m	£m	£m	£m
East Anglia .....	11.4	18.3	—	5.3	0.9	35.9
East Midlands .....	4.9	16.5	—	7.0	2.5	30.9
Greater London .....	75.0	58.0	—	35.8	2.1	170.9
North East .....	3.0	3.5	—	3.7	1.7	11.9
North West .....	16.2	29.6	—	13.8	3.3	62.9
Northern Ireland .....	—	5.1	—	—	—	5.1
Scotland .....	5.2	61.6	—	13.3	7.6	87.7
South East .....	45.5	53.0	—	44.4	4.3	147.2
South West .....	18.4	17.6	—	15.1	2.3	53.4
Wales .....	4.5	6.7	—	5.8	0.4	17.4
West Midlands .....	7.7	12.1	—	10.4	3.0	33.2
Yorkshire/Humberside .....	10.6	8.1	—	9.4	1.7	29.8
	<b>202.4</b>	<b>290.1</b>	<b>—</b>	<b>164.0</b>	<b>29.8</b>	<b>686.3</b>

The Group's lending portfolio falls into the following concentrations by loan size:

2014	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Total
	£m	£m	£m	£m	£m	£m
0 - £50k .....	4.1	168.3	0.2	202.2	232.5	607.3
£50k - £100k .....	67.1	64.5	4.6	121.8	—	258.0
£100k - £250k .....	274.5	71.2	9.4	64.2	—	419.3
£250k - £500k .....	244.7	47.3	22.9	10.9	—	325.8
£500k - £1m .....	194.0	37.5	31.2	1.8	—	264.5
£1m - £2.5m .....	134.5	36.7	61.1	2.0	—	234.3
£2.5m - £5m .....	39.3	29.0	29.5	—	—	97.8
£5m + .....	12.1	65.5	11.3	—	—	88.9
<b>Total</b> .....	<b>970.3</b>	<b>520.0</b>	<b>170.2</b>	<b>402.9</b>	<b>232.5</b>	<b>2,295.9</b>

2013	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Total
	£m	£m	£m	£m	£m	£m
0 - £50k .....	1.1	154.4	—	167.9	117.2	440.6
£50k - £100k .....	37.4	52.5	—	88.6	—	178.5
£100k - £250k .....	153.0	52.2	—	35.9	—	241.1
£250k - £500k .....	151.1	38.9	—	3.6	—	193.6
£500k - £1m .....	120.2	21.0	—	0.7	—	141.9
£1m - £2.5m .....	66.5	25.0	—	—	—	91.5
£2.5m - £5m .....	9.3	24.5	—	—	—	33.8
£5m + .....	5.6	25.7	—	—	—	31.3
<b>Total</b> .....	<b>544.2</b>	<b>394.2</b>	<b>—</b>	<b>296.7</b>	<b>117.2</b>	<b>1,352.3</b>

2012	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Total
	£m	£m	£m	£m	£m	£m
0 - £50k .....	0.4	142.0	—	98.3	29.8	270.5
£50k - £100k .....	15.2	39.3	—	51.4	—	105.9
£100k - £250k .....	60.1	40.2	—	14.3	—	114.6
£250k - £500k .....	60.7	21.4	—	—	—	82.1
£500k - £1m .....	47.6	13.4	—	—	—	61.0
£1m - £2.5m .....	11.3	9.2	—	—	—	20.5
£2.5m - £5m .....	7.1	15.0	—	—	—	22.1
£5m + .....	—	9.6	—	—	—	9.6
<b>Total</b> .....	<b>202.4</b>	<b>290.1</b>	<b>—</b>	<b>164.0</b>	<b>29.8</b>	<b>686.3</b>

### Treasury credit risk

Treasury credit risk arises from the wholesale investments made by the Group's Treasury function, which is responsible for managing this aspect of credit risk in line with Board approved risk appetite and wholesale credit policies. The credit quality of loans and advances to banks is assessed by rating agency designation as at 31 December, based on Moody's long-term ratings.

	2014 £m	2013 £m	2012 £m
A1 .....	18.6	—	—
A2 .....	1.1	0.1	78.9
A3 .....	—	23.6	33.3
Aa3 .....	—	0.1	5.0
Baa1 .....	16.9	—	—
	<b>36.6</b>	<b>23.8</b>	<b>117.2</b>

The Group only lends to UK high street banks. Deposits are placed either overnight or for a short term with duration of less than three months.

The Group's exposure to the Bank of England is set out below:

### Cash and balances at central banks

	2014 £m	2013 £m	2012 £m
Aa1 .....	<b>313.1</b>	<b>206.6</b>	<b>0.2</b>

Credit risk derived from derivative transactions is mitigated by collateralising its exposures. Such collateral is subject to the standard industry CSA and is paid or received on a regular basis. At 31 December 2014 cash collateral of £3.5m had been received by the Group (2013: £nil, 2012: £nil).

## Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.

The table below analyses the Group's contractual undiscounted cash flows of its financial assets and liabilities:

	Carrying amount £m	Gross nominal inflow/(outflow) £m	Less than 1 month £m	1-3 months £m	3 months to 1 year £m	1-5 years £m	More than 5 years £m
<b>At 31 December 2014</b>							
<b>Assets</b>							
Cash and balances at central banks .....	313.1	313.1	311.4	—	—	—	1.7
Loans and advances to banks .....	36.6	36.6	36.6	—	—	—	—
Loans and advances to customers .....	2,284.8	2,337.2	40.8	60.2	333.7	1,121.2	781.3
	<b>2,634.5</b>	<b>2,686.9</b>	<b>388.8</b>	<b>60.2</b>	<b>333.7</b>	<b>1,121.2</b>	<b>783.0</b>
<b>Liabilities</b>							
Customer deposits .....	(2,421.0)	(2,535.3)	(172.9)	(188.9)	(1,023.5)	(1,150.0)	—
Due to banks .....	(41.0)	(41.7)	(16.6)	—	(0.2)	(24.9)	—
Subordinated debt .....	(30.8)	(79.6)	—	—	—	—	(79.6)
	<b>(2,492.8)</b>	<b>(2,656.6)</b>	<b>(189.5)</b>	<b>(188.9)</b>	<b>(1,023.7)</b>	<b>(1,174.9)</b>	<b>(79.6)</b>
<b>At 31 December 2013</b>							
<b>Assets</b>							
Cash and balances at central banks .....	206.6	206.6	205.9	—	—	—	0.7
Loans and advances to banks .....	23.8	23.8	23.8	—	—	—	—
Loans and advances to customers .....	1,346.9	1,408.4	23.6	42.0	193.0	657.4	492.4
	<b>1,577.3</b>	<b>1,638.8</b>	<b>253.3</b>	<b>42.0</b>	<b>193.0</b>	<b>657.4</b>	<b>493.1</b>
<b>Liabilities</b>							
Customer deposits .....	(1,463.0)	(1,543.3)	(138.9)	(90.0)	(702.8)	(611.6)	—
Due to banks .....	(24.6)	(25.4)	—	—	(0.2)	(25.2)	—
Subordinated debt .....	(27.6)	(79.6)	—	—	—	—	(79.6)
	<b>(1,515.2)</b>	<b>(1,648.3)</b>	<b>(138.9)</b>	<b>(90.0)</b>	<b>(703.0)</b>	<b>(636.8)</b>	<b>(79.6)</b>
<b>At 31 December 2012</b>							
<b>Assets</b>							
Cash and balances at central banks .....	0.2	0.2	—	—	—	—	0.2
Loans and advances to banks .....	117.2	117.2	107.2	10.0	—	—	—
Loans and advances to customers .....	683.5	728.4	15.0	28.8	130.6	344.5	209.5
Investment securities — available for sale .....	144.9	145.0	95.5	47.5	2.0	—	—
	<b>945.8</b>	<b>990.8</b>	<b>217.7</b>	<b>86.3</b>	<b>132.6</b>	<b>344.5</b>	<b>209.7</b>
<b>Liabilities</b>							
Customer deposits .....	(923.7)	(1,383.9)	(164.6)	(350.9)	(352.9)	(515.5)	—
	<b>(923.7)</b>	<b>(1,383.9)</b>	<b>(164.6)</b>	<b>(350.9)</b>	<b>(352.9)</b>	<b>(515.5)</b>	<b>—</b>

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity on the amounts outstanding at the balance sheet date.

The following table sets out the components of the Group's liquidity reserve:

	2014 Carrying amount	2013 Carrying amount	2012 Carrying amount
	£m	£m	£m
Balances with central banks .....	311.4	205.9	—
Loans and advances to banks .....	36.6	23.8	117.2
Investment securities — available for sale .....	—	—	144.9
Debt securities .....	163.1	57.9	—
<b>Total liquidity reserve</b> .....	<b>511.1</b>	<b>287.6</b>	<b>262.1</b>

The total liquidity reserve includes £163.1m (2013: £57.9m, 2012: £nil) of securities issued by the Bank of England through FLS participation which are not recognised on the Statement of Financial Position.

The average liquidity reserve throughout the year was £426.0m (2013: £274.0m, 2012: £246.8m)

### Asset encumbrance

The Group's assets can be used to support collateral requirements for central bank operations or third party repurchase transactions. Assets that have been set aside for such purposes are classified as 'encumbered assets' and cannot be used for other purposes.

All other assets are defined as 'unencumbered assets'. These comprise assets that are readily available to secure funding or meet collateral requirements, and assets that are not subject to any restrictions but are not readily available for use.

The table below sets out the availability of the Group's financial assets to support future funding:

	Encumbered Pledged as collateral 2014	Unencumbered Available as collateral 2014	Unencumbered Other 2014	Total 2014
	£m	£m	£m	£m
<b>2014</b>				
Cash and balances at central banks .....	1.7	—	311.4	313.1
Loans and advances to banks .....	—	36.6	—	36.6
Loans and advances to customers .....	438.0	1,846.8	—	2,284.8
Property, plant and equipment .....	—	46.2	—	46.2
Derivative assets held for risk management .....	—	—	3.7	3.7
Non-financial assets .....	—	—	69.6	69.6
<b>Total assets</b> .....	<b>439.7</b>	<b>1,929.6</b>	<b>384.7</b>	<b>2,754.0</b>
<b>2013</b>				
	Encumbered Pledged as collateral 2013	Unencumbered Available as collateral 2013	Unencumbered Other 2013	Total 2013
	£m	£m	£m	£m
Cash and balances at central banks .....	0.7	—	205.9	206.6
Loans and advances to banks .....	—	23.8	—	23.8
Loans and advances to customers .....	156.6	1,190.3	—	1,346.9
Property, plant and equipment .....	—	51.9	—	51.9
Non-financial assets .....	—	—	38.8	38.8
<b>Total assets</b> .....	<b>157.3</b>	<b>1,266.0</b>	<b>244.7</b>	<b>1,668.0</b>

	Encumbered Pledged as collateral 2012	Unencumbered Available as collateral 2012	Unencumbered Other 2012	Total 2012
	£m	£m	£m	£m
<b>2012</b>				
Cash and balances at central banks .....	0.2	—	—	0.2
Loans and advances to banks .....	—	117.2	—	117.2
Loans and advances to customers .....	—	683.5	—	683.5
Investment securities — available for sale .....	—	144.9	—	144.9
Property, plant and equipment .....	—	59.7	—	59.7
Non-financial assets .....	—	—	44.8	44.8
<b>Total assets</b> .....	<b>0.2</b>	<b>1,005.3</b>	<b>44.8</b>	<b>1,050.3</b>

In addition to the above, the Group holds £163.1m (2013: £57.9m, 2012: £nil) of Bank of England securities which can be utilised through third party sale and repurchase agreements to support additional funding.

### **Liquidity risk — stress testing**

Stress testing is a major component of liquidity risk management and the Group has developed a range of scenarios covering a range of market-wide and firm-specific factors. A comprehensive stress testing exercise is conducted at least annually and the methodology is incorporated into the Group's balance sheet risk management model to ensure that stress tests are run on a regular basis. The output of stress testing is circulated to the Board and to the Asset and Liability Committee who will use the results to decide whether to amend the Group's risk appetite and liquidity limits.

### **Market risk**

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities change as a result of changes in market prices, the principal element being interest rate risk.

The Group's treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's treasury policies. ALCO approves the Group's treasury policies and receives regular reports on all aspects of market risk exposure, including interest rate risk.

### **Interest rate risk**

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises from the loan and savings products that the Group offers. This risk is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures.

### **Basis risk**

Basis risk is the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics (for example, LIBOR and Bank of England base rate). This is monitored closely and regularly reported to ALCO. This risk is managed by matching and, where appropriate, through the use of derivatives, with established risk limits and other control procedures.

The Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance.

## Foreign exchange risk

Foreign exchange risk is the risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in exchange rates. The Group has low levels of foreign exchange risk which is managed by use of cross-currency derivatives. The table below sets out the Group's exposure to foreign exchange risk:

<b>Assets and liabilities in euros at sterling carrying values</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	£m	£m	£m
Loans and advances to banks .....	0.1	—	—
Loans and advances to customers .....	8.4	—	—
Amounts due to banks .....	(7.8)	—	—
<b>Net position .....</b>	<b>0.7</b>	—	—
<b>Assets and liabilities in US dollars at sterling carrying values</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	£m	£m	£m
Loans and advances to banks .....	(0.9)	—	—
Loans and advances to customers .....	6.1	—	—
Amounts due to banks .....	(5.1)	—	—
<b>Net position .....</b>	<b>0.1</b>	—	—
<b>Assets and liabilities in Canadian dollars at sterling carrying values</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	£m	£m	£m
Loans and advances to banks .....	0.2	—	—
<b>Net position .....</b>	<b>0.2</b>	—	—

## Foreign Exchange Sensitivity

The Group estimates that a 5% movement in exchange rates would have impacted the 2014 results as follows:

<b>Euro</b>	<b>Change in Rate</b>	<b>Effect on Profit before tax</b>	
		£m	£m
<b>2014 .....</b>	+5%	0.04	
	-5%	(0.04)	
<b>2013 .....</b>	+5%	—	
	-5%	—	
<b>2012 .....</b>	+5%	—	
	-5%	—	
<b>US Dollar</b>	<b>Change in Rate</b>	<b>Effect on Profit before tax</b>	
		£m	£m
<b>2014 .....</b>	+5%	0.01	
	-5%	(0.01)	
<b>2013 .....</b>	+5%	—	
	-5%	—	
<b>2012 .....</b>	+5%	—	
	-5%	—	
<b>Canadian Dollar</b>	<b>Change in Rate</b>	<b>Effect on Profit before tax</b>	
		£m	£m
<b>2014 .....</b>	+5%	0.01	
	-5%	(0.01)	
<b>2013 .....</b>	+5%	—	
	-5%	—	
<b>2012 .....</b>	+5%	—	
	-5%	—	

### Interest rate sensitivity gap

The Group considers a 200 basis points ("bps") movement to be appropriate for scenario testing given the current economic outlook and industry expectations. The Group estimates that a 200 bps movement in interest rates paid / received would have impacted the 2013 results as follows:

+200 bps — £16.5m positive (2013: £14.4m positive, 2012: £7.8m positive)

-200 bps — £14.3m positive (2013: £6.1m positive, 2012: £3.2m positive)

The following table summarises the repricing periods for the Group's assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

	Within 3 months £m	More than 3 months but less than 6 months £m	More than 6 months but less than 1 year £m	More than 1 year but less than 5 years £m	More than 5 years £m	Non- interest bearing £m	Total £m
<b>At 31 December 2014</b>							
<b>Assets</b>							
Cash and balances at central banks							
banks	311.4	—	—	—	—	1.7	313.1
Loans and advances to banks	36.6	—	—	—	—	—	36.6
Loans and advances to customers							
customers	1,247.1	95.5	161.9	609.5	170.8	—	2,284.8
Other non-financial assets	3.6	3.6	7.1	30.7	1.2	73.3	119.5
	<b>1,598.7</b>	<b>99.1</b>	<b>169.0</b>	<b>640.2</b>	<b>172.0</b>	<b>75.0</b>	<b>2,754.0</b>
<b>Liabilities</b>							
Customer deposits							
Customer deposits	445.3	766.7	161.7	1,047.3	—	—	2,421.0
Due to banks	16.6	—	—	24.4	—	—	41.0
Other non-financial liabilities	—	—	—	—	—	42.5	42.5
Subordinated debt	—	—	—	—	30.8	—	30.8
Total equity	—	—	—	—	—	218.7	218.7
	<b>461.9</b>	<b>766.7</b>	<b>161.7</b>	<b>1,071.7</b>	<b>30.8</b>	<b>261.2</b>	<b>2,754.0</b>
Nominal value of derivatives	195.0	—	—	(195.0)	—	—	—
<b>Interest rate sensitivity gap</b>	<b>1,331.8</b>	<b>(667.6)</b>	<b>7.3</b>	<b>(626.5)</b>	<b>141.2</b>	<b>(186.2)</b>	<b>—</b>
<b>Cumulative gap</b>	<b>1,331.8</b>	<b>664.2</b>	<b>671.5</b>	<b>45.0</b>	<b>186.2</b>	<b>—</b>	<b>—</b>

As at 31 December 2013	Within	More	More	More	More	Non-	Total					
	3 months	3 months	6 months	1 year	5 years	interest						
<b>Assets</b>												
Cash and balances at central banks .....	205.9	—	—	—	—	0.7	206.6					
Loans and advances to banks .....	23.8	—	—	—	—	—	23.8					
Loans and advances to customers .....	620.4	62.6	121.8	425.4	116.7	—	1,346.9					
Other non-financial assets .....	4.2	3.6	6.3	35.9	1.8	38.9	90.7					
	<b>854.3</b>	<b>66.2</b>	<b>128.1</b>	<b>461.3</b>	<b>118.5</b>	<b>39.6</b>	<b>1,668.0</b>					
<b>Liabilities</b>												
Customer deposits .....	266.5	373.6	278.3	544.6	—	—	1,463.0					
Due to banks .....	—	—	—	24.6	—	—	24.6					
Other non-financial liabilities .....	—	—	—	—	—	17.3	17.3					
Subordinated debt .....	—	—	—	—	27.6	—	27.6					
Total equity .....	—	—	—	—	—	135.5	135.5					
	<b>266.5</b>	<b>373.6</b>	<b>278.3</b>	<b>569.2</b>	<b>27.6</b>	<b>152.8</b>	<b>1,668.0</b>					
<b>Interest rate sensitivity gap</b> .....	<b>587.8</b>	<b>(307.4)</b>	<b>(150.2)</b>	<b>(107.9)</b>	<b>90.9</b>	<b>(113.2)</b>						
<b>Cumulative gap</b> .....	<b>587.8</b>	<b>280.4</b>	<b>130.2</b>	<b>22.3</b>	<b>113.2</b>	<b>—</b>						
<b>At 31 December 2012</b>												
<b>Assets</b>												
Cash and balances at central banks .....	—	—	—	—	—	0.2	0.2					
Loans and advances to banks .....	117.2	—	—	—	—	—	117.2					
Assets classified as available for sale .....	142.9	2.0	—	—	—	—	144.9					
Loans and advances to customers .....	250.9	37.9	85.7	290.9	22.7	(4.6)	683.5					
Other non-financial assets .....	5.3	3.5	7.7	38.9	4.8	44.3	104.5					
	<b>516.3</b>	<b>43.4</b>	<b>93.4</b>	<b>329.8</b>	<b>27.5</b>	<b>39.9</b>	<b>1,050.3</b>					
<b>Liabilities</b>												
Customer deposits .....	165.8	152.7	161.5	443.7	—	—	923.7					
Other non-financial liabilities .....	—	—	—	—	—	21.7	21.7					
Total equity .....	—	—	—	—	—	104.9	104.9					
	<b>165.8</b>	<b>152.7</b>	<b>161.5</b>	<b>443.7</b>	<b>—</b>	<b>126.6</b>	<b>1,050.3</b>					
<b>Interest rate sensitivity gap</b> .....	<b>350.5</b>	<b>(109.3)</b>	<b>(68.1)</b>	<b>(113.9)</b>	<b>27.5</b>	<b>(86.7)</b>						
<b>Cumulative gap</b> .....	<b>350.5</b>	<b>241.2</b>	<b>173.1</b>	<b>59.2</b>	<b>86.7</b>	<b>—</b>						

## Capital risk and management

The following shows the regulatory capital resources managed by the Group and Bank:

	Group 2014 £m	Bank 2014 £m	Group 2013 £m	Bank 2013 £m	Group 2012 £m	Bank 2012 £m
Share capital .....	185.3	174.5	138.0	129.0	120.2	112.0
Retained earnings .....	32.1	20.4	(2.5)	(17.6)	(15.3)	(31.4)
Share premium account .....	1.3	—	—	—	—	—
Merger reserve .....	—	1.6	—	—	—	—
Capital contribution reserve .....	—	0.3	—	0.2	—	0.2
Intangible assets .....	(49.5)	(28.4)	(22.2)	(1.1)	(21.3)	—
<b>Common equity tier 1 capital</b> .....	<b>169.2</b>	<b>168.4</b>	<b>113.3</b>	<b>110.5</b>	<b>83.6</b>	<b>80.8</b>
Subordinated debt .....	30.8	30.8	27.6	27.6	—	—
Collective impairment allowance .....	3.0	3.0	1.3	1.4	0.7	0.8
<b>Tier 2 capital</b> .....	<b>33.8</b>	<b>33.8</b>	<b>28.9</b>	<b>29.0</b>	<b>0.7</b>	<b>0.8</b>
<b>Total regulatory capital</b> .....	<b>203.0</b>	<b>202.2</b>	<b>142.2</b>	<b>139.5</b>	<b>84.3</b>	<b>81.6</b>

The regulatory capital reconciles to the total capital in the Group's Statement of Financial Position as follows:

	Group 2014 £m	Bank 2014 £m	Group 2013 £m	Bank 2013 £m	Group 2012 £m	Bank 2012 £m
<b>Regulatory capital</b> .....	<b>203.0</b>	<b>202.2</b>	<b>142.2</b>	<b>139.5</b>	<b>84.3</b>	<b>81.6</b>
Subordinated debt .....	(30.8)	(30.8)	(27.6)	(27.6)	—	—
Collective impairment allowance .....	(3.0)	(3.0)	(1.3)	(1.4)	(0.7)	(0.8)
Intangible assets .....	49.5	28.4	22.2	1.1	21.3	—
<b>Total Equity</b> .....	<b>218.7</b>	<b>196.8</b>	<b>135.5</b>	<b>111.6</b>	<b>104.9</b>	<b>80.8</b>

### 34. Subsidiary companies

The Company has the following subsidiary companies whose results are included in these consolidated financial statements:

	Country of Incorporation	Class of shares held	Ownership	Principle activity
Shawbrook Bank Limited	England & Wales	Ordinary	100%	Banking
and its subsidiaries:				
Shawbrook Buildings and Protection Limited	England & Wales	Ordinary	100%	FCA authorised introducer of insurance Non-trading
Link Loans Limited	England & Wales	Ordinary	100%	Non-trading
Centric Group Holdings Limited*	England & Wales	Ordinary	100%	Non-trading
and its subsidiaries:				
Centric Group Finance 2 Limited	England & Wales	Ordinary	100%	Dormant
Centric Group Finance Limited	England & Wales	Ordinary	100%	Non-trading
and its subsidiaries:				
Centric Commercial Finance Limited	England & Wales	Ordinary	100%	Non-trading
Resource Partners SPV Limited	England & Wales	Ordinary	100%	Non-trading
Centric SPV 1 Limited	England & Wales	Ordinary	100%	Non-trading
Centric SPV 2 Limited	England & Wales	Ordinary	100%	Dormant
Singers Corporate Asset Finance Limited	England & Wales	Ordinary	100%	Non-trading
Coachlease Limited	England & Wales	Ordinary	100%	Dormant
East Anglian Finance Limited**	England & Wales	Ordinary	100%	Dormant
Hermes Group Limited	England & Wales	Ordinary	100%	Dormant
Singer and Friedlander Commercial Finance Limited	Scotland	Ordinary	100%	Dormant
Singers Healthcare Finance Limited	England & Wales	Ordinary	100%	Non-trading
and its subsidiary:				
SAF Funding Limited	England & Wales	Ordinary	100%	In Liquidation
Singers Asset Finance Holdings Limited	England & Wales	Ordinary	100%	In Liquidation
Singer and Friedlander Finance Limited	England & Wales	Ordinary	100%	In Liquidation
Apple Holdco Limited	England & Wales	Ordinary	100%	In Liquidation
and its subsidiary:				
Apple Acquisition Limited	England & Wales	Ordinary	100%	In Liquidation
and its subsidiary:				
Ascot Funding Limited	England & Wales	Ordinary	100%	In Liquidation
Money2Improve Limited	England & Wales	Ordinary	100%	In Liquidation

\* Centric Group Holdings and its direct and indirect subsidiaries are referred to as the "Centric Group".

\*\* East Anglian Finance Limited (a dormant subsidiary) was sold on 18 February 2015.

### 35. Acquisition of subsidiary companies

On 9 June 2014 the Group acquired 100% of the share capital and voting rights of Centric Group Holdings Limited ("CGHL"), which along with its wholly owned subsidiaries Centric SPV1 Limited, Centric Commercial Finance Limited and Resource Partners Limited provide invoice finance and other asset based lending facilities to UK-based businesses. The principle reason for this acquisition was to further enhance our product offering to SME customers.

Following completion, the Centric group settled its outstanding funding obligations of £138.2m and transferred all of its remaining assets and liabilities by way of an equitable assignment to the Group at their net book value.

This acquisition was accounted for in accordance with IFRS 3 (Revised) 'Business Combinations' which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Note	Fair Value £m
Trade debtors .....		195.5
Property, plant and equipment .....		0.1
Borrowings .....		(138.2)
Other net liabilities .....		(3.4)
<b>Net identifiable assets and liabilities .....</b>		<b>54.0</b>
Consideration transferred:		
Cash .....		70.0
Ordinary shares in Shawbrook Bank Limited .....		7.7
<b>Total Consideration .....</b>		<b>77.7</b>
Representing:		
<b>Goodwill on acquisition .....</b>	20	<b>23.7</b>

The gross contractual amounts due are £198.7m and £1.0m is expected to be uncollectable at the acquisition date.

Goodwill arising on acquisition of CGHL is not deductible for tax purposes.

Administration costs of £1.9m arose as a result of the transaction. These have been recognised as part of the administrative expenses in the Consolidated Income Statement.

The fair value of the consideration settled in shares (6,158,774 Ordinary A shares in Shawbrook Bank Limited) has been based on available open market valuations and market comparable multiples.

The goodwill is attributable mainly to the skills of Centric Commercial Finance's workforce and the synergies expected to be achieved from integrating the company into the Group's existing business.

Since the acquisition date, the Centric Group, whose business has subsequently been rebranded to Shawbrook Business Credit, contributed £10.9m to group revenues and £4.5m to group profit. If the acquisition had occurred on 1 January 2014, group revenue would have been £19.0m higher and group profit would have been £6.0m higher.

On 22 March 2012, the Group acquired 100% of the share capital of Singers Asset Finance Holdings Limited ("SAFH") ("Completion"), for consideration of £55.8m. SAFH and its subsidiaries represent the Singers Group.

Following Completion, the ownership of Singers Corporate Asset Finance Limited and Singers Healthcare Finance Limited was transferred from SAFH to the Group; the Singers Group then settled its outstanding funding obligations of £325m and transferred all of its remaining assets and liabilities by way of an equitable assignment to the Group at their net book value.

The business of the Singers Group is the provision of asset finance and leasing. In the nine months from acquisition to 31 December 2012, the Asset Finance division contributed net operating income of £18.9m and profits of £7.8m to the Group's results.

	Fair Value of receivables	Gross contractual amounts receivable	Contractual cash flows not expected to be collected
			£m
Loans and advances to customers .....	262.7	263.5	1.1
Property, plant and equipment .....	64.0	62.3	—
Deferred tax .....	8.4	8.9	—
Intangible assets .....	1.1	—	—
Other net assets .....	35.7	35.7	—
<b>Total assets acquired .....</b>	<b>371.9</b>	<b>370.4</b>	<b>1.1</b>

On 19 November 2012, the Group acquired 100% of the share capital of Money2Improve Limited for consideration of £0.5m, a company whose business is to act as an introducer of unsecured consumer lending.

These acquisitions were accounted for in accordance with IFRS 3 (Revised) 'Business Combinations' which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. Information on specific fair value adjustments is provided in the tables below (Money2Improve figures have been aggregated with Singers as they are not individually material):

	Book value at acquisition	Fair value adjustment	Note	Take-on values
				£m
Loans and advances to customers .....	263.5	(0.8)	a	262.7
Property, plant and equipment .....	62.3	1.7	b	64.0
Borrowings and loan notes .....	(325.1)	—		(325.1)
Deferred tax .....	8.9	(0.5)		8.4
Intangible assets .....	—	1.1	c	1.1
Other net assets .....	35.7	—		35.7
<b>Net identifiable assets and liabilities .....</b>	<b>45.3</b>	<b>1.5</b>		<b>46.8</b>
<b>Consideration paid .....</b>				<b>56.3</b>
<b>Representing:</b>				
Goodwill on acquisition .....			20	9.5
<b>Total intangible assets on acquisition .....</b>				<b>9.5</b>

The goodwill is attributable to the skills of the workforce. The customer relationships intangible recognises the benefit to the Group of enduring relationships with existing customers and their beneficial impact on future new business advances and income.

- Finance lease and instalment credit agreements were adjusted to fair value using discounted cash flow models which used benchmark interest rates. The adjustment reflects the movement in credit spreads since the lending was originated.
- Property, plant and equipment were adjusted to fair value using discounted cash flow models which used benchmark interest rates.
- The intangible asset is in relation to future business derived from existing and enduring customer relationships.

### **Amortisation of the initial fair value adjustment**

Market rate fair value adjustments are amortised on an even yield basis over the expected remaining life of the leases. Credit loss fair value adjustments are amortised at the point of time that the loss crystallises. Losses experienced in excess of those identified at acquisition are expensed through the Group Income Statement.

### **Amortisation of the intangible asset**

The intangible asset is amortised over the period over which revenue is earned from the existing and enduring customer relationships.

## **36. Investment in subsidiaries**

	<b>2014</b> £m	<b>2013</b> £m	<b>2012</b> £m
At 1 January	138.8	121.8	46.6
Issue of share capital in Shawbrook Bank Limited	47.2	17.0	75.0
Capital contribution .....	—	—	0.2
<b>At 31 December</b> .....	<b>186.0</b>	<b>138.8</b>	<b>121.8</b>

## **37. Related party transactions**

Related parties of the Group include key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members. Key management personnel are defined as the Directors.

Shawbrook Group plc is an investment of Pollen Street Capital Limited.

Target Group Limited is an investment of Pollen Street Capital Limited. The Group has an amortising term loan, secured on mortgage assets, to Target Financial Systems Limited a wholly owned subsidiary of Target Group Limited. Income earned during the year was £0.8m (2013: £nil, 2012: £nil) and the balance outstanding at 31 December 2014 was £7.3m (2013: £10.5m, 2012: £nil).

The Group has also entered into a contract with Target Servicing Limited, a wholly owned subsidiary of Target Group Limited for administration services on various portfolios. Target Servicing Limited services various portfolios, under customary commercial arrangements, on behalf of the Group. The Group has been charged £4.6m during 2014 for these services (2013: £2.1m, 2012: £0.9m) and no amounts were due at 31 December 2014 (2013: £nil, 2012: £nil).

The Group has committed £20.0 million as lender under a Revolving Credit Facility to Arrow Global Guernsey Holdings Limited (an investment of Pollen Street Capital Limited up to March 2014). Income earned during the year was £0.4m (2013: £0.1m, 2012: £nil) and the balance outstanding at 31 December 2014 was £7.8m (2013: £10.0m, 2012: £nil).

The Group has paid £1.3m (2013: £1.3m; 2012: £0.9m) in broker fees to Freedom Finance Limited, an investment of Pollen Street Capital Limited, since August 2014.

The charge for share-based payments provided to key management personnel during 2014 was £0.1m (2013: £0.1m, 2012: £11k).

On 18 February 2015, the group sold its entire shareholding in East Anglian Finance Limited to Pollen Street Capital Limited for £15k.

### Transactions with key management personnel

The aggregate value of the transactions and outstanding balances related to key management personnel (as defined by IAS 24 Related Party Disclosures) were as follows:

	Transaction values for the year ended		
	31 December 2014	31 December 2013	31 December 2012
	£000	£000	£000
Deposits .....	303	—	—
Maximum balance for the year ended			
	31 December 2014	31 December 2013	31 December 2012
	£000	£000	£000
	314	11	10
Balance outstanding at			
	31 December 2014	31 December 2013	31 December 2012
	£000	£000	£000
	314	11	10

### 38. Capital Commitments

The Group has capital commitments totalling £1.3m at 31 December 2014 (2013: £1.5m, 2012: £nil).

### 39. Contingent liabilities

The Group outsources certain account administration, customer servicing and arrears management for its Commercial Mortgages, Secured Lending and Consumer Lending portfolios to Target. Between 15 May 2014 and 26 January 2015, Target failed to send certain notices prescribed by the Consumer Credit Act ("CCA") to certain Secured Lending and Consumer Lending customers. These failures resulted in interest and charges of approximately £500,000 being incapable of collection or being required to be refunded and other remediation costs estimated to be no more than £70,000. Target has confirmed to the Group that it is responsible for reimbursing the Group in respect of the interest and charges which are incapable of being collected or need to be refunded to customers and for covering the vast majority of the other costs which are expected to be incurred. Target is working with the Group to take the necessary remedial action. Target has also assured the Group that it has addressed the cause of the failure to give notices and the Group intends to increase its monitoring of Target.

As stated above, part of the Group's business is regulated by the CCA, which contains very detailed and highly technical requirements. Independent of the above issue, in 2014, the Group commissioned an external review of its compliance with the CCA. The Group has identified some areas of potential non-compliance, although these are not considered to be material. While the Group considers that no material present obligation in relation to non-compliance with the CCA is likely, there is a risk that an eventual outcome may differ.

A recent European Court of Justice ruling has indicated that, under the European Working Time Directive, 'normal pay' for the purposes of calculating statutory holiday pay includes contractual commission, rather than being limited to basic salary. On 4 November 2014, the Employment Appeal Tribunal ("EAT") determined that 'normal pay' includes overtime and certain allowances such as travel time. The EAT also concluded that claims for arrears of holiday pay will be out of time if there has been a break of more than 3 months between successive underpayments. The EAT gave permission to appeal to the Court of Appeal. This gives rise to a possible obligation for the Group but, given the uncertainty of the outcome, the timing of the UK decisions and the uncertainty around the scope of any compensation arising, the Group is unable to quantify what, if any, liability may arise. The Group does not expect the ultimate resolution of any other threatened or actual legal proceedings to have a significant adverse impact on the financial position of the Group.

SFFL (a subsidiary of the Group which is now in members' voluntary liquidation on a solvent basis) was acquired by the Group in March 2012. Until January 2005, SFFL sold insurance (including payment protection and "gap" insurance) as agent for an insurer in relation to its motor finance division operations. The relevant agency agreements provide for indemnification of the insurer in respect of certain losses which may be incurred by the insurer in connection with these arrangements but do not give the Group control over the management of the claims giving rise to such losses. The Group has been informed that the insurer has received a small number of complaints in relation to the misselling of certain insurance policies to customers of SFFL's motor finance division prior to January 2005. These or other complaints that may arise in the future may result in the Group having to indemnify the relevant insurer under the terms of the relevant agreements, however the Group is not currently aware of, and does not have access to, any information which establishes that the Group has such an obligation or, that if any such obligation arose, that it would be material. If the Group is required to make substantial payments to the relevant insurer under the terms of this indemnity, this could have a material adverse effect on the Group's financial condition, financial returns or results of operations.

#### 40. Earnings per share

	2014 £	2013 £	2012 £
<b>Earnings per share</b>			
Basic .....	0.21	0.10	(0.07)
Diluted .....	0.21	0.10	(0.07)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. There are no discontinued operations during the period (2013: £nil).

The following reflects the income and share data used in the basic and diluted EPS computations:

	2014 £m	2013 £m	2012 £m
Profit attributable to ordinary equity holders of the parent: .....	34.5	12.8	(6.8)
<b>Profit attributable to ordinary equity holders of the parent for basic earnings</b> .....			
	<b>34.5</b>	<b>12.8</b>	<b>(6.8)</b>
Weighted average number of ordinary shares for basic EPS .....			
	<b>165.2</b>	<b>128.1</b>	<b>91.4</b>
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b> .....			
	<b>165.2</b>	<b>128.1</b>	<b>91.4</b>

#### 41. Ultimate parent company

No single entity or individual has a controlling interest in the Company. The largest company in which the results of the Group are consolidated is that headed by Shawbrook Group plc (previously Shawbrook Group Limited), incorporated in England and Wales. No other financial statements include the results of the Group.

## PART XVI — UNAUDITED PRO FORMA FINANCIAL INFORMATION

### Section A: Accountants' report on unaudited pro forma financial information



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1 April 2015

Ladies and Gentlemen

#### **Shawbrook Group plc**

We report on the pro forma financial information (the 'Pro forma financial information') set out in Part XVI (*Unaudited Pro Forma Financial Information*) of the prospectus dated 1 April 2015, which has been prepared on the basis described in Section B for illustrative purposes only, to provide information about how the proposed issue of new ordinary shares in Shawbrook Group plc might have affected the financial information presented on the basis of the accounting policies adopted by Shawbrook Group plc in preparing the financial statements for the period ended 31 December 2014. This report is required by paragraph 7 of Annex II of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

It is the responsibility of the directors of Shawbrook Group plc to prepare the Pro forma financial information in accordance with Annex II of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a

result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

### **Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Shawbrook Group plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Shawbrook Group plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Shawbrook Group plc.

### **Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

## Section B: Pro forma statement of net assets

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effects of the offer of ordinary shares on the net assets of the Group, had the offer of ordinary shares taken place on 31 December 2014. The pro forma net asset statement is based on the audited historical financial information of the Group year ended 31 December 2014 contained in Part XV (*Historical Financial Information*) of this prospectus and has been prepared in a manner consistent with the accounting policies adopted by the group in preparing its financial statements for the year ended 31 December 2014.

The unaudited combined pro forma statement of net assets has been prepared for illustrative purposes only, and by its nature addresses a hypothetical situation and, therefore, does not reflect the Group's actual financial position or results. The unaudited consolidated pro forma statement of net assets is compiled on the basis set out in the notes below and in accordance with the requirements of items 1 to 6 of Annex II to the Prospectus Rules. This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act 2006. No account has been taken of any results or other activity since 31 December 2014.

	Adjustments			Unaudited pro forma as at 31 December 2014
	As at 31 December 2014 <sup>(1)</sup>	Gross Proceeds from the Offer <sup>(2)</sup>	Expenses <sup>(3)</sup>	
	£ million			
Cash and balances at central banks .....	313.1	—	—	313.1
Other assets .....	2,440.9	90.0	(8.0)	2,522.9
<b>Total assets</b> .....	<b>2,754.0</b>	<b>90.0</b>	<b>(8.0)</b>	<b>2,836.0</b>
<b>Liabilities</b>				
Customer deposits .....	2,421.0	—	—	2,421.0
Other liabilities .....	114.3	—	—	114.3
<b>Total liabilities</b> .....	<b>2,535.3</b>	<b>—</b>	<b>—</b>	<b>2,535.3</b>
Total equity .....	218.7	90.0	(8.0)	300.7
<b>Total liabilities and equity</b> .....	<b>2,754.0</b>	<b>90.0</b>	<b>(8.0)</b>	<b>2,836.0</b>

### Notes:

- (1) The financial information as at 31 December 2014 has been extracted, without material adjustment, from the Financial Information set out in Part XV (*Historical Financial Information*) of this Prospectus. The accounting policies adopted in preparing the pro forma balance sheet as at 31 December 2014 are consistent with the accounting policies adopted in preparing the Financial Information. No account has been taken of actual changes in the results, trading or financial position of the Group since 31 December 2014.
- (2) This adjustment reflects the receipt of the gross proceeds from the Offer by the Company. See paragraph 3 of Part XVII (*Details of the Offer*) for further details of the Company's intended use of the proceeds.
- (3) The expenses in relation to the Offer to be borne by the Company are estimated at approximately £8 million (inclusive of VAT). These expenses will be paid by the Company out of cash resources during the year ending 31 December 2015.
- (4) This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act 2006.

## PART XVII – DETAILS OF THE OFFER

### 1. Ordinary Shares subject to the Offer

The “Offer Shares” are Ordinary Shares which are the subject of the Offer, comprising:

- 31,034,483 New Ordinary Shares to be issued by the Company;
- the Secondary Offer of:
  - 43,965,517 Existing Ordinary Shares that are beneficially owned by the Selling Shareholders; and
  - up to 11,250,000 Over-allotment Shares (which will be sold by the Major Shareholder to the extent that the Over-allotment Option is exercised, as described below).

The New Ordinary Shares will represent 12 per cent. of the enlarged issued share capital of the Company. The Company will receive proceeds of approximately £82 million from the Offer, net of aggregate underwriting commissions, other estimated fees and expenses and VAT of approximately £8 million.

Assuming the Over-allotment Option is fully exercised, the Secondary Offer will represent no more than approximately 22 per cent. of the enlarged issued share capital of the Company, and the Selling Shareholders will together receive proceeds of approximately £155.8 million from the Offer, net of underwriting commissions, and stamp duty of approximately £4.4 million. The Company and the Selling Shareholders are subject to the lock-up arrangements detailed in paragraph 10 below.

### 2. The Offer

The Offer is made by way of an institutional private placing. Under the Offer, Ordinary Shares will be offered to: (i) certain institutional and professional investors in the UK and elsewhere outside the United States in reliance on Regulation S; and (ii) to QIBs in the United States in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Certain restrictions that apply to the distribution of this Prospectus and the offer and sale of the Ordinary Shares in jurisdictions outside the UK are described below in paragraph 16 below.

Participants in the Offer will be advised verbally or by electronic mail of their allocation as soon as practicable following pricing and allocation. Prospective investors in the Offer will be contractually committed to acquire the number of Ordinary Shares allocated to them at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed not to exercise any rights to rescind or terminate, or otherwise withdraw from, such commitment.

When admitted to trading, the Ordinary Shares will be registered with ISIN GB00BWDPMF43 and SEDOL number BWDPMF4 and will be traded under the ticker symbol SHAW. The rights attaching to the Ordinary Shares will be uniform in all respects and they will form a single class for all purposes.

Immediately following Admission, it is expected that at least 30 per cent. of the Company’s issued ordinary share capital will be held in public hands (within the meaning of Listing Rule 6.1.19) assuming no Over-allotment Shares are acquired pursuant to the Over-allotment Option (increasing to approximately 35 per cent. if the maximum number of Over-allotment Shares is acquired pursuant to the Over-allotment Option).

### 3. Reasons for the Offer and Admission

The net proceeds payable to the Company from the Offer are estimated to be £82 million after deduction of underwriting commissions and other estimated fees and expenses incurred in connection with the Offer.

The Directors believe that the Offer and Admission will support prudent capital ratios. The Directors intend to use the net proceeds from the Offer to support further controlled growth within the Group’s existing market segments and possible expansion into new market sectors and for general corporate purposes.

In addition, the Directors believe that Admission will benefit the Company by:

- improving the financing options available to the Group in the future, providing it with access to a wide range of institutional investors and a stronger capital markets profile; and
- assisting in recruiting, retaining and incentivising key management and employees.

The Offer also provides the Selling Shareholders, including certain Directors, CarVal Investors LLC, funds managed by Cabot Square Capital LLP and the Major Shareholder, with an opportunity to realise part of their investment in the Group. The Selling Shareholders own Existing Ordinary Shares and have been given the opportunity to participate in the Offer as a result of the decision by the Company to admit its Existing Ordinary Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange. The Selling Shareholders will together receive proceeds of approximately £127.5 million from the Offer (before costs and assuming there is no exercise of the Over-allotment Option).

#### **4. Financial impact of the Offer**

A pro forma statement illustrating the hypothetical effect of the Offer on the net assets of the Group as at 31 December 2014 as if the net proceeds of £82 million had been received by the Company at that date is set out in Part XVI (*Unaudited Pro Forma Financial Information*). This information is unaudited and has been prepared for illustrative purposes only. It shows that the net proceeds from the Offer of £82 million would lead to an increase in net assets from £218.7 million to £300.7 million as at 31 December 2014.

#### **5. Offer Price**

The price payable under the Offer will be the Offer Price.

#### **6. Dilution**

31,034,483 New Ordinary Shares will be issued pursuant to the Offer. The Existing Ordinary Shares will represent approximately 88 per cent. of the total issued Ordinary Shares immediately following Admission.

#### **7. Withdrawal rights**

If the Company is required to publish any supplementary prospectus, applicants who have applied for Ordinary Shares in the Offer shall have at least two clear business days following the publication of the relevant supplementary prospectus within which to withdraw their application to acquire Ordinary Shares in the Offer in its entirety. The right to withdraw an application to acquire Ordinary Shares in the Offer in these circumstances will be available to all investors in the Offer. If the application is not withdrawn within the stipulated period, any application to apply for Ordinary Shares in the Offer will remain valid and binding.

Details of how to withdraw an application will be made available if a supplementary prospectus is published.

#### **8. Allocations under the Offer**

Allocations under the Offer will be determined jointly by the Company, the Major Shareholder and the Global Coordinators.

Upon notification of any allocation, prospective investors will be contractually committed to acquire the number of Ordinary Shares allocated to them at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed not to exercise any rights to rescind or terminate, or otherwise withdraw from such commitment. Dealing may not begin before such notification is made.

#### **9. Underwriting arrangements**

The Company (for itself and as agent for and on behalf of the Management Selling Shareholders, the Other Employee Shareholders and Sir Brian Ivory CBE pursuant to the Sale Elections), the Directors, the Investor Selling Shareholders and the Banks have entered into the Underwriting Agreement pursuant to which, on the terms and subject to certain conditions contained therein (which are customary in agreements of this nature), the Banks have severally agreed to underwrite a proportion

of, and together to underwrite all of, the issue and sale of the Offer Shares available under the Offer, before any exercise of the Over-allotment Option.

The Offer is subject to the satisfaction of conditions, including completion of the Corporate Reorganisation, Admission becoming effective by not later than 8.00 a.m. on 8 April 2015 (or such later time or date (not later than 8.00 a.m. on 15 April 2015) as the Global Coordinators may agree) and the Underwriting Agreement becoming unconditional in all respects and not having been terminated prior to Admission. The underwriting commitment of the Banks in respect of the Offer Shares will cease to be conditional at the point of Admission. If the conditions to the Underwriting Agreement have not been satisfied, or if the Banks otherwise cease to underwrite the Offer in accordance with the terms of the Underwriting Agreement, Admission will not occur. If the conditions are not satisfied or waived (if capable of being waived) or any termination right is exercised, the Offer will lapse, the Company will not seek Admission and any monies received in the respect of the Offer will be returned to applicants without interest.

The Underwriting Agreement provides for the Banks to be paid certain commissions by the Company and the Investor Selling Shareholders in respect of the Offer Shares issued by the Company and sold by the Investor Selling Shareholders, and by the Major Shareholder in respect of any Over-allotment Shares transferred by the Major Shareholder upon the Stabilising Manager exercising the Over-allotment Option. Any commissions received by the Banks may be retained and any Ordinary Shares acquired by them may be retained or dealt in, by them, for their own benefit. Under the terms and conditions of the Underwriting Agreement, the Joint Sponsors have agreed to provide certain assistance to the Company in connection with Admission.

Allocations under the Offer will be determined jointly by the Company, the Major Shareholder and the Global Coordinators. All Offer Shares issued and sold pursuant to the Offer (including any Over-allotment Shares transferred pursuant to the Over-allotment Option) will be issued and sold at the Offer Price. Liability for UK stamp duty and SDRT is described in Part XVIII (*Taxation*).

Further details of the terms of the Underwriting Agreement are set out in paragraph 19.1 of Part XIX (*Additional Information*).

## **10. Lock-up arrangements**

Each of the Company, the Directors, the Senior Managers and the other Selling Shareholders has agreed to certain lock-up arrangements.

Pursuant to the Underwriting Agreement, the Company has agreed with the Banks that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, directly or indirectly, without the prior written consent of the Global Coordinators, issue, lend, offer, sell or contract to sell, issue options in respect of or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction (including through derivatives) with the same economic effect as, or agree to do, any of the foregoing.

Pursuant to the Underwriting Agreement, each of the Directors has agreed with the Banks that, subject to certain exceptions, he or she will not, directly or indirectly, without the prior written consent of the Global Coordinators, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing:

- (A) during the period to and including the first anniversary of Admission, with this restriction applying in respect of such Director's entire holding of Ordinary Shares following Admission;
- (B) during the period from the first anniversary of Admission to and including the second anniversary of Admission, with this restriction applying in respect of two thirds of such Director's holding of Ordinary Shares following Admission; and

(C) during the period from the second anniversary of Admission to and including the third anniversary of Admission, with this restriction applying in respect of one third of such Director's holding of Ordinary Shares following Admission.

If a Non-Executive Director ceases to be a Director then, in certain circumstances, the restrictions described above will cease to apply 12 months later.

Each of the Directors who has an interest in Ordinary Shares has also agreed, separately from the Underwriting Agreement, to be bound by a lock-up on the same terms in favour of the Major Shareholder (for as long as the Major Shareholder has an interest in Ordinary Shares) and the Company.

Pursuant to the Underwriting Agreement, each of the Investor Selling Shareholders has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Global Coordinators, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.

Each of Drake Recoveries S.A.R.L. and Cabot Square Capital Nominee Limited has agreed, separately from the Underwriting Agreement, to be bound by a lock-up in favour of the Major Shareholder on the same terms as the undertaking given by the Investor Selling Shareholders as described above, save that such lock-up will only apply to their interest in Ordinary Shares immediately prior to Admission and will apply, subject to certain exceptions, for a period of approximately one year from Admission.

Pursuant to the Sale Elections (or separate undertakings), the Senior Managers has agreed that, subject to certain exceptions, he or she will not, without each of the prior written consent of the Global Coordinators, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing:

- (A) during the period to and including the first anniversary of Admission, with this restriction applying in respect of such Senior Manager's entire holding of Ordinary Shares following Admission;
- (B) during the period from the first anniversary of Admission to and including the second anniversary of Admission, with this restriction applying in respect of two thirds of such Senior Manager's holding of Ordinary Shares following Admission; and
- (C) during the period from the second anniversary of Admission to and including the third anniversary of Admission, with this restriction applying in respect of one third of such Senior Manager's holding of Ordinary Shares following Admission.

Each of the Senior Managers has also agreed, separately from the Underwriting Agreement, to be bound by a lock-up on the same terms in favour of the Company and (for as long as the Major Shareholder has an interest in Ordinary Shares) the Major Shareholder.

Pursuant to the Sale Elections (or separate undertakings), each of the Other Employee Shareholders has agreed that, subject to certain exceptions, he or she will not, without the prior written consent of the Company, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing:

- (A) during the period to and including the first anniversary of Admission, with this restriction applying in respect of such Other Employee Shareholder's entire holding of Ordinary Shares following Admission;
- (B) during the period from the first anniversary of Admission to and including the second anniversary of Admission, with this restriction applying in respect of two thirds of such Other Employee Shareholder's holding of Ordinary Shares following Admission; and
- (C) during the period from the second anniversary of Admission to and including the third anniversary of Admission, with this restriction applying in respect of one third of such Other Employee Shareholder's holding of Ordinary Shares following Admission.

Each of the Other Employee Shareholders has also agreed, separately from the Underwriting Agreement, to be bound by a lock-up on the same terms in favour of the Major Shareholder (for as long as the Major Shareholder has an interest in Ordinary Shares).

Sir Brian Ivory CBE has agreed that, subject to certain exceptions, during the period of 12 months from the date of Admission, he will not, directly or indirectly, without the prior written consent of the Global Coordinators, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.

For details of the interests in the Company held by the Directors and the Selling Shareholders immediately prior to and immediately following Admission, please refer to paragraph 8 of Part XIX (*Additional Information*).

## **11. Stabilisation and over-allotment**

In connection with the Offer, the Stabilising Manager, or any of its agents or affiliates, may (but will be under no obligation to), to the extent permitted by applicable laws, over-allot Ordinary Shares and effect other transactions to maintain the market price of the Ordinary Shares at a level other than that which might otherwise prevail in the open market.

The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period from the date of the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents or affiliates to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken with the intention of stabilising the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents or affiliates intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

In connection with the Offer, the Stabilising Manager may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 15 per cent. of the total number of Ordinary Shares comprised in the Offer. The Stabilising Manager has entered into the Over-allotment Option with the Major Shareholder pursuant to which the Stabilising Manager may require the Major Shareholder to transfer at the Offer Price additional Ordinary Shares representing up to 15 per cent. of the total number of Ordinary Shares comprised in the Offer, to allow it to cover short positions arising from over-allotments and/or stabilising transactions. The Over-allotment Option may be exercised in whole or in part, upon notice by the Stabilising Manager, at any time during the period from the date of the commencement of conditional dealings of Ordinary Shares on the London Stock Exchange and ending 30 calendar days thereafter. The Over-allotment Shares made available pursuant to the Over-allotment Option will be sold on the same terms and conditions as, and will rank equally with, the other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares after Admission and will form a single class for all purposes with the other Ordinary Shares.

Liability for UK stamp duty and SDRT on transfers of Existing Ordinary Shares pursuant to the Over-allotment Option is described in Part XVIII (*Taxation*).

Following allocation of the Ordinary Shares pursuant to the Offer, the Stabilising Manager may seek to agree the terms of deferred settlement with certain investors who have been allocated Ordinary Shares pursuant to the terms of the Offer. No fees will be payable to such investors.

## **12. Stock Lending Agreement**

In connection with settlement and stabilisation, Goldman Sachs International, as Stabilising Manager, has entered into the Stock Lending Agreement with the Major Shareholder pursuant to which the

Stabilising Manager will be able to borrow from the Major Shareholder a number of Ordinary Shares equal in aggregate to up to 5 per cent. of the total number of Ordinary Shares comprised in the Offer for the purpose, among other things, of allowing the Stabilising Manager to settle over-allotments, if any, made in connection with the Offer. If the Stabilising Manager borrows any Ordinary Shares pursuant to the Stock Lending Agreement, it will be obliged to return equivalent shares to the Major Shareholder in accordance with the terms of the Stock Lending Agreement.

### **13. Dealing arrangements**

Application will be made to the FCA, in its capacity as the UK Listing Authority, for all of the Ordinary Shares to be admitted to the Premium Listing segment of the Official List and application will be made to the London Stock Exchange for those Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission to the Official List will become effective and that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. on 1 April 2015. The earliest date for settlement of such dealings will be 8 April 2015. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange at 8.00 a.m. on 8 April 2015. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a "when-issued basis", will be of no effect if Admission does not take place, and will be at the sole risk of the parties concerned. The above-mentioned dates and times may be changed without further notice.

Each investor will be required to undertake to pay the Offer Price for the Ordinary Shares sold to such investor in such manner as shall be directed by the Global Coordinators. Pricing information and other related disclosures will be published on the Website on 1 April 2015.

It is intended that, where applicable, definitive share certificates in respect of the Offer will be distributed from 8 April 2015 or as soon thereafter as is practicable, although it is expected that Ordinary Shares allocated in the Offer will normally be delivered in uncertificated form. Temporary documents of title will not be issued. Dealings in advance of crediting of the relevant CREST stock account(s) shall be at the sole risk of the persons concerned.

Following Admission, the Ordinary Shares held by the Directors, the Major Shareholder and the other Selling Shareholders will be subject to the lock-up arrangements as described in paragraph 10 above.

### **14. CREST**

CREST is a paperless settlement system enabling securities to be transferred from one person's CREST account to another's without the need to use share certificates or written instruments of transfer. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission and, also with effect from Admission, the Articles will permit the holding of Ordinary Shares under the CREST system. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

### **15. Conditionality of the Offer**

The Offer is subject to the satisfaction of conditions which are customary for transactions of this type, including Admission becoming effective by no later than 8.00 a.m. on 8 April 2015 (or such later time or date (not later than 8.00 a.m. on 15 April 2015) as the Global Coordinators may agree) and the Underwriting Agreement becoming unconditional in respect of the underwriting of the Offer Shares and not having been terminated prior to Admission. See Part XIX (*Additional Information*) for further details about the underwriting arrangements.

The Company expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Offer. If such right is exercised, the Offer (and the arrangements associated with it) will lapse and any monies received in respect of the Offer will be returned to applicants without interest.

### **16. Selling and transfer restrictions**

The distribution of this Prospectus and the offering, issue and onsale of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions, including those in the

paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Ordinary Shares, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer of the Offer Shares contained in this Prospectus. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or purchase any of the Offer Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

### **16.1 European Economic Area**

In relation to each Relevant Member State, an offer to the public of any Ordinary Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Ordinary Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (A) to any legal entity which is a qualified investor as defined under the Prospectus Directive;
- (B) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State; or
- (C) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the Company or any of the Banks to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplemental prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Ordinary Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with the relevant Bank and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Ordinary Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offer and any Ordinary Shares to be offered so as to enable an investor to decide to purchase any Ordinary Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

### **16.2 United States of America**

This Prospectus is not a public offering (within the meaning of the US Securities Act) of securities in the United States. The Ordinary Shares have not been, and will not be, registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Banks may offer Ordinary Shares (i) in the United States only through their US registered broker affiliates to persons reasonably believed to be QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or (ii) outside the United States in offshore transactions in reliance on Regulation S.

In addition, until 40 days after the commencement of the Offer, any offer or sale of Ordinary Shares within the United States by any dealer (whether or not participating in the Offer) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another available exemption from registration under the US Securities Act.

Each purchaser of Ordinary Shares within the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that it has received a copy of this

Prospectus and such other information as it deems necessary to make an investment decision and that:

- (A) the purchaser is, and at the time of its purchase of any Offer Shares will be, a QIB within the meaning of Rule 144A;
- (B) the purchaser understands and acknowledges that the Offer Shares have not been, and will not be, registered under the Securities Act, that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the US Securities Act provided by Rule 144A thereunder, and that the Offer Shares may not be offered or sold, directly or indirectly, in the United States, other than in accordance with paragraph D below;
- (C) the purchaser is purchasing the Offer Shares (i) for its own account, or (ii) for the account of one or more other QIBs for which it is acting as duly authorised fiduciary or agent with sole investment discretion with respect to each such account and with full authority to make the acknowledgements, representations and agreements herein with respect to each such account (in which case it hereby makes such acknowledgements, representations and agreements on behalf of such QIBs as well), in each case for investment and not with a view to any resale or distribution of any such shares;
- (D) the purchaser understands and agrees that offers and sales of the Offer Shares are being made in the United States only to QIBs in transactions not involving a public offering or which are exempt from the registration requirements of the US Securities Act, and that if in the future it or any such other QIB for which it is acting, as described in paragraph C above, or any other fiduciary or agent representing such investor decides to offer, sell, deliver, hypothecate or otherwise transfer any Offer Shares, it or any such other QIB and any such fiduciary or agent will do so only (i) pursuant to an effective registration statement under the US Securities Act, (ii) to a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in an “offshore transaction” pursuant to Rule 903 or Rule 904 of Regulation S (and not in a pre-arranged transaction resulting in the resale of such Offer Shares into the United States) or (iv) in accordance with Rule 144 under the US Securities Act and, in each case, in accordance with any applicable securities laws of any state or territory of the United States and of any other jurisdiction. The purchaser understands that no representation can be made as to the availability of the exemption provided by Rule 144 under the US Securities Act for the resale of the Offer Shares;
- (E) the purchaser understands that for so long as the Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, no such shares may be deposited into any American depository receipt facility established or maintained by a depository bank, other than a restricted depository receipt facility, and that such shares will not settle or trade through the facilities of DTCC or any other US clearing system;
- (F) the purchaser has received a copy of this Prospectus and has had access to such financial and other information concerning the Company as it deems necessary in connection with making its own investment decision to purchase shares. The purchaser acknowledges that none of the Company and the Banks or any of their respective representatives has made any representations to it with respect to the Company or the allocation, offering or sale of any shares other than as set forth in this Prospectus, which has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Offer Shares. The purchaser also acknowledges that it has made its own assessment regarding the US federal tax consequences of an investment in the Offer Shares. The purchaser has held and will hold any offering materials, including this Prospectus, it receives directly or indirectly from the Company in confidence, and it understands that any such information received by it is solely for it and not to be redistributed or duplicated by it;
- (G) the purchaser understands that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Banks and their affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements;
- (H) the purchaser undertakes promptly to notify the Company and the Banks if, at any time prior to the purchase of the Offer Shares, any of the foregoing ceases to be true; and
- (I) the purchaser understands that the Offer Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THE ORDINARY SHARES REPRESENTED HEREBY HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON THAT THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THE ORDINARY SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE ORDINARY SHARES REPRESENTED HEREBY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITORY RECEIPT FACILITY IN RESPECT OF THE ORDINARY SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITORY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF ORDINARY SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

#### AVAILABLE INFORMATION

The Company has agreed that, for so long as any Ordinary Shares are “restricted securities” as defined in Rule 144(a)(3) under the US Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the US Securities Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered pursuant to Rule 144A(d)(4) under the US Securities Act. The Directors expect that the Company will be exempt from the reporting requirements of the US Securities Exchange Act pursuant to Rule 12g3-2(b) thereunder.

#### 16.3 Australia

This document (i) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia (“**Corporations Act**”); (ii) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act; (iii) has not been, nor will it be, lodged as a disclosure document with the ASIC, the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (iv) may not be provided in Australia other than to select investors who are able to demonstrate that they (A) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act and (B) are “wholesale customers” for the purpose of section 761G of the Corporations Act.

The Ordinary Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the Ordinary Shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any Ordinary Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Ordinary Shares, each subscriber for, or purchaser of, Ordinary Shares represents and warrants to the Company, the Selling Shareholders, the Banks and their affiliates that such subscriber or purchaser is an Exempt Investor.

As any offer of Ordinary Shares under this document, any supplement or the accompanying prospectus or other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those Ordinary Shares for resale in Australia within 12 months may, under the Corporations Act, require disclosure to investors if none of the exemptions in the

Corporations Act applies to that resale. By applying for the Ordinary Shares each subscriber or purchaser of Ordinary Shares undertakes to the Company, the Selling Shareholders, the Banks and their affiliates that such subscriber or purchaser will not, for a period of 12 months from the date of issue or purchase of the Ordinary Shares, offer, transfer, assign or otherwise alienate those Ordinary Shares to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

#### **16.4 Canada**

The offer and sale of the Ordinary Shares in Canada will only be made in the Provinces of Ontario and Québec or to residents thereof and not in, or to the residents of, any other Province or Territory of Canada. Such offers and sales will be made only pursuant to a Canadian Offering Memorandum consisting of this Prospectus accompanied by a Canadian supplement.

#### **16.5 Japan**

The Ordinary Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the “**FIEL**”). This document is not an offer of securities for sales directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

#### **16.6 DIFC**

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“**DFSA**”). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The Ordinary Shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Ordinary Shares offered should conduct their own due diligence on the Ordinary Shares. If you do not understand the contents of this prospectus, you should consult an authorised financial adviser.

#### **16.7 Switzerland**

The Ordinary Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“**SIX**”) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Ordinary Shares or to the Offer may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company, or the Ordinary Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Ordinary Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (“**FINMA**”), and the offer of Ordinary Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (“**CISA**”). The investor protection afforded to acquirers of interests in collection investment schemes under CISA does not extend to acquirers of Ordinary Shares.

The Company, the Banks and their affiliates and others will rely on the truth and accuracy of the foregoing acknowledgements, representations and agreements.

## 16.8 South Africa

Due to restrictions under the securities laws of South Africa, the Ordinary Shares are not offered, and the Offer shall not be transferred, sold, made renounced or delivered, in South Africa or to a person with an address in South Africa, unless one or other of the following exemptions applies: (i) the offer, transfer, sale, renunciation or delivery is to persons falling within the exemptions set out in Section 96 1(a) of the Companies Act, No. 71 of 2008 (as amended) (the “**Companies Act**”), including duly registered banks, mutual banks, financial services providers, financial institutions, (in each case registered as such in South Africa under applicable legislation), the Public Investment Corporation, a person who deals with securities in their ordinary course of business, or a wholly owned subsidiary of a duly registered bank, mutual bank, authorised financial services provider or financial institution, acting as agent in the capacity of an authorised portfolio manager for a pension fund (duly registered in South Africa), or as manager for a collective investment scheme (duly registered in South Africa); or (ii) the contemplated acquisition cost of the Shares, for any single addressee acting as principal is equal to or greater than R1,000,000.

This Offer does not constitute an offer for the sale of or subscription for, or the solicitation of an offer to buy and subscribe for, shares to the public as defined in the Companies Act and will not be distributed to any person in South Africa in any manner which could be construed as an offer to the public in terms of the Companies Act and should any person who does not fall into any of the above exemptions receive this prospectus they should not and will not be entitled to acquire any Ordinary Shares or otherwise act thereon. This prospectus does not, nor is it intended to, constitute a prospectus prepared and registered under the Companies Act.

## 16.9 Hong Kong

The Ordinary Shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and no advertisement, invitation or document relating to the Ordinary Shares, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong), other than with respect to Ordinary Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance has been or will be issued, whether in Hong Kong or elsewhere.

## 16.10 Singapore

This prospectus has not been registered with the Monetary Authority of Singapore. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal or regulatory authorities of, Singapore, and no action has been or will be taken to lodge and/or register this prospectus in Singapore for the purposes of permitting a public offering of the Ordinary Shares and the public distribution of this prospectus in Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Ordinary Shares may not be circulated or distributed, nor may Ordinary Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “**SFA**”), (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any applicable provision of the SFA.

The Ordinary Shares are subscribed or purchased under Section 275 by a relevant person which is:

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

- (B) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,
- (C) the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust will not be transferred within 6 months after that corporation or that trust has acquired the Ordinary Shares pursuant to an offer made under Section 275 except:
  - (i) to an institutional investor (for corporations under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
  - (ii) where no consideration is or will be given for the transfer; or
  - (iii) where the transfer is by operation of law.

#### **16.11 United Arab Emirates**

The Banks have represented and agreed that the Ordinary Shares have not been and will not be offered, sold or publicly promoted or advertised by them in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

## PART XVIII – TAXATION

### 1. UK taxation

The following statements are intended only as a general guide to certain UK tax considerations relevant to prospective investors in the Ordinary Shares. They do not purport to be a complete analysis of all potential UK tax consequences of acquiring, holding or disposing of Ordinary Shares. They are based on current UK tax law and the current published practice (which may not be binding) of HMRC as at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. They relate only to Shareholders who are resident (and, in the case of individuals, domiciled) for tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold their Ordinary Shares as an investment (other than under an individual savings account) and who are the absolute beneficial owners of both the Ordinary Shares and any dividends paid on them. The tax position of certain categories of Shareholders who are subject to special rules, such as persons who acquire (or are deemed to acquire) their Ordinary Shares in connection with an office or their (or another person's) employment, traders, brokers, dealers in securities, insurance companies, banks, financial institutions, investment companies, tax-exempt organisations, persons connected with the Company or the Group, persons holding Ordinary Shares as part of hedging or conversion transactions, Shareholders who are not domiciled in the UK, collective investment schemes and those who hold 5 per cent. or more of the Ordinary Shares, is not considered. Nor do the following statements consider the tax position of any person holding investments in any HMRC-approved arrangements or schemes, including the enterprise investment scheme, venture capital scheme or business expansion scheme or any person, able to claim any inheritance tax relief or holding Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or, in the case of a corporate Shareholder, a permanent establishment or otherwise).

**Prospective investors who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK are strongly recommended to consult their own professional advisers.**

#### 1.2 Taxation of dividends

##### 1.2.1 Withholding taxes

The Company will not be required to withhold UK tax at source from dividend payments it makes to Shareholders.

##### 1.2.2 Individuals

An individual Shareholder who is resident for tax purposes in the UK and who receives a cash dividend from the Company will generally be entitled to a tax credit equal to one-ninth of the amount of the cash dividend received, which tax credit will be equivalent to 10 per cent. of the aggregate of the dividend received and the tax credit (the gross dividend). Such an individual shareholder will be subject to income tax on the gross dividend. An individual UK resident Shareholder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross dividend at the rate of 10 per cent., so that the tax credit will satisfy the income tax liability of such a Shareholder in full. Where the tax credit exceeds the Shareholder's tax liability, the Shareholder cannot claim repayment of the tax credit from HMRC.

An individual UK resident Shareholder who is subject to income tax at the higher rate will be liable to income tax on the gross dividend at the rate of 32.5 per cent. to the extent that such sum, when treated as the top slice of that Shareholder's income, exceeds the threshold for higher rate income tax. After setting the 10 per cent. tax credit against part of the Shareholder's liability, a higher rate tax payer will therefore be liable to account for tax equal to 22.5 per cent. of the gross dividend (or 25 per cent. of the net cash dividend), to the extent that the gross dividend exceeds the threshold for the higher rate.

An individual UK resident Shareholder liable to income tax at the additional rate will be subject to income tax on the gross dividend at the rate of 37.5 per cent. of the gross dividend, but will be able to set the UK tax credit off against part of this liability. The effect of this set-off of the UK tax credit is that

such a Shareholder will be liable to account for additional tax equal to 27.5 per cent. of the gross dividend (or approximately 30.6 per cent. of the net cash dividend) to the extent that the gross dividend exceeds the threshold for the additional rate.

### **1.2.3 Companies**

Shareholders within the charge to UK corporation tax which are “small companies” for the purposes of Chapter 2 of Part 9A of the Corporation Tax Act 2009 will not be subject to UK corporation tax on any dividend received from the Company, provided certain conditions are met (including an anti-avoidance condition).

Other Shareholders within the charge to UK corporation tax will not be subject to UK corporation tax on dividends received from the Company so long as the dividends fall within an exempt class and certain conditions are met. For example, dividends paid on shares that are “ordinary shares” and are not “redeemable” (as those terms are used in Chapter 3 of Part 9A of the Corporation Tax Act 2009), and dividends paid to a person holding less than 10 per cent. of the issued share capital of the Company, should generally fall within an exempt class. However, the exemptions are not comprehensive and are subject to anti-avoidance rules.

If the conditions for exemption are not met or cease to be satisfied, or such a Shareholder elects for an otherwise exempt dividend to be taxable, the Shareholder will be subject to UK corporation tax on dividends received from the Company, at the rate of corporation tax applicable to that Shareholder (currently 20 per cent. for companies paying the full rate of corporation tax).

### **1.2.4 No payment of tax credit**

Individual UK resident Shareholders who are not liable to UK income tax in respect of the gross dividends, and other UK resident tax payers who are not liable to UK tax on dividends, including UK pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to any dividends paid by the Company.

### **1.2.5 Non-UK resident Shareholders**

Shareholders who are resident outside the UK for tax purposes will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends received from the Company, although this will depend on the existence and terms of any double taxation convention between the UK and the country in which such Shareholder is resident.

Where a non-UK resident Shareholder carries on a trade, profession or vocation in the UK and the dividends are a receipt of that trade or, in the case of corporation tax, the Ordinary Shares are held by or for a UK permanent establishment through which a trade is carried on, the Shareholder may be liable to UK tax on dividends paid by the Company. In such cases, there will be no entitlement to repayment of the tax credit attaching to the dividends. Such Shareholders should consult their own tax advisers regarding their tax position.

A Shareholder resident outside the UK may also be subject to taxation on dividend income under local law. A Shareholder who is not solely resident in the UK for tax purposes should consult his own tax advisers concerning his tax liabilities (in the UK and any other country) on dividends received from the Company, whether he is entitled to claim any part of the tax credit and, if so, the procedure for doing so, and whether any double taxation relief is due in any country in which he is subject to tax.

#### ***Taxation of disposals***

##### **(a) General**

A disposal or deemed disposal of Ordinary Shares by a Shareholder who is (at any time in the relevant UK tax year) resident in the UK for tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains, depending upon the Shareholder’s circumstances and subject to any available exemption or relief.

(b) UK resident individual Shareholders

For an individual Shareholder within the charge to UK capital gains tax, a disposal (or deemed disposal) of Ordinary Shares may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. The rate of capital gains tax is 18 per cent. for individuals who are subject to income tax at the basic rate and 28 per cent. for individuals who are subject to income tax at the higher or additional rate. An individual Shareholder is entitled to realise an exempt amount of gains (currently £11,000) in each tax year without being liable to tax.

(c) UK resident corporate Shareholders

For a corporate Shareholder within the charge to UK corporation tax, a disposal (or deemed disposal) of Ordinary Shares may give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax. An indexation allowance on the cost of acquiring the Ordinary Shares may be available to reduce the amount of the chargeable gain which would otherwise arise on the disposal. Corporation tax is charged on chargeable gains at the rate applicable to the relevant company.

(d) Non-UK resident Shareholders

A Shareholder (individual or corporate) who is not resident in the UK for tax purposes is generally not subject to UK capital gains tax.

However, if such a Shareholder carries on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a non-UK resident corporate Shareholder, a permanent establishment) to which the Ordinary Shares are attributable, the Shareholder will be subject to the same rules that apply to UK resident Shareholders.

An individual who has been resident in the UK and then ceases to be resident in the UK only temporarily may, in certain circumstances, be subject to tax in respect of gains realised while he is not resident in the UK.

### **1.3 Inheritance tax**

The Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by an individual Shareholder, or the death of an individual Shareholder, may therefore give rise to a liability to UK inheritance tax, depending upon the Shareholder's circumstances and subject to any available exemption or relief. A transfer of Ordinary Shares at less than market value may be treated for inheritance tax purposes as a gift of the Ordinary Shares. Special rules apply to close companies and to trustees of settlements who hold Ordinary Shares, which rules may bring them within the charge to inheritance tax. The inheritance tax rules are complex and Shareholders should consult an appropriate professional adviser in any case where those rules may be relevant, particularly in (but not limited to) cases where Shareholders intend to make a gift of Ordinary Shares, to transfer Ordinary Shares at less than market value or to hold Ordinary Shares through a company or trust arrangement.

### **1.4 Stamp duty and stamp duty reserve tax**

The following statements are intended as a general guide to the current UK stamp duty and SDRT position for holders of Ordinary Shares. Certain categories of persons, including intermediaries, brokers, dealers and persons connected with depositary receipt systems and clearance services, may not be liable to stamp duty or SDRT or may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

The comments in this section relating to stamp duty and SDRT apply whether or not a Shareholder is resident in the UK.

#### **1.4.1 The Offer**

Except in relation to depositary and clearance services (to which special rules apply, as described in paragraph 1.4.4 below), no UK stamp duty or SDRT will arise on the issue of Ordinary Shares by the Company.

The sale of existing Ordinary Shares by the Major Shareholder pursuant to the Offer and the sale of Over-allotment Shares will generally give rise to a liability to stamp duty and/or SDRT at a rate of 0.5 per cent. of the Offer Price (in the case of stamp duty, rounded up to the nearest multiple of £5). In practice, only one of either stamp duty or SDRT would be paid (see paragraph 1.4.2 below which applies equally to sales pursuant to the Offer as to subsequent transfers).

If, in connection with the Offer or the over-allotment of Ordinary Shares, Ordinary Shares are transferred into a clearance service or a depositary receipt system, a liability to stamp duty or SDRT may be payable at the rate of 1.5 per cent. of the Offer Price, as discussed further in paragraph 1.4.4 below. As provided for and subject to the terms of the Underwriting Agreement, further details of which are set out in paragraph 18.1 of Part XIX (*Additional Information*) of this Prospectus, stamp duty or SDRT liabilities which arise in respect of the transfer of Ordinary Shares to persons acquiring Ordinary Shares pursuant to the Offer or the over-allotment of Ordinary Shares are generally to be discharged by the Major Shareholder or the Company.

#### **1.4.2 Subsequent transfers**

Stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the amount or value of the consideration given is generally payable on an instrument transferring Ordinary Shares. An exemption from stamp duty is available on an instrument transferring Ordinary Shares where the amount or value of the consideration is £1,000 or less and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000.

A charge to SDRT will also generally arise on an unconditional agreement to transfer Ordinary Shares (at the rate of 0.5 per cent. of the amount or value of the consideration payable). However, if within six years of the date of the agreement (or, if the agreement is conditional, the date on which it becomes unconditional) an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument, any SDRT already paid will generally be refunded, provided that a claim for payment is made, and any outstanding liability to SDRT will be cancelled. The purchaser or transferee of the Ordinary Shares will generally be responsible for paying such stamp duty or SDRT.

#### **1.4.3 Ordinary Shares held through CREST**

Paperless transfers of Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Under the CREST system, generally no stamp duty or SDRT will arise on a deposit of Ordinary Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise, usually at a rate of 0.5 per cent. of the amount or value of the consideration for the Ordinary Shares.

#### **1.4.4 Depositary receipt systems and clearance services**

Under current UK legislation, where Ordinary Shares are issued or transferred (i) to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares (rounded up to the next multiple of £5 in the case of stamp duty).

There is an exception from the 1.5 per cent. charge on the issue or transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an appropriate election which has been approved by HMRC. In these circumstances, the normal rates of stamp duty and SDRT (rather than the higher rate regime referred to above) will generally apply to any issue or transfer of Ordinary Shares into the clearance service and to any transactions in Ordinary Shares held within the clearance service.

Any liability for stamp duty or SDRT in respect of an issue or transfer into a clearance service or depository receipt system, or in respect of a transfer of Ordinary Shares held within such a service or system, will strictly be payable by the operator of the clearance service or depository receipt system or its nominee or agent, as the case may be, but in practice will generally be reimbursed by participants in the clearance service or depository receipt system.

However, following recent judicial decisions, HMRC has confirmed that it will no longer seek to apply the 1.5 per cent. SDRT charge when shares are first issued into a clearance service or depository receipt system. The application of the 1.5 per cent. charge may also be affected in other circumstances. Accordingly, specific professional advice should be sought before paying the 1.5 per cent. stamp duty or SDRT charge in any circumstances.

### **1.5 Close company**

It is likely that the Company and each member of the Group is a “close company” within the meaning of Part 10 of the Corporation Tax Act 2010 as at the date of this Prospectus and will continue to be so following the Offer. As a result, certain transactions entered into by the Company or other members of the Group may have tax implications for Shareholders. In particular, certain gifts, transfers of assets at less than market value or other transfers of value by the Company or other members of the Group may be apportioned to Shareholders for the purposes of UK inheritance tax, although the payment of a dividend to a Shareholder or the payment of dividends or transfers of assets between members of the Group will not normally attract such an apportionment. Any charge to UK inheritance tax arising from such a transaction will primarily be a liability of the relevant company, although in certain circumstances Shareholders may be liable for the tax if it is left unpaid by that company. In addition, any transfer of assets at less than market value by the Company or other members of the Group may result in a reduction of a Shareholder’s base cost in his Ordinary Shares for the purposes of UK taxation of capital gains, although transfers of assets between members of the Group will not normally attract such treatment. Shareholders should consult their own professional advisers on the potential impact of the close company rules.

## **2. Certain US federal income tax consequences**

The following is a summary of certain material US federal income tax consequences to US Holders of the acquisition, ownership and disposition of Ordinary Shares. This summary is based on the US Internal Revenue Code, Treasury Regulations, administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect, as well as on the US/UK Income Tax Treaty.

This summary does not discuss all aspects of US federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) traders or dealers in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organisations; (vii) entities that are treated as partnerships, or pass-through entities for US income tax purposes, or persons that hold Ordinary Shares through such entities; (viii) holders that own (directly, indirectly or constructively) 10 per cent. or more of the voting stock of the Company; (ix) investors that hold Ordinary Shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for US federal income tax purposes; (x) US Holders that have a functional currency other than the US dollar; and (xi) US expatriates and former long-term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarised below. This summary does not address US federal estate, gift or alternative minimum tax considerations, or non-US, state or local tax considerations. This summary only addresses investors that will acquire Ordinary Shares in the Offer, and it assumes that investors will hold their Ordinary Shares as capital assets (generally, property held for investment).

For the purposes of this summary, a “**US Holder**” is a beneficial owner of Ordinary Shares that is (i) an individual who is a citizen or resident of the United States as determined for US federal income tax purposes, (ii) a corporation created in, or organised under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includable in gross income for US federal income tax purposes regardless of its source or (iv) a trust that is subject to US tax on its worldwide income regardless of its source.

If a partnership holds Ordinary Shares, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Any such partner or partnership should consult its tax advisers as to the US federal income tax consequences to it of the acquisition, ownership and disposition of Ordinary Shares.

The following discussion is for general information only and is not intended to be, nor should it be construed to be, legal or tax advice to any holder or prospective holder of Ordinary Shares and no opinion or representation with respect to the US federal income tax consequences to any such holder or prospective holder is made. Prospective purchasers are urged to consult their tax advisers as to the particular consequences to them under US federal, state and local, and applicable non-US, tax laws of the acquisition, ownership and disposition of Ordinary Shares.

## **2.1 Distributions**

Subject to the passive foreign investment company (“PFIC”) rules discussed below, a distribution made by the Company on the Ordinary Shares generally will be treated as a dividend includable in the gross income of a US Holder as ordinary income to the extent of the Company’s current and accumulated earnings and profits as determined under US federal income tax principles. To the extent that the amount of such distribution exceeds the Company’s current and accumulated earnings and profits as so computed, the distribution will be treated first as a non-taxable return of capital to the extent of such US Holder’s adjusted tax basis in the Ordinary Shares and, to the extent that the amount of such distribution exceeds such adjusted tax basis, will be treated as gain from the sale of such shares. The Company does not expect to maintain calculations of earnings and profits for US federal income tax purposes. Therefore, a US Holder should expect that any distribution will generally be treated as a dividend. Such dividend will not be eligible for the dividends received deduction allowed to corporations. “Qualified dividend income” received by individuals and certain other non-corporate US Holders is subject to reduced rates applicable to long-term capital gain if (i) the Company is a “qualified foreign corporation” (as defined below) and (ii) certain holding period requirements are met. The Company generally will be a “qualified foreign corporation” if (i) it is eligible for the benefits of the US/UK Income Tax Treaty and (ii) it is not a PFIC in the taxable year of the distribution or the immediately preceding taxable year. The Directors believe that the Company will be eligible for the benefits of the US/UK Income Tax Treaty. In addition, as discussed below under “Passive Foreign Investment Company Rules”, the Company does not believe it was a PFIC for the taxable year ending 31 December 2014 and does not expect to be a PFIC for the current year or for any future years.

Dividends on the Ordinary Shares generally will constitute income from sources outside the United States for foreign tax credit limitation purposes. The amount of any distribution of property other than cash will be the fair market value of the property on the date of the distribution.

The US dollar value of any distribution made by the Company in non-US currency must be calculated by reference to the exchange rate in effect on the date of receipt of such distribution by the US Holder, regardless of whether the non-US currency is in fact converted into US dollars. If the non-US currency so received is converted into US dollars on the date of receipt, such US Holder generally will not recognise foreign currency gain or loss on such conversion. If the non-US currency so received is not converted into US dollars on the date of receipt, such US Holder will have a basis in the non-US currency equal to its US dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the non-US currency generally will be treated as ordinary income or loss to such US Holder and generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

## **2.2 Sale or other disposition**

Subject to the PFIC rules discussed below, a US Holder generally will recognise gain or loss for US federal income tax purposes upon a sale or other disposition of its Ordinary Shares in an amount equal to the difference between the amount realised from such sale or disposition and the US Holder’s adjusted tax basis in such Ordinary Shares. Such gain or loss generally will be capital gain or loss and will be long-term capital gain (taxable at a reduced rate for non-corporate US Holders, such as individuals) or loss if, on the date of sale or disposition, such Ordinary Shares were held by such US Holder for more than one year. The deductibility of capital loss is subject to significant limitations.

Gain or loss, if any, realised upon a sale, exchange or other taxable disposition of Ordinary Shares will be treated as having a United States source for US foreign tax credit limitation purposes. Consequently, a US Holder may not be able to use any foreign tax credits arising from any UK tax imposed on the sale, exchange or other taxable disposition of Ordinary Shares unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources or unless an applicable treaty provides otherwise.

If a US Holder receives any non-US currency on the sale of Ordinary Shares, it may recognize ordinary income or loss as a result of currency fluctuations between the date of the sale of Ordinary Shares and the date the sale proceeds are converted into US dollars.

### **2.3 Additional tax on investment income**

Certain US Holders who are individuals, estates or trusts and whose income exceeds certain thresholds generally will be required to pay an additional 3.8 per cent. tax on all or a portion of their "net investment income," which includes, among other things, dividends and capital gains from the sale or other disposition of Ordinary Shares, subject to certain limitations and exceptions. US Holders should consult their own tax advisers regarding the application of this additional tax to their investment in the Ordinary Shares.

### **2.4 Passive foreign investment company rules**

In general, a corporation organised or incorporated outside the United States is a PFIC in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (i) at least 75 per cent. of its gross income is classified as "passive income" or (ii) at least 50 per cent. of the average quarterly value attributable to its assets produce or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. Proposed Treasury Regulations provide that income derived in the active conduct of a banking business is not treated as passive income. The determination of whether income is derived in the active conduct of a banking business is based on the regulatory status of the issuer under local law and the activities of the issuer performed in the ordinary course of a banking business (including lending and accepting deposits).

Although not free from doubt, based in part on the proposed Treasury Regulations with respect to banks described above (which are not yet finalised), the Company believes that it was not a PFIC for the year ended 31 December 2014 and does not expect to become a PFIC for the current year or for any future taxable year. There can be no assurances, however, that the Company will not be considered to be a PFIC for any particular year because PFIC status is factual in nature, generally cannot be determined until the close of the taxable year in question, and is determined annually. Except as discussed below, if the Company is classified as a PFIC in any year that a US Holder is a Shareholder, the Company generally will continue to be treated as a PFIC for that US Holder in all succeeding years, regardless of whether the Company continues to meet the income or asset test described above. As discussed below, if the Company were a PFIC in any taxable year, materially adverse US federal income tax consequences could result for US Holders.

If a US Holder does not make a valid election as discussed below, and the Company is a PFIC for any taxable year during which such US Holder is a Shareholder, the US Holder will be subject to special tax rules with respect to any "excess distribution" received and any gain realised from a sale or other disposition (including a pledge) of Ordinary Shares. Distributions received in a taxable year that are greater than 125 per cent. of the average annual distributions received during the shorter of the three preceding taxable years or the US Holder's holding period for the Ordinary Shares will be treated as excess distributions. Under these special tax rules: (i) the excess distribution or gain will be allocated rateably over the US Holder's holding period for the Ordinary Shares; (ii) the amount allocated to the current taxable year and other years before the Company was a PFIC will be treated as ordinary income; and (iii) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and an interest charge (at the rate generally applicable to underpayments of tax for the period from such year to the current year) will be imposed on the resulting tax attributable to each such year.

A US Holder subject to the PFIC rules is currently required to file IRS Form 8621 with respect to its investment in the Ordinary Shares in the year such US Holder receives any distribution upon, or makes any disposition of, such shares.

## 2.5 Mark-to-market election

To mitigate the application of the PFIC rules discussed above, a US Holder may make an election to include gain or loss on the Ordinary Shares as ordinary income or loss under a mark-to-market method, provided that the Ordinary Shares are regularly traded on a qualified exchange. Application has been made for the Ordinary Shares to be admitted to the London Stock Exchange's main market for listed securities, which the Directors expect to be a qualified exchange.

No assurance can be given that the Ordinary Shares will be "regularly traded" for the purposes of the mark-to-market election. If a US Holder makes an effective mark-to-market election, the US Holder will include in each year as ordinary income the excess of the fair market value of its Ordinary Shares at the end of the year over its adjusted tax basis in the Ordinary Shares. The US Holder will be entitled to deduct as an ordinary loss each year the excess of its adjusted tax basis in the Ordinary Shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A US Holder's adjusted tax basis in the Ordinary Shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. In addition, gains from an actual sale or other disposition of Ordinary Shares will be treated as ordinary income, and any losses will be treated as ordinary losses to the extent of any mark-to-market gains for prior years.

US Holders considering the mark-to-market election should note that although it generally avoids the interest charge associated with PFICs as described above, a mark-to-market election under the PFIC rules with respect to the Ordinary Shares would not apply to a company in which the Company invests that is treated as a PFIC (a "**Lower-Tier PFIC**"), and a US Holder would not be able to make such a mark-to-market election in respect of its indirect ownership interest in any Lower-Tier PFIC. Consequently, US Holders of Ordinary Shares could be subject to the adverse tax consequences described above with respect to any interests in a Lower-Tier PFIC.

If a US Holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the Ordinary Shares are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election.

In the event that the Company is classified as a PFIC, US Holders are urged to consult their tax adviser regarding the availability of the mark-to-market election, and whether the election would be advisable in their particular circumstances.

## 2.6 Qualified electing fund election

To mitigate the application of the PFIC rules discussed above, a US Holder may make an election to treat the Company as a qualified electing fund ("**QEF**") for US federal income tax purposes. To make a QEF election, the Company must provide US Holders with information compiled according to US federal income tax principles. The Company currently does not intend to compile such information for US Holders, and therefore it is expected that this election will be unavailable.

## 2.7 US information reporting and backup withholding tax

Payments made through a US paying agent or US intermediary to a US Holder may be subject to information reporting unless the US Holder establishes that payments to it are exempt from these rules. For example, payments to corporations generally are exempt from information reporting and backup withholding. Payments that are subject to information reporting may be subject to backup withholding if a US Holder does not provide its taxpayer identification number or otherwise comply with the backup withholding rules. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules are available to be credited against a US Holder's US federal income tax liability and may be refunded to the extent that they exceed such liability, provided the required information is provided to the IRS in a timely manner.

Under US federal income tax law and regulations, certain categories of US persons must file information returns with respect to their investment in the equity interests of a foreign corporation. A US Holder that purchases Ordinary Shares for cash will be required to file IRS Form 926 or a similar form if the transfer, when aggregated with all transfers made by such person (or any related person) within the

preceding 12-month period, exceeds US\$100,000. In the event that a US Holder fails to file any such required form, the US Holder could be required to pay a penalty equal to 10 per cent. of the gross amount paid for such Ordinary Shares up to a maximum penalty of US\$100,000.

## 2.8 FATCA

Certain provisions of the US Internal Revenue Code and Treasury Regulations promulgated thereunder (commonly referred to as “**FATCA**”) impose a new reporting and withholding regime with respect to, among other things, certain payments made by, and financial accounts held with, entities that are classified as foreign financial institutions for the purposes of FATCA.

On 12 September 2012, the UK and US signed an inter-governmental agreement to implement FATCA in the UK (the “**IGA**”), and UK regulations giving effect to the IGA came into effect on 1 September 2013 (the “**IGA Regulations**”). The Company believes that it has no current withholding tax obligations under the IGA Regulations on payments it makes to Shareholders in respect of the Ordinary Shares. However, it is possible that this position may change, as terms of the IGA require the US and UK authorities to work together to achieve the policy objectives of so-called “passthru withholding” (which would come into effect no earlier than 1 January 2017). It is not yet clear whether, or to what extent, passthru withholding will apply to payments made by the Company.

Notwithstanding the foregoing, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that FATCA withholding will not become relevant with respect to payments made with respect to the Ordinary Shares in the future. US Holders should consult their tax advisers as to how these rules may apply to payments they receive on the Ordinary Shares.

**FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE COMPANY, THE ORDINARY SHARES AND THE HOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF ORDINARY SHARES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW FATCA MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.**

## PART XIX — ADDITIONAL INFORMATION

### 1. Persons responsible

The Directors, whose names appear on page 39, and the Company accept responsibility for the information contained in the Prospectus. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. Incorporation and activity of the Company

The Company was incorporated under the name Laidlaw Acquisitions Limited on 30 April 2010. The Company was incorporated and registered in England and Wales with registered number 7240248. The Company was established for the purpose of acquiring WLB (which changed its name on 17 October 2011 to Shawbrook Bank) in January 2011.

The registered office of the Company is Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex CM13 3BE. The telephone number of the Company's registered office is 01277 897 000. On 11 March 2015, the Company changed its name to Shawbrook Group Limited. On 24 March 2015, the Company re-registered as a public limited company named Shawbrook Group plc.

The principal legislation under which the Company operates and under which the Ordinary Shares were created is the Companies Act and regulations made thereunder.

The Company is the holding company of the Group.

### 3. Share capital of the Company

On incorporation, the share capital of the Company was £1, consisting of one ordinary share of £1.

The following changes have occurred in the share capital of the Company for the period 1 January 2012 to 31 December 2014:

- (A) On 22 March 2012, the Company issued and allotted 60,000,000 A ordinary shares of £1.00 each to RB Investments 1 Limited;
- (B) On 15 October 2012, the Company issued and allotted 15,000,000 A ordinary shares of £1.00 each to RB Investments 1 Limited;
- (C) On 19 November 2012, the Company issued and allotted 10,000,000 A ordinary shares of £1.00 each to RB Investments 1 Limited;
- (D) On 29 January 2013, the Company issued and allotted 3,250 C ordinary shares of £1.00 each to Tom Wood and 5,750 C ordinary shares of £1.00 each to Ian Henderson;
- (E) On 5 July 2013, the Company issued and allotted 15,000,000 A ordinary shares of £1.00 each to RB Investments 1 Limited;
- (F) On 31 October 2013, in connection with an investment agreement under which Drake Recoveries S.A.R.L. agreed to subscribe for ordinary shares to enable the Company to acquire ordinary shares in Shawbrook Bank, the Company issued and allotted 2,757,020 A ordinary shares of £1.00 each to Drake Recoveries S.A.R.L.;
- (G) On 9 June 2014:
  - (i) the Company issued and allotted 816,327 A ordinary shares of £1.00 each to Drake Recoveries S.A.R.L.; and
  - (ii) the Company issued and allotted 40,000,000 A ordinary shares of £1.00 each to SOF Annex Nominees Limited.

On 11 March 2015, the Company changed its name to Shawbrook Group Limited. On 24 March 2015, the Company re-registered as a public limited company named Shawbrook Group plc and interim articles of association were adopted to take effect immediately.

On 31 March 2015, a reorganisation of the share capital of the Company occurred as follows (the “**Corporate Reorganisation**”):

- (A) each of the A ordinary shares of £1 in the Company converted into a combination of approximately 0.0012 ordinary shares of £1 and 0.9988 Deferred Shares;
- (B) each of the B ordinary shares of £1 in the Company converted into a combination of approximately 0.2095 ordinary shares of £1 and 0.7905 Deferred Shares;
- (C) the Company’s share capital was sub-divided such that each ordinary share of £1 is divided into 100 Ordinary Shares (of £0.01 each);
- (D) one Ordinary Share of £0.01 was issued to the company secretary of the Company (for the purpose of financing the repurchase of Deferred Shares described below);
- (E) each Deferred Share was repurchased by the Company and cancelled; and
- (F) a bonus issue of approximately 7.4 Ordinary Shares of £0.01 each for each Ordinary Share held was effected.

The Ordinary Shares are, or will be when issued, in registered form and capable of being held in uncertificated form. No temporary documents of title have been or will be issued in respect of the Ordinary Shares. The Ordinary Shares will upon Admission rank *pari passu* for dividends.

As at 31 March 2015, being the last practicable date prior to the date of this Prospectus, the Company held no treasury shares. No Ordinary Shares have been issued other than fully paid.

Immediately following Admission, the Company’s share capital is expected to be as follows:

	<u>Nominal value</u>	<u>Number of shares issued</u>	<u>Amount</u>
<b>Ordinary Shares</b> . . . . .	<b>£0.01</b>	<b>250,000,000</b>	<b>£2,500,000</b>

The Ordinary Shares carry the right to receive dividends and distributions made or paid after Admission by the Company. The Shareholders have the right to receive notice of and to attend and vote at all general meetings of the Company.

The ISIN of the Ordinary Shares is GB00BWDPMF43.

Further information on the rights attaching to the Ordinary Shares is set out in paragraph 4.5 below, and further information on dealing arrangements and CREST is set out in Part XVII (*Details of the Offer*) on page 222.

#### **4. Information about the Ordinary Shares**

##### **4.1 Description of the type and class of securities being offered**

The Ordinary Shares have a nominal value of £0.01 each. The Company has, and following the Offer will have, one class of Ordinary Shares, the rights of which are set out in the Articles, a summary of which is set out in paragraph 5 of this Part XIX.

The Ordinary Shares are credited as fully paid and free from all liens, equities, charges, encumbrances and other interests. The Ordinary Shares rank in full for all dividends and distributions on Ordinary Shares of the Company declared, made or paid after their issue.

## **4.2 Legislation under which the Ordinary Shares are created**

The Ordinary Shares have been created under the Companies Act.

## **4.3 Listing**

Application has been made to the FCA for the Ordinary Shares to be admitted to Premium Listing. Application has also been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on its main market for listed securities. Conditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange on 1 April 2015. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange by no later than 8.00 a.m. on 8 April 2015. All dealings in the Ordinary Shares before the commencement of unconditional dealings will be on a "when issued" basis and will be of no effect if Admission does not take place. Such dealings will be at the sole risk of the parties concerned.

Listing of the Ordinary Shares is not being sought on any stock exchange other than the London Stock Exchange.

## **4.4 Form and currency of the Ordinary Shares**

The Ordinary Shares will be in registered form and will be capable of being held in certificated and uncertificated form upon Admission. The Registrars of the Company are Equiniti Limited.

Title to the certificated Ordinary Shares (if any) will be evidenced by entry in the register of members of the Company and title to uncertificated Ordinary Shares will be evidenced by entry in the operator register maintained by Euroclear UK & Ireland Limited (which will form part of the register of members of the Company).

The Ordinary Shares are denominated in Pounds Sterling.

## **4.5 Rights attaching to the Ordinary Shares**

Each Ordinary Share ranks equally in all respects with each other Ordinary Share and has the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as each other Ordinary Share, as set out in the Articles.

Subject to the provisions of the Companies Act, any equity securities issued by the Company for cash must first be offered to Shareholders in proportion to their holdings of Ordinary Shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be waived by a special resolution of the Shareholders, either generally or specifically, for a maximum period not exceeding five years.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the Shareholders have no rights to share in the profits of the Company.

The Ordinary Shares are not redeemable. However, the Company may purchase or contract to purchase any of the Ordinary Shares on or off-market, subject to the Companies Act and the requirements of the Listing Rules. The Company may purchase Ordinary Shares only out of distributable reserves or the proceeds of a new issue of shares made to fund the repurchase.

Further details of the rights attached to the Ordinary Shares in relation to dividends, attendance and voting at general meetings and transferability of shares are set out in paragraph 5 of this Part XIX.

#### 4.6 Authorities relating to the Ordinary Shares

By resolutions of the Company in general meetings, passed on 31 March 2015, it was resolved that:

- (A) the Board be generally and unconditionally authorised and, in the case of the authority described in paragraph (iii) below, subject to and conditional upon Admission, to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company:
  - (i) as required for the purposes of the Corporate Reorganisation up to an aggregate nominal amount of £2,000,000;
  - (ii) as required for the purposes of the Offer, up to an aggregate nominal amount of £400,000; and
  - (iii) for any purpose other than those set out at (i) or (ii) above, up to an aggregate nominal amount of £833,333,

such authorities to apply until the end of the next annual general meeting (or, if earlier, until the close of business on 30 June 2016) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended;

- (B) subject to and conditional upon the passing of the resolution described in paragraph (A) above, the Board be given power, in substitution for all subsisting powers, to allot equity securities for cash under the authority given by the resolution described in paragraph A above and/or to sell Ordinary Shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, such power to be limited:
  - (i) in the case of the authority described in paragraph (i) of the resolution described in paragraph (A), as required for the purposes set out in paragraph (i) of the resolution described in paragraph (A);
  - (ii) in the case of the authority described in paragraph (ii) of the resolution described in paragraph (A), as required for the purposes set out in paragraph (ii) of the resolution described in paragraph (A); and
  - (iii) in the case of the authority granted under paragraph (iii) of the resolution described in paragraph (A) and/or in the case of any sale of treasury shares for cash, to the allotment of equity securities or sale of treasury shares:
    - (a) up to a nominal amount of £250,000 (otherwise than pursuant to the authority described in paragraph (iii)(b) below); and
    - (b) for cash in connection with an offer of, or invitation to apply for, equity securities:
      - (1) to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings; and
      - (2) to holders of other equity securities, as required by the rights of those securities, or as the Board otherwise considers necessary as permitted by the rights of those securities,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such power to apply until the end of the next annual general meeting (or, if earlier, until the close of business on 30 June 2016) but, in each case, during this period the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not ended; and

- (C) subject to and conditional upon Admission, the Company be authorised for the purposes of section 701 of the Companies Act to make one or more market purchases (as defined in section 693(4) of the Companies Act) of its Ordinary Shares, such power to be limited:
  - (i) to a maximum number of 2,500,000 Ordinary Shares; and
  - (ii) by the condition that the minimum price which may be paid for an Ordinary Share is its nominal value and the maximum price which may be paid for an Ordinary Share is the highest of:
    - (a) an amount equal to 5 per cent. above the average market value of an Ordinary Share for the five business days immediately preceding the day on which that Ordinary Share is contracted to be purchased; and
    - (b) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out,

in each case, exclusive of expenses,

such power to apply until the end of the next annual general meeting (or, if earlier, until the close of business on 30 June 2016) but in each case so that the Company may enter into a contract to purchase Ordinary Shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase Ordinary Shares pursuant to any such contract as if the power had not ended;
- (D) subject to and conditional upon the passing of the resolutions described in paragraphs (A) and (B) above, each A ordinary share of £1 in the Company be converted into approximately 0.0012 Ordinary Shares of £1 each and 0.9988 Deferred Shares;
- (E) subject to and conditional upon the passing of the resolutions described in paragraphs (A) and (B) above, each B ordinary share of £1 in the Company be converted into approximately 0.2095 Ordinary Shares of £1 each and 0.7905 Deferred Shares;
- (F) subject to and conditional upon the passing of the resolutions described in paragraphs (A), (B), (D) and (E) above, each ordinary share of £1 each be sub-divided into 100 Ordinary Shares (such Ordinary Shares having the same rights and being subject to the same restrictions as the existing ordinary shares of £1 each in the capital of the Company (save as to nominal value));
- (G) subject to and conditional upon the passing of the resolutions described in paragraphs (A), (B), (D) and (E) above, all of the Deferred Shares be repurchased for an aggregate sum of £0.01 pursuant to article 6.9(b) of the articles of association in force prior to Admission; and
- (H) subject to and conditional upon the passing of resolutions (A), (B), (D), (E), (F) and (G) above, the Company be authorised to capitalise a maximum sum not exceeding £2,000,000 standing to the credit of the Company's capital redemption reserve, to apply such sums in paying up in full 200,000,000 Ordinary Shares and to issue such Ordinary Shares, credited as fully paid, on the basis of approximately 7.4 Ordinary Shares for each Ordinary Share.

The authority under resolution (B)(iii)(a) is limited to approximately ten per cent of the issued share capital of the Company (excluding shares held in treasury, if any) as at Admission. The Company intends to use this authority in accordance with the Pre-Emption Group's revised Statement of Principles issued on 12 March 2015, such that the authority will only be used in excess of Ordinary Shares representing five per cent of the issued share capital of the Company for the purposes referred to in, or otherwise permitted by, the revised Statement of Principles, such as the funding of acquisitions or specified capital investments.

#### **4.7 Description of restrictions on free transferability**

Save as set out in paragraph 5.9 below, the Ordinary Shares are freely transferable and there are no restrictions on transfer in the UK.

The Company may, under the Companies Act, send out statutory notices to those persons whom it knows or has reasonable cause to believe have an interest in its shares, asking for details of those who have an interest and the extent of their interest in a particular holding of shares. When a person receives a statutory notice and fails to provide any information required by the notice within the time

specified in it, the Company can apply to the court for an order directing, among other things, that any transfer of shares which are the subject of the statutory notice is void.

## **5. Summary of the Articles**

The Articles, which were adopted on 31 March 2015 conditional upon Admission occurring, contain (among others) provisions to the following effect:

### **5.1 Unrestricted objects**

The objects of the Company are unrestricted.

### **5.2 Limited liability**

The liability of the Company's members is limited to any unpaid amount on the shares in the Company held by them.

### **5.3 Change of name**

The Articles allow the Company to change its name by resolution of the board. This is in addition to the Company's statutory ability to change its name by special resolution under the Companies Act 2006.

### **5.4 Share rights**

Subject to any rights attached to existing shares, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the board may decide. Such rights and restrictions shall apply as if they were set out in the articles. Redeemable shares may be issued, subject to any rights attached to existing shares. The board may determine the terms and conditions and the manner of redemption of any redeemable share so issued. Such terms and conditions shall apply to the relevant shares as if they were set out in the articles. Subject to the articles, any resolution passed by the shareholders and other shareholders' rights, the Board may decide how to deal with any shares in the Company.

### **5.5 Voting rights**

Members will be entitled to vote at a general meeting or class meeting whether on a show of hands or a poll, as provided in the applicable statutes (in this section, the "**Companies Acts**"). The Companies Act 2006 provides that:

- (i) on a show of hands every member present in person has one vote and every proxy present who has been duly appointed by one or more members will have one vote, except that a proxy has one vote for and one vote against if the proxy has been duly appointed by more than one member and the proxy has been instructed by one or more members to vote for and by one or more other members to vote against. For this purpose the articles provide that, where a proxy is given discretion as to how to vote on a show of hands, this will be treated as an instruction by the relevant member to vote in the way that the proxy decides to exercise that discretion; and
- (ii) on a poll every member has one vote per share held by him and he may vote in person or by one or more proxies. Where he appoints more than one proxy, the proxies appointed by him taken together shall not have more extensive voting rights than he could exercise in person.

This is subject to any special terms as to voting which are given to any shares or on which shares are held.

In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

### **5.6 Restrictions**

No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a

member has been served with a restriction notice (as defined in the articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

### **5.7 Dividends and other distributions**

The Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the board. Subject to the Companies Acts, the board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the board, justifies its payment. If the board acts in good faith, it is not liable to holders of shares with preferred or pari passu rights for losses arising from the payment of interim or fixed dividends on other shares.

The board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25 per cent. or greater holding, in number or nominal value, of the shares of the Company or of any class of such shares (in each case, calculated exclusive of any shares held as treasury shares) (in this section, a "0.25 per cent. interest") if such a person has been served with a restriction notice (as defined in the articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be apportioned and paid pro rata according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid. Except as set out above, dividends may be declared or paid in any currency.

The board may if authorised by an ordinary resolution of the Company offer ordinary shareholders (excluding any member holding shares as treasury shares) in respect of any dividend the right to elect to receive ordinary shares by way of scrip dividend instead of cash.

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and revert to the Company.

The Company may stop sending cheques, warrants or similar financial instruments in payment of dividends by post in respect of any shares or may cease to employ any other means of payment, including payment by means of a relevant system, for dividends if either (i) at least two consecutive payments have remained uncashed or are returned undelivered or that means of payment has failed or (ii) one payment remains uncashed or is returned undelivered or that means of payment has failed and reasonable enquiries have failed to establish any new postal address or account of the holder. The Company may resume sending dividend cheques, warrants or similar financial instruments or employing that means of payment if the holder requests such resumption in writing.

### **5.8 Variation of rights**

Subject to the Companies Acts, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares) or by the purchase or redemption by the Company of any of its own shares.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

### **5.9 Transfer of shares**

The shares are in registered form. Any shares in the Company may be held in uncertificated form and, subject to the articles, title to uncertificated shares may be transferred by means of a relevant system.

Provisions of the articles do not apply to any uncertificated shares to the extent that such provisions are inconsistent with the holding of shares in uncertificated form, with the transfer of shares by means of a relevant system, with any provision of the legislation and rules relating to uncertificated shares or with the Company doing anything by means of a relevant system.

Subject to the articles, any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the board may approve. The instrument of transfer must be signed by or on behalf of the transferor and (in the case of a partly-paid share) the transferee.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register.

The board can decline to register any transfer of any share which is not a fully paid share. The board may also decline to register a transfer of a certificated share unless the instrument of transfer:

- (A) is duly stamped or certified or otherwise shown to the satisfaction of the board to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the board may reasonably require;
- (B) is in respect of only one class of share; and
- (C) if to joint transferees, is in favour of not more than four such transferees.

Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The board may decline to register a transfer of any of the Company's certificated shares by a person with a 0.25 per cent. interest if such a person has been served with a restriction notice (as defined in the articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts, unless the transfer is shown to the board to be pursuant to an arm's length sale (as defined in the articles).

## **5.10 Sub-division of share capital**

Any resolution authorising the Company to sub-divide any of its shares may determine that, as between the shares resulting from the sub-division, any of them may have a preference, advantage or deferred or other right or be subject to any restriction as compared with the others.

## **5.11 General meetings**

The articles rely on the Companies Act 2006 provisions dealing with the calling of general meetings. Under the Companies Act 2006 an annual general meeting must be called by notice of at least 21 days. Upon listing, the Company will be a "traded company" for the purposes of the Companies Act 2006 and as such will be required to give at least 21 days' notice of any other general meeting unless a special resolution reducing the period to not less than 14 days has been passed at the immediately preceding annual general meeting or at a general meeting held since that annual general meeting or, pending the Company's first annual general meeting, at any general meeting. Notice of a general meeting must be given in hard copy form, in electronic form, or by means of a website and must be sent to every member and every director. It must state the time and date and the place of the meeting and the general nature of the business to be dealt with at the meeting. As the Company will be a traded company, the notice must also state the website address where information about the meeting can be found in advance of the meeting, the voting record time, the procedures for attending and voting at the meeting, details of any forms for appointing a proxy, procedures for voting in advance (if any are offered), and the right of members to ask questions at the meeting. In addition, a notice calling an annual general meeting must state that the meeting is an annual general meeting.

Each director shall be entitled to attend and speak at any general meeting. The chairman of the meeting may invite any person to attend and speak at any general meeting where he considers that this will assist in the deliberations of the meeting.

## **5.12 Directors**

### **(A) Number of Directors**

The directors shall be not less than two and not more than 12 in number. The Company may by ordinary resolution vary the minimum and/or maximum number of directors.

### **(B) Directors' shareholding qualification**

The Directors are not required to hold any shares in the Company.

### **(C) Appointment of Directors**

Directors may be appointed by the Company by ordinary resolution or by the board. A director appointed by the board holds office only until the next following annual general meeting of the Company and is then eligible for reappointment.

The board or any committee authorised by the board may from time to time appoint one or more directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

### **(D) Retirement of Directors by rotation**

At every annual general meeting of the Company any director who has been appointed by the board since the last annual general meeting, or who held office at the time of the two preceding annual general meetings and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members.

### **(E) Removal of Directors by special resolution**

The Company may by special resolution remove any director before the expiration of his period of office.

### **(F) Vacation of office**

The office of a director shall be vacated if:

- (i) he resigns or offers to resign and the board resolves to accept such offer;
- (ii) he is removed by notice given by all of the other directors and all of the other directors are not less than three in number;
- (iii) he is or has been suffering from mental or physical ill-health and the board resolves that his office be vacated;
- (iv) he is absent without the permission of the board from meetings of the board (whether or not an alternate director appointed by him attends) for six consecutive months and the board resolves that his office is vacated;
- (v) he becomes bankrupt or compounds with his creditors generally;
- (vi) he is prohibited by a law from being a director;
- (vii) he ceases to be a director by virtue of the Companies Acts; or
- (viii) he is removed from office pursuant to the Company's articles.

If the office of a director is vacated for any reason, he must cease to be a member of any committee or sub-committee of the board.

### **(G) Alternate Director**

Any director may appoint any person to be his alternate and may at his discretion remove such an alternate director. If the alternate director is not already a director, the appointment, unless previously approved by the board, shall have effect only upon and subject to being so approved.

#### (H) Proceedings of the board

Subject to the provisions of the articles, the board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit. The quorum necessary for the transaction of the business of the board may be fixed by the board and, unless so fixed at any other number, shall be two. A meeting of the board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions vested in or exercisable by the board.

The board may appoint a director to be the chairman or a deputy chairman and may at any time remove him from that office. Questions arising at any meeting of the board shall be determined by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

All or any of the members of the board may participate in a meeting of the board by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to speak to and hear each other. A person so participating shall be deemed to be present at the meeting and shall be entitled to vote and to be counted in the quorum.

The board may delegate any of its powers, authorities and discretions (with power to sub-delegate) to any committee, consisting of such person or persons as it thinks fit, provided that the majority of persons on any committee or sub-committee must be directors. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in the articles for regulating the meetings and proceedings of the board so far as the same are applicable and are not superseded by any regulations imposed by the board.

#### (I) Remuneration of Directors

Each of the directors shall be paid a fee at such rate as may from time to time be determined by the board, but the aggregate of all such fees so paid to the directors shall not exceed £2 million per annum or such higher amount as may from time to time be decided by ordinary resolution of the Company. Any director who is appointed to any executive office shall be entitled to receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board or any committee authorised by the board may decide, either in addition to or in lieu of his remuneration as a director. In addition, any director who performs services which in the opinion of the board or any committee authorised by the board go beyond the ordinary duties of a director, may be paid such extra remuneration as the board or any committee authorised by the board may determine. Each director may be paid his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the board, or committees of the board or of the Company or any other meeting which as a director he is entitled to attend, and shall be paid all other costs and expenses properly and reasonably incurred by him in the conduct of the Company's business or in the discharge of his duties as a director. The Company may also fund a director's or former director's expenditure and that of a director or former director of any holding company of the Company for the purposes permitted under the Companies Acts and may do anything to enable a director or former director or a director or former director of any holding company of the Company to avoid incurring such expenditure as provided in the Companies Acts.

#### (J) Pensions and gratuities for Directors

The board or any committee authorised by the board may exercise the powers of the Company to provide benefits either by the payment of gratuities or pensions or by insurance or in any other manner for any director or former director or his relations, dependants or persons connected to him, but no benefits (except those provided for by the articles) may be granted to or in respect of a director or former director who has not been employed by or held an executive office or place of profit under the Company or any of its subsidiary undertakings or their respective predecessors in business without the approval of an ordinary resolution of the Company.

#### (K) Directors' interests

The board may, subject to the provisions of the articles, authorise any matter which would otherwise involve a director breaching his duty under the Companies Acts to avoid conflicts of interest. Where the

board gives authority in relation to a conflict of interest or where any of the situations described in (i) to (v) below applies in relation to a director, the board may (a) require the relevant director to be excluded from the receipt of information, the participation in discussion and/or the making of decisions related to the conflict of interest or situation; (b) impose upon the relevant director such other terms for the purpose of dealing with the conflict of interest or situation as it may determine; and (c) provide that the relevant director will not be obliged to disclose information obtained otherwise than through his position as a director of the Company and that is confidential to a third party or to use or apply the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence. The board may revoke or vary such authority at any time.

Subject to the provisions of the Companies Acts, and provided he has declared the nature and extent of his interest to the board as required by the Companies Acts, a director may:

- (i) be party to, or otherwise interested in, any contract with the Company or in which the Company has a direct or indirect interest;
- (ii) hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of director for such period and upon such terms, including remuneration, as the board may decide;
- (iii) act by himself or through a firm with which he is associated in a professional capacity for the Company or any other company in which the Company may be interested (otherwise than as auditor);
- (iv) be or become a director or other officer of, or employed by or a party to a transaction or arrangement with, or otherwise be interested in any holding company or subsidiary company of the Company or any other company in which the Company may be interested; and
- (v) be or become a director of any other company in which the Company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as a director of that other company.

A director shall not, by reason of his office, be liable to account to the Company or its members for any benefit realised by reason of having an interest permitted as described above or by reason of having a conflict of interest authorised by the board and no contract shall be liable to be avoided on the grounds of a director having any such interest.

#### (L) Restrictions on voting

No director may vote on or be counted in the quorum in relation to any resolution of the board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested save to the extent permitted specifically in the articles.

Subject to certain exceptions set out in the articles, no director may vote on, or be counted in a quorum in relation to, any resolution of the board in respect of any contract in which he has an interest and, if he does so, his vote shall not be counted.

Subject to the Companies Acts, the Company may by ordinary resolution suspend or relax to any extent the provisions relating to directors' interests or the restrictions on voting or ratify any transaction not duly authorised by reason of a contravention of such provisions.

#### (M) Borrowing powers

The Directors shall manage the Company's business and can use all the Company's powers except where the Articles say that powers can only be used by the shareholders voting to do so at a general meeting. Subject to the provisions of the Companies Act, the Directors may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

## (N) Indemnity of Directors

To the extent permitted by the Companies Act, the Company may indemnify any director or former director of the Company or any associated company against any liability and may purchase and maintain for any director or former director of the Company or any associated company insurance against any liability.

## 6. Mandatory bids and compulsory acquisition rules relating to Ordinary Shares

Other than as provided by the City Code and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules relating to the Company.

### 6.1 Mandatory bid

The City Code applies to the Company. Under the City Code, if an acquisition of interests in shares were to increase the aggregate holding of the acquirer and its concert parties to interests in shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights in the Company. After Admission, if the Major Shareholder holds more than 50 per cent. of the voting rights in the Company, the Major Shareholder will be able to increase its aggregate holding in the Company without triggering the requirement to make a cash offer for the outstanding shares in the Company.

### 6.2 Squeeze-out

Under the Companies Act, if an offeror were to make an offer to acquire all of the shares in the Company not already owned by it and were to acquire 90 per cent. of the shares to which such offer related, it could then compulsorily acquire the remaining 10 per cent. The offeror would do so by sending a notice to outstanding members telling them that it will compulsorily acquire their shares and then, six weeks later, it would deliver a transfer of the outstanding shares in its favour to the Company which would execute the transfers on behalf of the relevant members, and pay the consideration to the Company which would hold the consideration on trust for outstanding members. The consideration offered to the members whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the offer value is unfair.

### 6.3 Sell-out

The Companies Act also gives minority members a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. of the shares, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any member notice of his/her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises his/her rights, the offeror is entitled and bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

## 7. Subsidiary undertakings

The Company is the holding company of the Group.

The significant subsidiary undertakings and associated undertakings of the Company are as follows:

	Country of Incorporation	Class of shares held	Ownership	Principle activity
Shawbrook Bank Limited and its subsidiaries:	England & Wales	Ordinary	100%	Banking
Shawbrook Buildings and Protection Limited	England & Wales	Ordinary	100%	FCA authorised introducer of insurance
Link Loans Limited	England & Wales	Ordinary	100%	Dormant
Centric Group Holdings Limited*	England & Wales	Ordinary	100%	Dormant
and its subsidiaries:				
Centric Group Finance 2 Limited	England & Wales	Ordinary	100%	Dormant
Centric Group Finance Limited and its subsidiaries:	England & Wales	Ordinary	100%	Non-trading
Centric Commercial Finance Limited	England & Wales	Ordinary	100%	Non-trading
Resource Partners SPV Limited	England & Wales	Ordinary	100%	Non-trading
Centric SPV 1 Limited	England & Wales	Ordinary	100%	Non-trading
Centric SPV 2 Limited	England & Wales	Ordinary	100%	Dormant
Singers Corporate Asset Finance Limited	England & Wales	Ordinary	100%	Dormant
Coachlease Limited	England & Wales	Ordinary	100%	Dormant
East Anglian Finance Limited <sup>(1)</sup>	England & Wales	Ordinary	100%	Dormant
Hermes Group Limited	England & Wales	Ordinary	100%	Dormant
Singer and Friedlander Finance Limited	Scotland	Ordinary	100%	Dormant
Singers Healthcare Finance Limited and its subsidiary:	England & Wales	Ordinary	100%	Dormant
SAF Funding Limited	England & Wales	Ordinary	100%	In Liquidation
Singers Asset Finance Holdings Limited	England & Wales	Ordinary	100%	In Liquidation
Singer and Friedlander Finance Limited	England & Wales	Ordinary	100%	In Liquidation
Apple Holdco Limited and its subsidiary:	England & Wales	Ordinary	100%	In Liquidation
Apple Acquisition Limited and its subsidiary:	England & Wales	Ordinary	100%	In Liquidation
Ascot Funding Limited	England & Wales	Ordinary	100%	In Liquidation
Money2Improve Limited	England & Wales	Ordinary	100%	In Liquidation

(1) East Anglian Finance Limited (a dormant subsidiary) was sold on 18 February 2015.

## 8. Interests of the Shareholders and Selling Shareholders

### 8.1 Shareholders

Insofar as was known to the Company as at 31 March 2015 (being the last practicable date prior to the publication of this Prospectus), the following will, on Admission, be directly or indirectly interested in 3 per cent. or more of the voting rights of the Company (being the threshold for notification of the voting rights that will apply to the Company and Shareholders as of Admission pursuant to Chapter 5 of the Disclosure and Transparency Rules of the FCA):

Shareholder	Interests in Ordinary Shares Immediately following Admission	
	Number of shares	% of total issued
Major Shareholder . . . . .	147,727,975	59.1
JPMorgan Asset Management . . . . .	10,000,000	4.0
Fidelity Management & Research Co . . . . .	8,000,000	3.2
Funds and accounts under management by investment management subsidiaries of BlackRock, Inc . . . . .	7,520,000	3.0

### 8.2 Selling Shareholders

In addition to the New Ordinary Shares that will be issued by the Company pursuant to the Offer, Existing Ordinary Shares will be sold by the Selling Shareholders pursuant to the Offer. The Selling Shareholders are the Investor Selling Shareholders, the Management Selling Shareholders, the Other Employee Shareholders and Sir Brian Ivory CBE. The interests in Ordinary Shares of the Selling Shareholders (certain of which include the interests of a person connected with the Selling Shareholder) immediately prior to Admission and immediately following Admission are set out in the table below.

Selling Shareholder	Interests in Ordinary Shares immediately prior to Admission		Ordinary Shares to be sold pursuant to the Offer		Interest in Ordinary Shares immediately following Admission	
	Number	% of total issued	Number	% of total issued	Number	% of total issued
The Major Shareholder <sup>(1) (2)</sup> . . . . .	184,297,158	84.2	36,569,183	14.6	147,727,975	59.1
Cabot Square Capital Nominee Limited <sup>(3)</sup> . . . . .	6,749,473	3.1	1,339,265	0.5	5,410,208	2.2
Stephen Johnson <sup>(4)</sup> . . . . .	5,128,333	2.3	1,280,904	0.5	3,847,429	1.5
Tom Wood <sup>(4)</sup> . . . . .	2,742,841	1.3	685,710	0.3	2,057,131	0.8
Philip George <sup>(4)</sup> . . . . .	2,755,032	1.3	688,758	0.3	2,066,274	0.8
Nick McAuliffe <sup>(4)</sup> . . . . .	1,237,873	0.6	309,623	0.1	928,250	0.4
Sir George Mathewson CBE <sup>(4) (5)</sup> . . . . .	1,237,874	0.6	309,468	0.1	928,406	0.4
Richard Pyman <sup>(4)</sup> . . . . .	1,181,164	0.5	295,291	0.1	885,873	0.4
Sir Brian Ivory CBE <sup>(4) (6)</sup> . . . . .	1,061,034	0.5	265,259	0.1	795,775	0.3
Robin Ashton <sup>(4) (5)</sup> . . . . .	795,776	0.4	198,944	0.1	596,832	0.2
Nick Ellis-Calcott <sup>(4)</sup> . . . . .	397,888	0.2	99,559	0.0	298,329	0.1
Jim Cannon <sup>(4)</sup> . . . . .	353,678	0.2	88,464	0.0	265,214	0.1
Daniel Rushbrook <sup>(4)</sup> . . . . .	253,185	0.1	122,795	0.0	130,390	0.1
Paul Hedges <sup>(4)</sup> . . . . .	176,839	0.1	106,634	0.0	70,205	0.0
John Onslow <sup>(4)</sup> . . . . .	152,755	0.1	38,251	0.0	114,504	0.0
Simon Furnell <sup>(4)</sup> . . . . .	132,630	0.1	16,579	0.0	116,051	0.0
Tommy Wight <sup>(4)</sup> . . . . .	84,395	0.0	21,124	0.0	63,271	0.0
Other Employee Shareholders <sup>(7)</sup> . . . . .	6,505,737	3.0	1,529,706	0.6	4,976,031	2.0
<b>TOTAL</b> . . . . .	<b>215,243,665</b>	<b>98.3</b>	<b>43,965,517</b>	<b>17.6</b>	<b>171,278,148</b>	<b>68.5</b>

(1) For the purposes of the Offer, the business address of the Major Shareholder is 8 Hanover Street, London W1S 1YQ.

(2) The Major Shareholder holds its Ordinary Shares in the Company through its nominee, SOF Annex Nominees Limited, whose ultimate parent is SOF Holdings Limited. The voting rights attaching to the Ordinary Shares are exercisable by the Major Shareholder.

- (3) For the purposes of the Offer, the business address of Cabot Square Capital Nominee Limited is One Connaught Place, W2 2ET, London.
- (4) For the purposes of the Offer, the business address of the Other Employee Shareholders and each of Sir George Mathewson CBE, Sir Brian Ivory, Robin Ashton, Richard Pyman, Tom Wood, Stephen Johnson, Nick McAuliffe, Simon Furnell, Philip George, Jim Cannon, Nick Ellis- Calcott, Tommy Wight, Daniel Rushbrook and John Onslow is Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, CM13 3BE, Essex.
- (5) Sir George Mathewson CBE and Robin Ashton's Ordinary Shares are held by family members.
- (6) Sir Brian Ivory CBE served as a Non-Executive Director of Shawbrook Bank from 4 March 2011 until 31 March 2015.
- (7) The Other Employee Shareholders are Shareholders who are employees and former employees of the Group (other than the Directors and permanent Senior Managers) and hold beneficial interests in certain Ordinary Shares that are held by SOF Annex Nominees Limited as nominee. There are over 50 Other Employee Shareholders.

The interests of the Directors, Senior Managers, Other Employee Shareholders and Sir Brian Ivory in the Ordinary Shares were determined based on a ratchet mechanism contained in the Company's existing articles of association. Under this mechanism, the proportion of the Ordinary Shares held by Directors, Senior Managers, Other Employee Shareholders and Sir Brian Ivory was dependent on the Offer Price, with that proportion increasing in accordance with increases in the Offer Price.

As at 31 March 2015 (the last practicable date prior to the publication of this Prospectus) and immediately after Admission:

- (A) save for the Major Shareholder, the Company is not aware of any persons who, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company; and
- (B) the Major Shareholder does not and will not have different voting rights.

## 9. Directors

### 9.1 Other directorships and partnerships

The details of those companies and partnerships outside the Group of which the Directors and Senior Managers are currently directors or partners, or have been directors or partners at any time during the previous five years prior to the date of this Prospectus, are as follows:

Name	Position	Company/Partnership	Position still held (Y/N)
Richard Pyman .....	Director	ARKLE FINANCE LIMITED	Y
	Director	ARUNDEL CASTLE	
	Director	CRICKET FOUNDATION	Y
		WEATHERBYS BANK	
	Director	LIMITED	Y
		CENTRAL SCOTLAND	
	Director	FINANCE LIMITED	N
Tom Wood .....	Director	SINGER & FRIEDLANDER	
	Director	FUNDING PLC	N
	Director	SINJUL INVESTMENTS	
		LIMITED	N
	Director	CONNELLS LIMITED	N
		SEQUENCE (UK) LIMITED	N
	Director	SKIPTON BUSINESS	
		FINANCE LIMITED	N
Graham Alcock .....	Director	SKIPTON GROUP	
		HOLDINGS LIMITED	N
	Director	HILTON VENTURES	
		FINANCE LIMITED	N
		HILTON VENTURES	
		MANAGEMENT LIMITED	N
		HILTON VENTURES PLC	N
	Director	HVT (UK) LIMITED	N
	Director	NEW EAST MANCHESTER	
	Director	LIMITED	N

Name	Position	Company/Partnership	Position still held (Y/N)
	Director	THE ENTERPRISE FUND LIMITED	N
	Director	THE UNIVERSITY OF MANCHESTER INCUBATOR COMPANY LIMITED	N
	Director	THE UNIVERSITY OF MANCHESTER INNOVATION CENTRE LIMITED	N
Lindsey McMurray . . . .	Director	FREEDOM ACQUISITIONS LIMITED	Y
	Director	P2P INVESTMENT MANAGEMENT LIMITED	Y
	Director	POLLEN STREET CAPITAL LIMITED	Y
	Director	PSC 4 LIMITED	Y
	Director	PSC II GP LIMITED	Y
	Director	PSC NOMINEE 1 LIMITED	Y
	Director	SOF ANNEX NOMINEES LIMITED	Y
	Director	SOF GENERAL PARTNER (SCOTLAND) II LIMITED	Y
	Director	SOF GENERAL PARTNER (UK) LIMITED	Y
	Director	SOF PARENT LIMITED	Y
	Director	THE CAMDEN FUTURE FIRST NETWORK LIMITED	Y
	Director	VILLON HOLDINGS (UK) LIMITED	Y
	Director	BANCA SISTEMA S.P.A	Y
	Member	POLLEN STREET CAPITAL SERVICES (UK) LLP	Y
	Director	SOF HOLDINGS LIMITED	Y
	Director	SPECIAL OPPORTUNITIES FUND GENERAL PARTNER (CAYMAN) LIMITED	Y
	Member	AHM (BLOCK 1-3) LLP	N
	Director	WARLEIGH MANOR MANAGEMENT LIMITED	Y
	Director	PURA COCO SL	Y
	Director	ALBERT HALL MANSIONS MANAGEMENT LIMITED	N
	Director	ARROW GLOBAL GROUP PLC	N
	Director	ARROW GLOBAL ONE LIMITED	N
	Director	ASHURST NEWCO 1 LIMITED	N
	Director	CAIRN CAPITAL GROUP LIMITED	N
	Director	INTERMEDIATE CAPITAL GROUP PLC	N
	Director	MORRIS GROUP LIMITED	N
	Director	RB INVESTMENTS 2 LIMITED	N
	Director	RB INVESTMENTS 3 LIMITED	N

Name	Position	Company/Partnership	Position still held (Y/N)
	Director	RB INVESTMENTS 5 LIMITED	N
	Director	RBDC (IRELAND) LIMITED	N
	Director	RBDC ADMINISTRATOR LIMITED	N
	Director	RBDC GENERAL PARTNER LIMITED	N
	Director	RBDC INVESTMENTS LIMITED	N
	Director	RBEF LIMITED	N
	Director	RBS ASSET MANAGEMENT LIMITED	N
	Director	RBS INVESTMENT LIMITED	N
	Director	RBS SPECIAL OPPORTUNITIES GENERAL PARTNER (ENGLAND) LIMITED	N
	Director	RBS SPECIAL OPPORTUNITIES GENERAL PARTNER (SCOTLAND) II LIMITED	N
	Director	RBS SPECIAL OPPORTUNITIES GENERAL PARTNER (SCOTLAND) LTD	N
	Director	RBSM (INVESTMENTS) LIMITED	N
	Director	ROBOSCOT DEVCAP LIMITED	N
	Director	ROBOSCOT EQUITY LIMITED	N
	Director	ROBOSCOT VENTURES LIMITED	N
	Director	ROYAL BANK DEVELOPMENT CAPITAL LIMITED	N
	Director	ROYAL BANK INVESTMENTS LIMITED	N
	Director	ROYAL BANK VENTURES INVESTMENTS LIMITED	N
	Director	ROYAL BANK VENTURES LIMITED	N
	Director	SPECIALTY FINANCE TRUST HOLDINGS LIMITED	N
	Director	TTT MONEYCORP LIMITED	N
	Director	REGENT ACQUISITIONS LIMITED (CAYMAN ISLANDS)	N
	Director	REGENT ACQUISITIONS (HOLDINGS) LIMITED	N
	Director	ARROW GLOBAL GUERNSEY HOLDINGS LIMITED (GUERNSEY)	N
	Director	OLDCO (SC465925) LIMITED	N
	Member	RBS SPECIAL OPPORTUNITIES FUND GENERAL PARTNER (CAYMAN) LIMITED	N

<u>Name</u>	<u>Position</u>	<u>Company/Partnership</u>	<u>Position still held (Y/N)</u>
	Limited Partner	TWENTY2 ADVISORS UK LLP	
Robin Ashton . . . . .	Chairman and Non-Executive Director	LEEDS BUILDING SOCIETY	Y
	Non-Executive Director	NON-STANDARD FINANCE PLC	Y
	Non-Executive Director	ALBEMARLE & BOND HOLDINGS PLC <sup>(1)</sup>	N
	Director	CASWELL CONSULTANCY LIMITED	Y
	Director	A N LOANS LIMITED	N
Roger Lovering . . . . .	Director	FIRST NATIONAL TRICITY FINANCE LIMITED	N
	Director	RETAIL FINANCIAL SERVICES LIMITED	N
	Director	SANTANDER CARDS LIMITED	N
	Director	SANTANDER CARDS UK LIMITED	N
	Director	SANTANDER CONSUMER CREDIT SERVICES LIMITED	N
	Director	SANTANDER GLOBAL CONSUMER FINANCE LIMITED	N
	Director	SANTANDER INSURANCE SERVICES UK LIMITED	N
	Director	THE UK CARDS ASSOCIATION LIMITED	N
	Director	TIME FINANCE LIMITED	N
	Director	TIME RETAIL FINANCE LIMITED	N
Sir George Mathewson, CBE . . . . .	Director	TUTTLE AND SON LIMITED	N
	Director	VIKING COLLECTION SERVICES LIMITED	N
	Director	ARROW GLOBAL GROUP PLC	Y
	Director	DBRS RATINGS LIMITED	Y
	Director	MERKLANDS LTD	Y
	Director	OLD OAK HOLDINGS LIMITED	Y
	Director	ARROW GLOBAL INVESTMENTS HOLDINGS LIMITED	N
	Director	ARROW GLOBAL LIMITED	N
	Director	CHEVIOT ASSET MANAGEMENT LIMITED	N
	Director	CHEVIOT PARTNERS LLP	N
	Director	STAGECOACH GROUP PLC	N
	Director	THE SCOTTISH INVESTMENT TRUST PLC	N
	Director	WOOD MACKENZIE INVESTMENTS LIMITED	N

(1) Robin Ashton resigned from Albemarle & Bond Holdings plc in November 2013 prior to the business being sold via an administration in March 2014.

Name	Position	Company/Partnership	Position still held (Y/N)
Stephen Johnson . . . . .	Director	LATCHGLEN LIMITED	Y
	Director	COMMERCIAL FIRST	N
	Director	MORTGAGES LIMITED	
	Designated Member	COMMERCIAL FIRST	N
		BUSINESS LIMITED	
Jim Cannon . . . . .	Designated Member	POWERHOUSE	
		DEVELOPMENTS LIMITED	
John Onslow . . . . .		LIABILITY PARTNERSHIP	N
	Director	CENTRAL SCOTLAND	
Philip George . . . . .	Director	FINANCE LIMITED	N
	Non-Executive	ASSET BASED FINANCE	
Philip George . . . . .	Director	ASSOCIATION LIMITED	N
	Non-Executive	VISION OWNERS LIMITED	Y
	Director	COMMERCIAL FIRST	
	Non-Executive	MORTGAGES LTD	N
	Director	COMMERCIAL FIRST	
	Director	GROUP LTD	N
	Director	COMMERCIAL FIRST	
	Director	SECURITIES LIMITED	N
	Director	COLCHESTER FUNDING	
		LIMITED	N
	Director	ILFORD FUNDING LIMITED	
	Director	COMMERCIAL FIRST DAG	
		LIMITED	N
Nick McAuliffe . . . . .	Director	COMMERCIAL FIRST	
		BUSINESS LIMITED	N
	Director	ROMFORD FUNDING	
		LIMITED	N
	Director	COMMERCIAL FIRST RF	
		LIMITED	N
	Director	STRATFORD FUNDING	
		LIMITED	N
	Director	DONINGTON LL FUNDING	
		LIMITED	N
Nick McAuliffe . . . . .	Director	CHELTENHAM FUNDING	
		LIMITED	N
	Director	DJPJ LIMITED	
		COMMERCIAL FIRST LIFE	
	Director	INSURANCE SERVICES	
		LIMITED	N
	Director	COMMERCIAL FIRST	
Simon Furnell . . . . .		BUILDINGS INSURANCE	
		SERVICES LIMITED	N
	Director	COMMERCIAL FIRST	
		SECURITIES LIMITED	
	Director	COMMERCIAL FIRST LIFE	
Simon Furnell . . . . .		INSURANCE SERVICES	
		LIMITED	N
Simon Furnell . . . . .	Director	EXECUTIVES 4 HIRE	
		LIMITED	Y

Stephen Johnson was a non-executive director of Link Lending Limited from 2008 to 2009 when it entered administration. Stephen retains a minority shareholding in UK Country Capital Limited (a company affiliated with the Acorn group of companies). The Shareholding was a gift from Stephen's father and Stephen has never served as a director of that company. UK Country Capital Limited entered administration in 2011.

Philip George was a non-executive director of Link Lending Limited from 2006 to 2009, when it entered administration. Philip was also a non-executive director of UK Country Capital Limited (a company affiliated with the Acorn group of companies) from 2006 to 2008 and retains a minority shareholding in that company. UK Country Capital Limited entered administration in 2011.

## **9.2 Conflicts of interest**

Save as set out below, no Director or Senior Manager has any actual or potential conflicts of interest between any of his duties to the Company and his private interests and/or other duties.

Sir George Mathewson is a director of Old Oak Holdings Limited, an affiliate of Toscafund Asset Management LLP. As at 10 March 2015, funds managed by Toscafund Asset Management LLP were expected to hold an interest of approximately 7 per cent. in Aldermore following its public flotation. While Aldermore is considered to be a competitor of the Group, neither Old Oak Holdings Limited or any of its affiliates has any management control over Aldermore, and Sir George is not involved in any investment decisions made by the relevant funds

Richard Pyman is a director of Weatherbys Bank Limited, a private bank, and its subsidiary, Arkle Finance Limited. While Weatherbys Bank has a retail deposit product offering and Arkle Finance Limited provides asset finance and equipment leasing, the Group does not consider them to be competitors.

Robin Ashton is a non-executive director and chairman of Leeds Building Society, which has both a retail savings and buy-to-let mortgage offering. The Group does not consider Leeds Building Society to be a competitor.

Lindsey McMurray is a representative of the Major Shareholder. Immediately following Admission, the Major Shareholder will continue to own 59 per cent. of the Ordinary Shares assuming no exercise of the Over-allotment Option and 55 per cent. of the Ordinary Shares assuming the Over-allotment Option is exercised in full. The Major Shareholder also holds a majority stake in Target through its holding company Robin Hold SARL. Target provides certain administrative services to the Group, details of which are set out in Note 37 of Part XV (*Historical Financial Information*) and Section 10.1 of this Part XIX (*Additional Information*). The Major Shareholder also holds a majority shareholding in Freedom Finance Limited which introduces secured and unsecured loans to the Group. Details of the Group's arrangements with Freedom Finance Limited are set out in Note 37 of Part XV (*Historical Financial Information*) and Section 10.3 of this Part XIX (*Additional Information*).

Philip George has an interest of less than 4% in the ordinary shares of Commercial First Mortgages Limited. The Group uses the services of Commercial First Group Limited from time to time to carry out arrears visits. The Group acquired portfolios of commercial mortgages originated by the Commercial First group in November 2014 and February 2015, details of which are set out in Section 3.6 of Part XI (*Operating and Financial Review*).

## **9.3 Confirmations**

As at the date of this Prospectus, no Director or Senior Manager has during the last five years:

- (A) had any convictions in relation to fraudulent offences;
- (B) except as disclosed in paragraph 9.1 above, been associated with any bankruptcies, receiverships or liquidations acting in the capacity of any of the positions set out against the name of the Director in the paragraph above;
- (C) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities including, where relevant, designated professional bodies; or

(D) been disqualified by a court from acting as a member of the administrative management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no family relationships between any of the Directors or the Senior Managers.

There are no outstanding loans or guarantees granted or provided by any member of the Group for the benefit of any of the Directors or any of the Senior Managers.

#### 9.4 Interests of Directors and Senior Managers in the Ordinary Shares

The interests in Ordinary Shares of the Directors and Senior Managers immediately prior to Admission and immediately following Admission are set out in the table below:

Director or Senior Manager	Interests of the Directors and Senior Managers in the issued share capital of the Company immediately prior to Admission		Interests of the Directors and Senior Managers in the issued share capital of the Company immediately following Admission	
	Shareholding	Percentage of issued share capital of the Company	Shareholding	Percentage of issued share capital of the Company
Sir George Mathewson, CBE .....	1,237,874	0.6	928,406	0.4
Richard Pyman .....	1,181,164	0.5	885,873	0.4
Tom Wood .....	2,742,841	1.3	2,057,131	0.8
Graham Alcock .....	—	—	—	—
Roger Lovering .....	—	—	—	—
Lindsey McMurray .....	—	—	—	—
Robin Ashton .....	795,776	0.4	596,832	0.2
Nick McAuliffe .....	1,237,873	0.6	928,250	0.4
Jim Cannon .....	353,678	0.2	265,214	0.1
Simon Furnell .....	132,630	0.1	116,051	0.0
John Onslow .....	152,755	0.1	114,504	0.0
Philip George .....	2,755,032	1.3	2,066,274	0.8
Stephen Johnson .....	5,128,333	2.3	3,847,429	1.5
Daniel Rushbrook .....	253,185	0.1	130,390	0.1
Claire Withey .....	—	—	—	—
Tommy Wight .....	84,395	0.0	63,271	0.0
Paul Hedges .....	176,839	0.0	70,205	0.0
Nick Ellis-Calcott .....	397,888	0.2	298,329	0.1

The interests of the Directors and Senior Managers together represent approximately 7.5 per cent. of the issued share capital of the Company in existence immediately prior to Admission and on Admission are expected to represent 4.9 per cent.

#### 9.5 Indemnity insurance

Each of the Directors has the benefit of indemnity insurance maintained by the Group on their behalf indemnifying them against liabilities they may potentially incur to third parties as a result of their office as Director. In addition, to the extent permitted by the Companies Act, the Company may indemnify any director or former director of any associated company against any liability and may purchase and maintain insurance against any liability for any director or former director of any associated company.

#### 9.6 Discretionary trusts

The Company established a discretionary employee benefit trust on 28 January 2011 (the “EBT”). The trustee of the EBT is with Appleby Trust (Jersey) Limited. The EBT has a wide range of discretionary powers of investment, including the ability to acquire ordinary shares from certain Group companies. Its beneficiaries include employees and former employees (along with any spouse, civil partner, surviving spouse, surviving civil partner, child or step-child under the age of 18) of any Group company.

The EBT will continue in force until the expiry of the earliest of (i) 125 years from the date of the EBT trust deed; (ii) the date of the death of the last surviving Beneficiary of the EBT; or (iii) until Appleby Trust (Jersey) Limited declares by deed that the EBT has come to an end.

## **9.7 Transactions with Directors**

None of the Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business which was effected by any member of the Group during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

None of the Directors has or had a beneficial interest in any contract to which any member of the Group was a party during the current or immediately preceding financial year.

There are no outstanding loans or guarantees granted or provided by any member of the Group for the benefit of any of the Directors.

## **9.8 Executive Directors' service contracts, remuneration and emoluments**

Each of the Executive Directors has a service contract with the Group (through Shawbrook Bank) relating to the provision of services to the Group. In contemplation of Admission, the Executive Directors entered into new service contracts on 31 March 2015 to take effect from Admission. The principal terms of the Executive Directors' contracts are summarised below.

### **9.8.1 Overview of remuneration strategy and policy**

The Group's remuneration strategy is to provide remuneration packages that:

- attract, motivate and retain the best talent for the benefit of the Business;
- align the interests of Executive Directors, Senior Managers and employees with the long-term interests of Shareholders and other stakeholders;
- encourage and support a strong sales and service culture;
- reward the achievement of the overall business objectives of the Group; and
- are consistent with the Group's risk policies and systems.

Consistent with this remuneration strategy, the Remuneration Committee has agreed a remuneration policy for the Group's Senior Managers, including Executive Directors, whereby:

- performance-related pay will form a significant part of remuneration packages;
- such remuneration packages will be designed to promote the long-term success of the Group; and
- there will be an appropriate balance between short and longer-term performance targets linked to delivery of the Group's objectives.

The Company intends to deliver this policy for Senior Managers, including the Executive Directors, through a remuneration framework with the flexibility of being able to combine base salary, benefits, commission, annual bonuses and employee share plans. The Committee shall have the discretion to alter the incentive policy for Executive Directors if appropriate to comply with any changes in regulatory requirements. This includes (but is not limited to) the normal annual bonus and PSP award levels, the performance period over which performance is measured and vesting periods for the long-term incentives (provided that these are not less than 3 years), and the performance metrics. In doing so, the Remuneration Committee will seek to ensure that the overall incentive quantum available is no greater than under the proposed arrangements and that the majority of variable remuneration is delivered in shares.

As a result of new UK company law, following Admission, the Company will be required to submit this remuneration policy (as it relates to the Directors) to a binding vote of Shareholders at the Company's annual general meeting to be held in 2016. Accordingly, the Company will outline its future policy relating to the Directors' remuneration in its report and accounts for its financial year ending 31 December 2015.

### **9.8.2 General terms**

Each of the Executive Directors is entitled to a remuneration package comprising basic salary, discretionary performance-related bonus, personal pension contributions, participation in the Company's share incentive schemes and benefits (including private health cover, life insurance and permanent health insurance).

From Admission, the Chief Executive Officer is entitled to receive an annual salary of £350,000 and the Chief Financial Officer is entitled to receive an annual salary of £325,000. The salaries are subject to an annual review as part of the Company's review process.

In addition to normal public holidays, each of the Executive Directors is entitled to 30 working days of paid holiday in each complete holiday year.

### **9.8.3 Termination provisions**

The service contracts of the Executive Directors can be terminated by not less than 12 months' notice by either party.

The Board may put each of the Executive Directors on garden leave during his notice period. During this period, the Executive Director remains an employee of the Company and is subject to certain restrictions. Where either party has served notice to terminate, the Company may elect to terminate employment immediately by making a payment in lieu of notice equivalent to the Executive Director's salary for the notice period in monthly payments which will continue until the expiry of the notice period or the date on which the Executive Director obtains an alternative remunerated position, in which case the monthly payments will be reduced by the amount of salary received each month by the Executive Director pursuant to the alternative remunerated position.

In addition, the employment of each Executive Director is terminable with immediate effect in certain circumstances, including where that Executive Director (i) is guilty of gross misconduct (including any conduct which may bring the Company or any Group company into disrepute); (ii) becomes bankrupt or makes any composition or enters into any voluntary arrangement with his creditors; (iii) is convicted of any criminal offence (other than a motoring offence for which no custodial sentence is given to him); (iv) fails to report to the Board all matters of which he becomes aware that could reasonably be expected to materially adversely affect the present or future business of the Company or any Group company; (v) is, in the reasonable opinion of the Board, grossly negligent in the performance of his duties; or (vi) commits any material breach of applicable rules or guidance of the FCA or the PRA or both.

In the event of termination, the service contracts of the Executive Directors impose post-termination restrictions, including those described as follows. For a period of 12 months following his termination (less any period spent on garden leave immediately prior to termination), an Executive Director may not, without the prior written consent of the Board, (i) in competition with the Company or any Group company be concerned in certain restricted business activities within the UK or any other country in which the Group invests in aggregate regulatory capital of not less than £5,000,000, either as a principal and/or as a lender where the Executive Director was materially concerned with such services or activities during the period of six months prior to termination (or the start of any period of garden leave, if earlier); (ii) offer employment to or otherwise endeavour to entice away from the Group, any senior employee of the Group or Group employee who could materially damage the interests of the Company or any Group company if he became employed or engaged with the Executive Director in any competing business concern and who during the six months prior to termination (or the start of any period of garden leave, if earlier) worked closely with the Executive Director; or (iii) provide goods or services to any firm, company or other person with whom the Company or the Group were in the habit of dealing during the previous six months and with whom the Executive Director had dealt to a material extent or for whom the Executive Director was responsible on behalf of the Company or any Group company during that period. In addition, the Executive Director may not at any time after termination represent himself as being connected with or interested in the business of the Company or the Group.

#### 9.8.4 Summary of service contracts

The particulars of the service contracts with the Executive Directors of the Company are set out below:

Name	Position	Date of appointment	Unexpired term (months)	Notice periods by Company (months)	Notice periods by Director (months)
Richard Pyman .....	Chief Executive Officer	1 April 2014	N/A	Six	Six
Tom Wood .....	Chief Financial Officer	1 October 2012	N/A	Six	Six

The aggregate remuneration paid (including salary and other benefits) to the Senior Managers (including the Executive Directors) for the year ended 31 December 2014, was £3.4 million of which £2.2 million comprised salaries, £0.2 million retirement benefits or cash in lieu of pension, £0.9 million annual variable remuneration, £0.1 million taxable benefits and £(nil) share-based payments.

Details of the remuneration paid to the Executive Directors for the year ended 31 December 2014 is set out below.

Name	Position	Basic salary or fees (£)	Discretionary bonus (£)	Benefits in kind (£)	Pension contributions (£)	2014 Total (£)
Richard Pyman ...	Chief Executive Officer	225,000	125,000	1,913	16,005	367,918
Tom Wood .....	Chief Financial Officer	275,000	150,000	34,122	20,625	479,754

#### 9.8.5 Annual bonus

The service contracts of the Executive Directors provide that they may receive bonuses in accordance with the rules and terms of any bonus scheme operated by Shawbrook Bank.

From 2015, it is intended that the annual bonus for Executive Directors will be paid in a mixture of cash and deferred shares. Deferred shares will be awarded under the DSBP, the key terms of which are set out at Section 11.2 of this Part XIX (*Additional Information*). For Executive Directors, the deferred shares may vest no earlier than three years after grant, subject to continued employment.

Annual bonuses for Executive Directors will be capped at 100% of salary. At least 50 per cent. of any Executive Director's bonus earned will normally be paid in deferred shares, as set out above.

The Remuneration Committee will set performance targets for the annual bonus at the start of each financial year. It is anticipated that the metrics will reflect key performance indicators related to the Company's financial, balance sheet and non-financial performance. In addition, an underpin based on the Committee's assessment of the Company's overall performance, including *inter alia* underlying financial performance, sustainability, profits, customer satisfaction, risk management and regulatory capital ratio may also apply, with Committee discretion to reduce (potentially to zero) the size of any award. In addition, any annual bonus will be subject to malus and clawback provisions.

#### 9.8.6 Long-term incentives

The Executive Directors' service contracts provide that they may be eligible to participate in such share option, share incentive or long-term incentive scheme(s) as the Company operates from time to time, subject to the rules of the relevant scheme. Please refer to Section 11 of this Part XIX (*Additional Information*) for further details of the share schemes which it is proposed will be offered by the Company.

The PSP will form the primary long-term incentive arrangement for Executive Directors. Under the PSP, it is intended that awards may be in the form of conditional free shares or nil-cost options and may be granted to the Executive Directors on an annual basis. Annual awards will normally be determined by reference to a number of shares equal in value to 100 per cent. of base salary. It is anticipated that the first awards to Executive Directors under the PSP will be made on Admission.

Performance conditions will be set for each award, as detailed in Section 11.1 of this Part XIX (*Additional Information*). The performance conditions for each award to Executive Directors will be disclosed in the Directors' Remuneration Report.

A summary of the principal terms of the PSP is set out at Section 11.1 of this Part XIX (*Additional Information*).

## **9.9 Non-Executive Directors' letters of appointment and fees**

The Company has five Non-Executive Directors of which Lindsey McMurray is not considered to be independent and Graham Alcock, Robin Ashton, Sir George Mathewson, CBE, and Roger Lovering are considered to be independent.

The Non-Executive Directors of the Company (including the Chairman) do not have service contracts. The independent Non-Executive Directors are appointed by letters of appointment. The key terms of the independent Non-Executive Directors' letters of appointment are set out below.

### **9.9.1 General terms**

The annual fees payable to the Non-Executive Directors from Admission are set out below:

Sir George Mathewson, CBE	£122,700
Robin Ashton	£65,000
Roger Lovering	£65,000
Graham Alcock	£55,000
Lindsey McMurray	£30,000*

\* This fee is payable to Pollen Street Capital.

Each Non-Executive Director (or, as applicable, the Representative Director) is entitled to be reimbursed for all received business expenses necessarily incurred in the proper performance of his or her duties. The Non-Executive Directors are not entitled to any bonus during the appointment and they may not participate in any pension or share scheme operated by the Company.

Each of the Non-Executive Directors is appointed for an initial three-year period. This may be extended for an additional three-year period at the end of the appointment, at the Board's discretion.

The terms of appointment of the Representative Director are subject to the terms of the Relationship Agreement between the Company and the Major Shareholder.

The terms of appointment also impose confidentiality obligations on the Non-Executive Directors and compel them to comply with the terms of the Model Code.

### **9.9.2 Termination of office**

In the case of the Non-Executive Directors other than the Representative Director, either party may terminate the letter of appointment on one month's written notice. The appointment of any Non-Executive Director (including the Representative Director) may also be terminated with immediate effect by the Group if the Non-Executive Director commits a material breach of his or her obligations under the letter of appointment or commits any serious breach or non-observance of his or her obligations to the Company (including statutory and fiduciary duties owed to the Company).

The letter of appointment for any Non-Executive Director shall also terminate if the Shareholders do not re-elect the Non-Executive Director at any annual general meeting at which the Articles require, or the Directors resolve, that the Non-Executive Director stand for re-election.

In the case of the Representative Director, the Group may terminate the Director's appointment by notice in writing with immediate effect if (i) the Company is entitled to terminate the Director's appointment pursuant to the Relationship Agreement; (ii) the Relationship Agreement terminates; or (iii) if the Major Shareholder ceases to hold the percentage of voting rights required under the Relationship Agreement to retain the Director as a Representative Director.

### 9.9.3 Summary of letters of appointment

Each of the Non-Executive Directors has been appointed to the Board of the Company with a three-year term with effect from Admission, apart from Lindsey McMurray who was appointed on 30 April 2010. Each Non-Executive Director is also a director of Shawbrook Bank and the dates of their appointment to the board of Shawbrook Bank are set out below, together with details of each Non-Executive Director's current term.

Non-Executive Director	Date of appointment to the board of Shawbrook Bank	Notice periods by Company (months)	Notice periods by Director (months)
Graham Alcock .....	1 April 2007	One	One
Robin Ashton .....	21 November 2011	One	One
Roger Lovering .....	25 January 2013	One	One
Sir George Mathewson, CBE .....	1 February 2011	One	One
Lindsey McMurray .....	1 February 2011	One	One

Details of the fees and other remuneration payable to the Non-Executive Directors for the 12 months ended 31 December 2014 are set out below:

Name	Position	Basic salary or fees (£)	Discretionary bonus (£)	Benefits in kind (£)	Pension contributions (£)	2014 Total (£)
Graham Alcock .....	Non-Executive Director	27,251	0	0	0	27,251
Robin Ashton .....	Non-Executive Director	50,000	0	0	0	50,000
Sir George Mathewson, CBE <sup>(1)</sup> .....	Chairman, Non-Executive Director	122,700	0	0	0	122,700
Lindsey McMurray <sup>(2)</sup> .....	Non-Executive Director	0	0	0	0	0
Roger Lovering .....	Non-Executive Director	60,000	0	0	0	60,000

(1) Sir George Mathewson, CBE was paid a salary of £7,500 for his role as Non-Executive Director and a further £115,200 in consultancy fees, paid to Merklands Limited.

(2) Pollen Street Capital was paid £30,000 in director's fees for the year ended 31 December 2014 – see note 12 in Part XV (*Historical Financial Information*).

## 10. Related party transactions

Save as disclosed in Note 37 to the consolidated historical financial information of the Group in Part XV (*Historical Financial Information*) and paragraphs 10.1 through 10.4 below, there were no related party transactions entered into by the Company or any member of the Group during the 12 months ended 31 December 2012, 2013 and 2014 and during the period between 31 December 2014 and 31 March 2015, being the latest practicable date prior to the publication of this Prospectus.

### 10.1 Transactions with Target Group Limited

Target Group Limited is an investment of the Major Shareholder. The Group has an amortising term loan, secured on mortgage assets, to Target Financial Systems Limited a wholly owned subsidiary of Target Group Limited. Income earned during the year was £0.8 million (2013: £nil, 2012: £nil) and the balance outstanding at 31 December 2014 was £7.3 million (2013: £10.5 million, 2012: £nil).

The Group has also entered into a contract with Target Servicing Limited, a wholly owned subsidiary of Target Group Limited for administration services on various portfolios. Target Servicing Limited services various portfolios, under customary commercial arrangements, on behalf of the Group. The Group has been charged £4.6 million during 2014 for these services (2013: £2.1 million, 2012: £0.9 million) and no amounts were due at 31 December 2014 (2013: £nil, 2012: £nil).

### 10.2 Transactions with Arrow Global Guernsey Holdings Limited

The Group has committed £20.0 million as lender under a Revolving Credit Facility to Arrow Global Guernsey Holdings Limited (an investment of Pollen Street Capital Limited up to March 2014). Income

earned during the year was £0.4 million (2013: £0.1 million, 2012: £nil) and the balance outstanding at 31 December 2014 was £7.8 million (2013: £10.0 million, 2012: £nil).

### **10.3 Transactions with Freedom Finance Limited**

The Group has paid £1.3 million (2013: £1.3 million; 2012: £0.9 million) in broker fees to Freedom Finance Limited, an investment of the Major Shareholder, since August 2014.

### **10.4 Other transactions**

See Note 37 to the consolidated historical financial information of the Group in Part XV (*Historical Financial Information*) for information regarding certain transactions related to key management personnel.

## **11. Share plans and employee incentive schemes**

Following Admission, the Company intends to operate two discretionary executive share plans: a performance share plan (the “**PSP**”) and a deferred share bonus plan (the “**DSBP**”). There will be two all-employee share ownership plans available for operation at the Company’s discretion: a share incentive plan (the “**SIP**”) and a sharesave plan (the “**SAYE Plan**”). The PSP, DSBP, SIP and SAYE Plan are, together, the “**New Plans**”.

References in this Section II to the Board include any designated committee of the Board.

The principal features of the New Plans are summarised below.

### **11.1 PSP**

The PSP was adopted by the Board on 20 March 2015, conditional on Admission.

#### *Status*

The PSP is a discretionary executive share plan.

Under the PSP, the Remuneration Committee may, within certain limits and subject to any applicable performance conditions, grant to eligible employees:

- nil cost options over Ordinary Shares (“**PSP Options**”);
- conditional awards (i.e. a right to receive free Ordinary Shares) (“**PSP Conditional Awards**”); and/or
- awards over forfeitable Ordinary Shares (“**PSP Restricted Awards**”),

(together “**PSP Awards**”).

No payment is required for the grant of a PSP Award.

#### *Eligibility*

All employees (including Executive Directors) will be eligible for selection to participate in the PSP at the discretion of the Remuneration Committee.

#### *Limits*

The PSP may operate over new issue Ordinary Shares, treasury Ordinary Shares or Ordinary Shares purchased in the market.

The rules of the PSP provide that, in any period of 10 calendar years, not more than 10% of the Company’s issued ordinary share capital may be issued under the PSP and under any other

employees' share scheme adopted by the Company. Of this, not more than 5% may be issued under the PSP and under any other executive share scheme adopted by the Company.

Ordinary Shares issued out of treasury under the PSP will count towards these limits for so long as this is required under institutional shareholder guidelines. Ordinary Shares issued or to be issued pursuant to awards granted before the Company was listed on the London Stock Exchange and Ordinary Shares issued to any employee benefit trust before the Company was listed on the London Stock Exchange will not count towards these limits.

#### *Grant of PSP Awards*

The Remuneration Committee may grant PSP Awards with a maximum total market value of up to 100% of annual base salary. In exceptional circumstances, the Remuneration Committee may grant PSP Awards with a maximum total market value of up to 300 per cent. of annual base salary.

PSP Awards may be granted: (i) within 42 days of the announcement by the Company of its results for any period; or (ii) at any other time that the Remuneration Committee, at its discretion, may deem there are exceptional circumstances which justify the granting of PSP Awards.

However, no PSP Awards may be granted more than 10 years after the date when the PSP was adopted. PSP Awards are not transferable other than to the participant's personal representatives in the event of his death. The benefits received under the PSP are not pensionable.

#### *Holding period*

At its discretion, the Remuneration Committee may grant PSP Awards subject to a holding period of up to two years following vesting. Where any tax or social security contributions arise on vesting or exercise of the PSP Award then the holding period will only apply to the shares remaining (or that would have remained) after sale of sufficient shares to meet such tax or contributions.

#### *Performance and other conditions*

The Remuneration Committee will impose performance conditions on the vesting of PSP Awards which are granted to Executive Directors. The Remuneration Committee may also, at its discretion, decide to impose performance conditions on the vesting of PSP Awards which are granted to employees other than Executive Directors (and it is expected that any PSP Awards granted to Senior Managers would be subject to performance conditions). In exceptional circumstances, any performance conditions applying to PSP Awards may be varied if the Remuneration Committee considers that it would be appropriate to amend such performance conditions provided the Remuneration Committee considers that the new performance conditions are fair and reasonable and are not materially less or more challenging than the original conditions would have been had these circumstances not arisen.

Where performance conditions are specified for PSP Awards, the underlying measurement period for such conditions will ordinarily comprise at least three years. The Remuneration Committee currently intends that the performance conditions for grants to be made in 2015 will be based on: (i) balanced scorecard measures, such as customer outcomes and satisfaction, (ii) effective risk management and culture, and (iii) a measure of relative total shareholder return performance.

The Remuneration Committee may set different performance conditions for Executive Directors from those described above for future awards.

The Remuneration Committee may also impose other conditions on the vesting of PSP Awards.

#### *Malus*

The Remuneration Committee may decide, at any time prior to the vesting of PSP Awards, that the number of Ordinary Shares subject to a PSP Award shall be reduced (including to nil) on such basis that the Remuneration Committee in its discretion considers to be fair, reasonable and proportionate where, in its opinion, there are exceptional circumstances. Such exceptional circumstances may include reputational damage, failure of risk management or poor underlying performance.

### *Vesting and exercise*

PSP Options will normally become exercisable, PSP Conditional Awards will normally vest and PSP Restricted Awards will cease to be subject to forfeiture, on the third anniversary of the date of granting the PSP Award to the extent that any applicable performance conditions have been satisfied, in normal circumstances subject to continued service and to the extent permitted under any operation of malus or clawback. PSP Options will normally remain exercisable until the tenth anniversary (or such shorter period as the Remuneration Committee may, at its discretion, decide on or before grant) of the date of granting the PSP Option.

### *Cessation of employment*

As a general rule, an unvested PSP Award (and, where a participant is dismissed for cause, any vested PSP Options) will lapse immediately upon a participant ceasing to be employed by or hold office with the Group (or on the date that notice of termination of employment is given or received, if earlier). However, if a participant so ceases because of his ill-health, injury or disability (in each case, evidenced to the satisfaction of the Remuneration Committee), or retirement with the agreement of the Company, or his employing company or the business for which he works being transferred out of the Group, or in other circumstances at the discretion of the Remuneration Committee (each a "**PSP Good Leaver Reason**"), his PSP Award will ordinarily vest on the date when it would have vested if he had not so ceased to be a Group employee or director, subject to: (i) the satisfaction of any applicable performance conditions measured over the original performance period; (ii) the operation of malus or clawback; and (iii) (unless the Remuneration Committee decides that is inappropriate in the particular circumstances or that it should be carried out on some other basis) pro-rating to reflect the reduced period of time between grant and the participant's cessation of employment as a proportion of the normal vesting period. The Remuneration Committee can delay its decision on whether a participant is a good leaver until the point at which performance is determined and based on all the circumstances (e.g. whether restrictive covenants have been complied with).

If a participant ceases to be a Group employee or director for a PSP Good Leaver Reason, the Remuneration Committee can alternatively decide that his PSP Award will vest early when he leaves. If a participant dies, his PSP Award will vest on the date of his death (unless the Remuneration Committee decides, in exceptional circumstances, that his PSP Award will vest on the date when it would have vested if he had not died, in which case the normal vesting provisions for leavers (above) will apply). The extent to which a PSP Award will vest in these situations will depend upon: (i) the extent to which any applicable performance conditions have been satisfied at the date of cessation, (ii) the operation of malus or clawback, and (iii) (unless the Remuneration Committee decides that is inappropriate in the particular circumstances or that it should be carried out on some other basis) pro-rating by reference to the proportion of the vesting period that has then elapsed.

To the extent that PSP Options vest in accordance with the above provisions, they may be exercised for a period of 12 months following vesting and will otherwise lapse at the end of that period. To the extent that a participant who leaves in circumstances other than dismissal for cause or dies held vested PSP Options, they may be exercised for a period of 12 months following the date of cessation and will otherwise lapse at the end of that period.

### *Corporate events*

In the event of a takeover or winding up of the Company (other than an internal reorganisation), PSP Awards will vest early subject to: (i) the extent that any applicable performance conditions have been satisfied at that time (which may include regard to projected performance over the full period); (ii) the operation of malus or clawback; and (iii) (unless the Remuneration Committee decides that is in the particular circumstances or that it should be carried out on some other basis) pro-rating to reflect the reduced period of time between grant and early vesting as a proportion of the vesting period that has then elapsed.

In the event of an internal corporate reorganisation, PSP Awards may (with the consent of the acquiring company) be replaced by equivalent new PSP Awards over shares in the acquiring company unless the Remuneration Committee decides that PSP Awards should vest as in the case of a takeover.

If a demerger, special dividend or other corporate event is proposed which, in the opinion of the Remuneration Committee, would affect the market price of Ordinary Shares to a material extent and it is not appropriate or practicable to adjust the number or class of Ordinary Shares under PSP Awards as detailed below, the Remuneration Committee may decide that PSP Awards will vest as in the case of a takeover.

To the extent that PSP Options vest in accordance with the above provisions, they may be exercised for a period of one month and will otherwise lapse at the end of that period. To the extent that a participant already held vested PSP Options, they may be exercised for a period of one month from the relevant event and will otherwise lapse at the end of that period.

#### *Variation of capital*

If there is a variation of share capital of the Company or, in the event of a demerger, payment of a special dividend or other corporate event which materially affects the market price of the Ordinary Shares, then the Remuneration Committee may make such adjustments as it considers appropriate to the number or class of Ordinary Shares under PSP Awards in order to retain the economic value of the PSP Awards as it was immediately prior to such event.

#### *Clawback*

The Remuneration Committee may decide, within three years of the relevant PSP Award vesting, that the PSP Award will be subject to clawback where, in its opinion, there are exceptional circumstances. Such exceptional circumstances may include a material misstatement in published results of the Group for the period to which the award related, an error in calculating the incentive payment or misconduct on the part of the participant. The clawback may be satisfied by way of a reduction in the amount of any future PSP payments or payments under discretionary bonus plans or other incentive arrangements, the vesting of any subsisting or future share awards or PSP Awards, the number of Ordinary Shares under any vested but unexercised option granted under certain share incentive plans and/or a requirement to make a cash payment.

#### *Dividend equivalents*

The Remuneration Committee may decide that participants will receive a payment (in cash and/or additional Ordinary Shares) equal in value to any dividends that would have been paid on the Ordinary Shares which vest under their PSP Options or PSP Conditional Awards by reference to dividend record dates falling between the time when the relevant PSP Options or PSP Conditional Awards were granted and the time when they vested or, if the Remuneration Committee so decides, such later time which shall not be later than the time when Ordinary Shares are issued or transferred to participants. This amount may assume the re-investment of dividends and may exclude or include special dividends.

Shares subject to a PSP Restricted Award will include the right to receive dividends unless provided otherwise in the relevant agreement between the participant and the Company which sets out the terms on which the Shares comprised in a Restricted Award will be held.

#### *Rights attaching to Ordinary Shares*

PSP Awards will not confer any rights on any employee holding such PSP Awards until: (i) the relevant PSP Conditional Award has vested, the relevant PSP Option has been exercised or the relevant PSP Restricted Award has been released; and (ii) either (a) (in the case of a PSP Conditional Award or a PSP Option) the employee in question has received the underlying Ordinary Shares, or (b) (in the case of a PSP Restricted Award) the underlying Ordinary Shares have ceased to be subject to forfeiture. Any Ordinary Shares issued when a PSP Option is exercised or a PSP Conditional Award vests, or when Ordinary Shares subject to a PSP Restricted Award are issued or transferred, will rank equally with Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their allotment or release).

#### *Alternative settlement*

At its discretion, the Remuneration Committee may decide to satisfy PSP Awards with a cash payment equal to any gain that a participant would have made had the PSP Awards been satisfied with Ordinary Shares in the usual manner.

#### *Amendments*

The Remuneration Committee may, at any time, amend the provisions of the PSP in any respect, except that:

- the prior approval of Shareholders at a general meeting of the Company must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, individual or overall limits, the basis for determining an employee's entitlement to, and the terms of, Ordinary Shares or cash provided under the PSP, the adjustments that may be made in the event of any variation to the share capital of the Company and/or the rule relating to such prior approval, save that there are exceptions for (i) any minor amendment to benefit the administration of the PSP, to take account of the provisions of any proposed or existing legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for employees, the Company and/or its subsidiaries, or (ii) any permitted alteration to the performance conditions or any other conditions; and
- amendments to the material disadvantage of participants (other than a permitted alteration to the performance conditions or any other conditions) may only be made in respect of subsisting rights if such disadvantaged participants are invited to agree such amendment and the majority of those who respond consent to such amendment.

#### *Overseas plans*

The Remuneration Committee may, at any time, establish further plans for overseas territories, any such plan to be similar to the PSP but modified to take account of local tax, exchange control or securities laws. Any Ordinary Shares made available under such further overseas plans must be treated as counting against the limits on individual and overall participation in the PSP.

### **11.2 DSBP**

The DSBP was adopted by the Board on 20 March 2015, conditional on Admission.

#### *Status*

The DSBP is a discretionary executive share plan.

Under the DSBP, the Remuneration Committee may, within certain limits and on a discretionary basis, grant to eligible employees:

- nil cost options over Ordinary Shares (“**DSBP Options**”); and/or
- conditional awards (i.e. a right to receive free Ordinary Shares) (“**DSBP Conditional Awards**”),

(together “**DSBP Awards**”).

No payment is required for the grant of a DSBP Award.

#### *Eligibility*

All employees (including Executive Directors) are eligible for selection to participate in the DSBP at the discretion of the Remuneration Committee.

#### *Limits*

The DSBP may operate over new issue Ordinary Shares, treasury Ordinary Shares or Ordinary Shares purchased in the market.

The rules of the DSBP provide that, in any period of 10 calendar years, not more than 10% of the Company's issued ordinary share capital may be issued under the DSBP and under any other employees' share scheme adopted by the Company.

In addition, the rules of the DSBP provide that, in any period of 10 calendar years, not more than 5% of the Company's issued ordinary share capital may be issued under the DSBP and under any other executive share scheme adopted by the Company.

Ordinary Shares issued out of treasury under the DSBP will count towards these limits for so long as this is required under institutional shareholder guidelines. Ordinary Shares issued or to be issued pursuant to awards granted before the Company was listed on the London Stock Exchange and Ordinary Shares issued to any employee benefit trust before the Company was listed on the London Stock Exchange will not count towards these limits.

#### *Grant of DSBP Awards*

The Remuneration Committee may determine that a proportion of a participant's annual bonus will be deferred into Ordinary Shares. If the Remuneration Committee makes such a determination, a DSBP Award will be granted to the participant over Ordinary Shares with a total market value not exceeding the amount of the bonus being deferred.

DSBP Awards may be granted: (i) within 42 days of the announcement by the Company of its results for any period; or (ii) at any other time that the Remuneration Committee, at its discretion, may deem there are exceptional circumstances which justify the granting of DSBP Awards.

However, no DSBP Awards may be granted more than 10 years after the date when the DSBP was adopted. DSBP Awards are not transferable other than to the participant's personal representatives in the event of his death. The benefits received under the DSBP are not pensionable.

#### *Malus*

The Remuneration Committee may decide, at any time prior to the earlier of the vesting of DSBP Awards and the third anniversary of the date of grant, that the number of Ordinary Shares subject to a DSBP Award shall be reduced (including to nil) on such basis that the Remuneration Committee in its discretion considers to be fair, reasonable and proportionate where, in its opinion, there are exceptional circumstances. Such exceptional circumstances may include reputational damage, failure of risk management or poor underlying performance.

#### *Vesting and exercise*

DSBP Options will normally become exercisable, and DSBP Conditional Awards will normally vest, on the third anniversary of the date of granting the DSBP Award to the extent permitted under any operation of malus or clawback. DSBP Options will normally remain exercisable until the tenth anniversary (or such shorter period as the Remuneration Committee may, at its discretion, decide on or before grant) of the date of granting the DSBP Option.

#### *Cessation of employment*

As a general rule, a DSBP Award will not lapse upon a participant ceasing to be employed by or hold office with the Group. However, if a participant so ceases because of dismissal for gross misconduct, voluntary resignation or a similar "bad leaver" reason, his unvested DSBP Awards (and, where a participant is dismissed for cause, any vested DSBP Options) will lapse immediately upon that participant ceasing to be employed by or hold office with the Group (or on the date that notice of termination of employment is given or received, if earlier) unless the Remuneration Committee decides that the lapsing of his DSBP Awards would be inappropriate in the particular circumstances.

If a participant so ceases in circumstances in which his unvested DSBP Award does not lapse (each a "**DSBP Good Leaver Reason**"), his DSBP Award will ordinarily vest on the date when it would have vested if he had not so ceased to be a Group employee or director, subject to the operation of malus or clawback. If a participant ceases to be a Group employee or director for a DSBP Good Leaver Reason,

in exceptional circumstances the Remuneration Committee may alternatively decide that his DSBP Award will vest early when he leaves.

If a participant dies, his DSBP Award will vest on the date of his death (unless the Remuneration Committee decides, in exceptional circumstances, that his DSBP Award will vest on the date when it would have vested if he had not died, in which case the normal vesting provisions for leavers (above) will apply). The extent to which a DSBP Award will vest in these situations will depend upon the operation of malus or clawback.

To the extent that DSBP Options vest in accordance with the above provisions, they may be exercised for a period of 12 months following vesting and will otherwise lapse at the end of that period. To the extent that a participant who leaves in circumstances other than dismissal for cause held vested DSBP Options, they may be exercised for a period of 12 months following the date of cessation and will otherwise lapse at the end of that period.

#### *Corporate events*

In the event of a takeover or winding up of the Company (other than an internal reorganisation), DSBP Awards will vest early subject to the operation of malus or clawback.

In the event of an internal corporate reorganisation, DSBP Awards may (with the consent of the acquiring company) be replaced by equivalent new DSBP Awards over shares in the acquiring company unless the Remuneration Committee decides that DSBP Awards should vest as in the case of a takeover.

If a demerger, special dividend or other corporate event is proposed which, in the opinion of the Remuneration Committee, would affect the market price of Ordinary Shares to a material extent, and it is not practicable or appropriate to adjust the number or class of Ordinary Shares under DSBP Awards as detailed below, the Remuneration Committee may decide that DSBP Awards will vest as in the case of a takeover.

To the extent that DSBP Options vest in accordance with the above provisions, they may be exercised for a period of one month and will otherwise lapse at the end of that period. To the extent that a participant already held vested DSBP Options, they may be exercised for a period of one month from the relevant event and will otherwise lapse at the end of that period.

#### *Variation of capital*

If there is a variation of share capital of the Company or, in the event of a demerger, payment of a special dividend or other corporate event which materially affects the market price of the Ordinary Shares, then the Remuneration Committee may make such adjustments as it considers appropriate to the number or class of Ordinary Shares under DSBP Awards in order to retain the economic value of the DSBP Awards as it was immediately prior to such event.

#### *Clawback*

The Remuneration Committee may decide, within three years of the relevant DSBP Award being granted, that the DSBP Award will be subject to clawback, in its opinion, where there are exceptional circumstances. Such exceptional circumstances may include a material misstatement in the published results of the Group for the period to which the award related, an error in calculating the incentive payment, or misconduct on the part of the participant. The clawback may be satisfied by way of a reduction in the amount of any future bonus, the vesting of any subsisting or future share awards or DSBP Awards, the number of Ordinary Shares under any vested but unexercised option granted under certain share incentive plans and/or a requirement to make a cash payment. A change of control of the Company will not affect the ability of the Remuneration Committee to require clawback of a DSBP Award.

#### *Dividend equivalents*

The Remuneration Committee may decide that participants will receive a payment (in cash and/or additional Ordinary Shares) equal in value to any dividends that would have been paid on the Ordinary

Shares which vest under their DSBP Awards by reference to dividend record dates falling between the time when the DSBP Awards were granted and the time when the DSBP Awards vested or, if the Remuneration Committee so decides, such later time which shall not be later than the time when Ordinary Shares are issued or transferred to participants. This amount may assume the re-investment of dividends and may exclude or include special dividends.

#### *Rights attaching to Ordinary Shares*

DSBP Awards will not confer any rights on any employee holding such DSBP Awards until: (i) the relevant DSBP Conditional Award has vested or the relevant DSBP Option has been exercised; and (ii) the employee in question has received the underlying Ordinary Shares. Any Ordinary Shares allotted when a DSBP Option is exercised or a DSBP Conditional Award vests will rank equally with Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

#### *Amendments*

The Remuneration Committee may, at any time, amend the provisions of the DSBP in any respect, except that:

- the prior approval of Shareholders at a general meeting of the Company must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, individual or overall limits, the basis for determining an employee's entitlement to, and the terms of, Ordinary Shares provided under the DSBP, the adjustments that may be made in the event of any variation to the share capital of the Company and/or the rule relating to such prior approval, save that there are exceptions for any minor amendment to benefit the administration of the DSBP, to take account of the provisions of any proposed or existing legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for employees, the Company and/or its subsidiaries; and
- amendments to the material disadvantage of participants may only be made in respect of subsisting rights if such disadvantaged participants are invited to agree such amendment and the majority of those who respond consent to such amendment.

#### *Overseas plans*

The Remuneration Committee may, at any time, establish further plans for overseas territories, any such plan to be similar to the DSBP but modified to take account of local tax, exchange control or securities laws. Any Ordinary Shares made available under such further overseas plans must be treated as counting against the limits on individual and overall participation in the DSBP.

### **11.3 SIP**

The SIP was adopted by the Board on 20 March 2015, conditional on Admission.

#### *Status*

The SIP is an all-employee share ownership plan. The SIP has been designed to comply with the relevant legislation so that it can be registered with HMRC, in order to provide Ordinary Shares to UK employees under the SIP in a tax-efficient manner.

Under the SIP, eligible employees may be:

- awarded up to £3,600 worth of free Ordinary Shares ("Free Shares") each year;
- offered the opportunity to buy Ordinary Shares with a value of up to the lower of £1,800 and 10 per cent. of the employee's pre-tax salary a year ("Partnership Shares");
- given up to two free Ordinary Shares ("Matching Shares") for each Partnership Share bought; and/or
- allowed or required to purchase Ordinary Shares using any dividends received on Ordinary Shares held in the SIP ("Dividend Shares").

The limits set out above are the current limits under the applicable SIP legislation. The Board may determine that different limits shall apply in the future should the relevant legislation change in this respect.

### *SIP Trust*

The SIP operates through a UK-resident trust (the “**SIP Trust**”). The SIP Trust purchases or subscribes for shares that are awarded to or purchased on behalf of employees under the SIP.

An employee will be the beneficial owner of any Ordinary Shares held on his behalf by the trustee of the SIP Trust. Any Ordinary Shares held in the SIP Trust will rank equally with Ordinary Shares then in issue. If an employee ceases to be employed by the Group, he will be required to withdraw his Free, Partnership, Matching and Dividend Shares from the SIP Trust (or the Free Shares or Matching Shares may be forfeited as described below).

### *Eligibility*

Each time that the Board decides to operate the SIP, all UK resident tax-paying employees (including Executive Directors) must be offered the opportunity to participate. Other employees may be permitted to participate. Employees invited to participate must have completed a minimum qualifying period of employment before they can participate. That period must not exceed 18 months or, in certain circumstances, six months.

### *Limits*

The SIP may operate over new issue Ordinary Shares, treasury Ordinary Shares or Ordinary Shares purchased in the market.

The rules of the SIP provide that, in any period of 10 calendar years, not more than 10% of the Company’s issued ordinary share capital may be issued under the SIP and under any other employees’ share scheme adopted by the Company. Ordinary Shares issued out of treasury for the SIP will count towards this limit for so long as this is required under institutional shareholder guidelines. Ordinary Shares issued or to be issued pursuant to awards granted before the Company was listed on the London Stock Exchange and Ordinary Shares issued to any employee benefit trust before the Company was listed on the London Stock Exchange will not count towards this limit.

No awards of any Free, Partnership, Matching or Dividend Shares may be granted more than 10 years after the date the SIP was adopted. Free, Partnership, Matching or Dividend Shares are not transferable other than to the participant’s personal representatives in the event of his death. The benefits received under the SIP are not pensionable.

### *Free Shares*

Up to £3,600 worth of Free Shares may be awarded to each employee in a tax year. Free Shares must be awarded on the same terms to each employee, but the number of Free Shares awarded can be determined by reference to the employee’s remuneration, length of service, number of hours worked and/or objective performance criteria. The award of Free Shares can, if the Company so chooses, be subject to the satisfaction of a pre-award performance target which measures the objective success of the individual, team, division or business.

There is a holding period of between three and five years (the precise duration to be determined by the Board) during which the employee cannot withdraw the Free Shares from the SIP Trust (or otherwise dispose of the Free Shares) unless the employee leaves employment with the Group.

At its discretion, the Board may provide that some or all of the Free Shares will be forfeited if the employee leaves employment with the Group other than in the circumstances of injury, disability, redundancy, transfer of the employing business or company out of the Group, on retirement or on death (each a “**SIP Good Leaver Reason**”).

### *Partnership Shares*

The Board may allow an employee to use pre-tax salary to buy Partnership Shares. The maximum limit is the lower of £1,800 or 10 per cent. of pre-tax salary in any tax year. If a minimum amount of deductions is set, it shall not be greater than £10. The salary allocated to Partnership Shares can be

accumulated for a period of up to 12 months (the “**Accumulation Period**”) or Partnership Shares can be purchased out of deductions from the employee’s pre-tax salary when those deductions are made. In either case, Partnership Shares must be bought within 30 days of, as appropriate, the end of the Accumulation Period or the deduction from pay. If there is an Accumulation Period, the number of Ordinary Shares purchased shall be determined by reference to (i) the market value of the Ordinary Shares at the start of the Accumulation Period; (ii) the market value of the Ordinary Shares at the end of the Accumulation Period; or (iii) the lower of the two.

An employee may stop and start (or, with the agreement of the Company, vary) deductions at any time. Once acquired, Partnership Shares may be withdrawn from the SIP by the employee at any time (subject to the deduction of income tax and NICs) and will not be capable of forfeiture.

#### *Matching Shares*

The Board may offer Matching Shares free to an employee who has purchased Partnership Shares. If awarded, Matching Shares must be awarded on the same basis to all employees up to a maximum of two Matching Shares for every Partnership Share purchased.

There is a holding period of between three and five years (the precise duration to be determined by the Board) during which the employee cannot withdraw the Matching Shares from the SIP Trust unless the employee leaves employment with the Group.

The Board can, at its discretion, provide that the Matching Shares will be forfeited if the associated Partnership Shares are withdrawn by the employee (other than on a corporate event or where the employee leaves employment with the Group for a SIP Good Leaver Reason) or if the employee leaves employment with the Group other than for a SIP Good Leaver Reason. Forfeiture can only take place within three years of the Matching Shares being awarded.

#### *Re-investment of dividends*

The Board may allow or require an employee to re-invest the whole or part of any dividends paid on Ordinary Shares held in the SIP. Dividend Shares must be held in the SIP Trust for three years, unless the employee leaves employment with the Group. Once acquired, Dividend Shares are not capable of forfeiture.

#### *Corporate events*

In the event of a general offer being made to Shareholders—or a similar takeover event taking place—during a holding period, employees will be able to direct the trustee of the SIP Trust as to how to act in relation to their Ordinary Shares held in the SIP. In the event of a corporate re-organisation, any Ordinary Shares held by employees may be replaced by equivalent shares in a new holding company.

#### *Variation of capital*

Ordinary Shares acquired on a variation of share capital of the Company will usually be treated in the same way as the Ordinary Shares acquired or awarded under the SIP in respect of which the rights were conferred and as if they were acquired or awarded at the same time. In the event of a rights issue during a holding period, participants will be able to direct the trustee of the SIP Trust as to how to act in respect of their Ordinary Shares held in the SIP.

#### *Rights attaching to Ordinary Shares*

Any Ordinary Shares allotted under the SIP will rank equally with Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

#### *Amendments*

The Board (with the consent of the trustees of the SIP Trust) may at any time amend the rules of the SIP.

The prior approval of Shareholders at a general meeting of the Company must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to

eligibility, individual or overall limits, the basis for determining an employee's entitlement to, and the terms of, Ordinary Shares provided under the SIP, the adjustments that may be made in the event of any variation to the share capital of the Company and/or the rule relating to such prior approval, save that there are exceptions for any minor amendment to benefit the administration of the SIP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for employees, the Company and/or its subsidiaries or the trustees of the SIP Trust.

#### *Overseas plans*

The Board may, at any time, establish further plans for overseas territories, any such plan to be similar to the SIP but modified to take account of local tax, exchange control or securities laws. Any Ordinary Shares made available under such further overseas plans must be treated as counting against the limits on individual and overall participation in the SIP.

### **11.4 SAYE Plan**

The SAYE Plan was adopted by the Board on 20 March 2015, conditional on Admission.

#### *Status*

The SAYE Plan is an all-employee share ownership plan. The SAYE Plan has been designed to comply with the relevant legislation so that it can be registered with HMRC in order to provide Ordinary Shares to UK employees under the SAYE Plan in a tax-efficient manner.

Under the SAYE Plan, the Board may within certain limits:

- grant UK tax-favoured options over Ordinary Shares to UK tax-resident eligible employees; and
- at its discretion, grant options over Ordinary Shares to other eligible employees

(the "**SAYE Options**"). No payment is required for the grant of an SAYE Option.

#### *Eligibility*

Each time that the Board decides to operate the SAYE Plan, all UK resident tax-paying employees (including Executive Directors) must be offered the opportunity to participate. Other employees may be permitted to participate at the discretion of the Board. The Board may require employees to have completed a qualifying period of employment of up to five years before granting SAYE Options.

#### *Limits*

The SAYE Plan may operate over new issue Ordinary Shares, treasury Ordinary Shares or Ordinary Shares purchased in the market.

The rules of the SAYE Plan provide that, in any period of 10 calendar years, not more than 10% of the Company's issued ordinary share capital may be issued under the SAYE Plan and under any other employees' share scheme adopted by the Company. Ordinary Shares issued out of treasury for the SAYE Plan will count towards these limits for so long as this is required under institutional shareholder guidelines. Ordinary Shares issued or to be issued pursuant to awards granted before the Company was listed on the London Stock Exchange and Ordinary Shares issued to any employee benefit trust before the Company was listed on the London Stock Exchange will not count towards these limits.

#### *Grant of SAYE Options*

The Board may, in its absolute discretion, issue invitations to eligible employees to apply for the grant of SAYE Options. Invitations may be issued during the period of 42 days following:

- the announcement of the Company's interim or final results for any period;
- the announcement of a new prospectus for certified sharesave savings arrangements registered with HMRC; or

- the announcement of amendments to be made to applicable sharesave legislation or the coming into force of such amendments.

Invitations may also be issued following a determination by the Board that exceptional circumstances have arisen which justify the issue of invitations outside the usual invitation periods.

If the Board receives applications for the grant of SAYE Options over Ordinary Shares which in aggregate exceed the number of Ordinary Shares which has been made available for the purpose of that issue of invitations, the applications will be scaled down accordingly.

No SAYE Options may be granted more than 10 years after the date when the SAYE Plan was adopted. SAYE Options are not transferable other than to the participant's personal representatives in the event of his death. The benefits received under the SAYE Plan are not pensionable.

It is a condition of participation in the SAYE Plan that an eligible employee enters into a savings contract under a "certified contractual savings scheme" (as defined in the relevant legislation) maturing after three or five years.

Ordinary Shares subject to an SAYE Option granted under the SAYE Plan may be acquired only out of the proceeds (including any interest or bonus) due under the related savings contract. The number of Ordinary Shares subject to an SAYE Option is that number which, at the exercise price per Ordinary Share under the SAYE Option, may be acquired out of the expected proceeds of the related savings contract (including any interest or bonus).

The minimum amount which an employee may save under a savings contract is currently £5 per month and the maximum amount is £500 per month pursuant to the applicable sharesave legislation. The Board may determine that different limits shall apply in the future should the relevant legislation change in this respect.

#### *Exercise price*

An SAYE Option will entitle the holder to acquire Ordinary Shares at a price determined by the Board, which may not be less than the higher of:

- 80% of the average closing middle market quotation of an Ordinary Share for the three dealing days immediately preceding the day on which invitations to apply for the grant of options are issued; and
- If the SAYE Option relates to the new issue Ordinary Shares, the nominal value of an Ordinary Share.

#### *Exercise of SAYE Options*

Options may normally only be exercised during the six-month period following the bonus date (being the third or fifth anniversary of the commencement of the related savings contract).

#### *Cessation of employment*

As a general rule, an SAYE Option will lapse immediately upon a participant ceasing to be employed by the Group. However, if a participant so ceases because of his injury, disability, redundancy, retirement or any compulsory retirement age specified in his contract of employment, or his employing company or the business for which he works being transferred out of the Group, his SAYE Option will be exercisable for six months from the date of cessation to the extent of any savings made up to the point of exercise.

If a participant dies, his SAYE Option will be exercisable for 12 months from the extent of any savings made up to the point of exercise.

If SAYE Options are not so exercised, they will lapse at the end of the relevant period.

### *Corporate events*

In the event of a change of control, employees will be able to exercise their SAYE Options for six months from the date of the relevant event occurring. In the event of a corporate reorganisation, any SAYE Options held by employees over Ordinary Shares in the Company may be exchanged for equivalent options over shares in the new holding company provided certain conditions are met which ensure that such exchange is a "qualifying exchange" for the purposes of the applicable sharesave legislation.

### *Variation of capital*

If there is a variation of share capital of the Company, or in the event of a demerger, payment of a special dividend or other corporate event which materially affects the market price of the Ordinary Shares, then the Board may make such adjustments as it considers appropriate to the number of Ordinary Shares under SAYE Option and the exercise price may be varied in such manner as the Board considers appropriate and provided that following any adjustment the Ordinary Shares shall continue to satisfy the conditions set out in the applicable sharesave legislation.

### *Rights attaching to Ordinary Shares*

SAYE Options will not confer any rights on any employee holding such SAYE Options until the relevant SAYE Option has been exercised and the employee in question has received the underlying Ordinary Shares. Any Ordinary Shares allotted when an SAYE Option is exercised will rank equally with Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

### *Amendments*

The Board may at any time amend the rules of the SAYE Plan.

The prior approval of Shareholders at a general meeting of the Company must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, individual or overall limits, the basis for determining an employee's entitlement to, and the terms of, Ordinary Shares provided under the SAYE Plan, the adjustments that may be made in the event of any variation to the share capital of the Company and/or the rule relating to such prior approval, save that there are exceptions for any minor amendment to benefit the administration of the SAYE Plan, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for employees, the Company and/or its subsidiaries.

### *Overseas plans*

The Board may, at any time, establish further plans for overseas territories, any such plan to be similar to the SAYE Plan but modified to take account of local tax, exchange control or securities laws. Any Ordinary Shares made available under such further overseas plans must be treated as counting against the limits on individual and overall participation in the SAYE Plan.

## **11.5 IPO Awards**

The Remuneration Committee has decided to grant one-off awards ("IPO Awards") to certain employees of the Group under the Shawbrook Bank Incentive Plan 2015. In order to be eligible for IPO Awards, employees were required, as of 28 February 2015, to be permanent members of staff, to have completed three months' service and not to be under notice or subject to formal disciplinary proceedings. The value of the IPO Awards will be dependent on the date the employee joined Shawbrook Bank. Those who joined after 1 January 2014 will receive a gross IPO award of £1,500, those who joined between 1 January 2013 and 31 December 2013 will receive a gross IPO award of £2,000, and those who joined before 1 January 2013 will receive a gross IPO award of £2,500. The IPO Awards will vest on Admission. Each recipient will receive Ordinary Shares in full or partial satisfaction of the IPO Award, with any balancing amount settled in cash.

## **12. Employee benefit trusts**

The Company may operate the New Plans in conjunction with the EBT and any other employee benefit trust which the Company reserves the right to establish for the purposes of operating the New Plans or any other equity-based employee incentivisation arrangements operated by the Company.

Any trust which is established following Admission may acquire Ordinary Shares either by market purchase or by subscription and the trustee shall be entitled to hold or distribute Ordinary Shares in respect of options/awards pursuant to the New Plans. It is intended that any such trust will be funded by way of loans and other contributions from the Company and other group companies and may not, at any time without prior Shareholder approval, hold more than 5% of the issued ordinary share capital of the Company (or such other greater percentage as may be required under institutional investor guidelines from time to time).

Any Ordinary Shares issued to an employee benefit trust following Admission will count for the purposes of the limits set out in the paragraphs entitled "Limits" above.

## **13. Corporate governance**

### **13.1 Compliance with the UK Corporate Governance Code**

For details of the Company's compliance with the UK Corporate Governance Code, please see Part VIII (*Directors, Senior Managers and Corporate Governance*) above.

### **13.2 The Board**

The Company is led and controlled by the Board. The names, responsibilities and details of the current Directors appointed to the Board are set out above in Part VIII (*Directors, Senior Managers and Corporate Governance*).

### **13.3 Model Code**

The Company has adopted, with effect from Admission, a code of securities dealings in relation to the Ordinary Shares which is based on, and is at least as rigorous as, the Model Code. The code adopted will apply to the Directors and other relevant employees of the Group.

## **14. Employees**

The average monthly number of employees (including Executive Directors) employed by the Group for the years ended 31 December 2012, 2013 and 2014 was as follows:

Year ended 31 December		
2014	2013	2012
414	281	179

## **15. Pensions**

The Group does not operate a pension scheme. Pension contributions are paid to staff and Directors' personal pension schemes. The costs of the Group's contributions to defined contribution pension arrangements are recognised as an employee benefit expense when they are due. For the year ended 31 December 2014, pension costs for the Group amounted to £1.2 million.

## **16. Significant change**

There has been no significant change in the financial or trading position of the Group since 31 December 2014, being the date to which the historical financial information in Part XV (*Historical Financial Information*) was prepared.

## **17. Litigation and disputes**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during a period covering at least the 12

months prior to the date of this Prospectus which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability.

## **18. Material contracts**

Set out below is a summary of (i) each material contract (other than a contract in the ordinary course of business) to which the Company is a party which has been entered into within the two years immediately preceding the date of this Prospectus; and (ii) any other contract (other than a contract in the ordinary course of business) entered into by any member of the Group which contains a provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this Prospectus.

### **18.1 Underwriting Agreement**

The Company (for itself and as agent for and on behalf of the Management Selling Shareholders, the Other Employee Shareholders and Sir Brian Ivory CBE pursuant to the Sale Elections) the Directors, the Investor Selling Shareholders and the Banks have entered into the Underwriting Agreement pursuant to which, on the terms and subject to certain conditions contained in the Underwriting Agreement which are typical of agreements of this nature, the Banks have severally agreed to underwrite a proportion of, and together to underwrite all of, the issue and sale of the Offer Shares available under the Offer, before any exercise of the Over-allotment Option.

The obligations of the Banks under the Underwriting Agreement are subject to certain conditions and termination rights that are customary for an agreement of this nature. These conditions and termination rights include, among other things, there being no breach of representation, warranty or obligation under the Underwriting Agreement, there being no change in the market which in the good faith opinion of the Joint Bookrunners is material in the context of the Offer, completion of the Corporate Reorganisation and Admission becoming effective not later than 8 a.m. on 8 April 2015 (or such later time or date (not later than 8 a.m. on 15 April 2015) as the Global Coordinators may agree).

If the conditions are not satisfied or waived (if capable of being waived) or any termination rights are exercised, the Offer will lapse and any monies received in respect of the Offer will be returned to applicants without interest.

The Underwriting Agreement provides for the Banks to be paid certain commissions by the Company and the Investor Selling Shareholders in respect of the Offer Shares issued by the Company and sold by the Investor Selling Shareholders, and by the Major Shareholder in respect of any Over-allotment Shares transferred following exercise of the Over-allotment Option. The aggregate commission will be equal to 2.5 per cent. of the Offer Price, multiplied by the aggregate number of such shares. Each of the Company and the Investor Selling Shareholders may also, at the absolute discretion of the Major Shareholder, pay an additional commission equal to up to 1 per cent. of the Offer Price multiplied by the aggregate number of Offer Shares issued (in the case of the Company) and Offer Shares sold (including any Over-allotment Shares, if any) (in the case of the Investor Selling Shareholders), the amount of which will be determined and payable 30 days after Admission. The proportion of any such discretionary commission which each Underwriter may receive will be determined by the Major Shareholder (on behalf of itself, the Company and the other Investor Selling Shareholders).

The Banks will propose the allocation of the Offer Shares and the final allocation of Offer Shares will be determined jointly by the Company, the Major Shareholder and the Global Coordinators

The Company and, in certain circumstances, the Selling Shareholders, have agreed to pay or cause to be paid (together with an amount equal to any applicable VAT) certain costs, charges, fees and expenses of or arising in connection with or incidental to the Offer, including (subject to certain limitations) any UK stamp duty and/or SDRT (up to a maximum of 0.5 per cent.) accruing on the sell down of shares by the Selling Shareholders.

The Company, the Executive Directors, Non-Executive Directors and the Investor Selling Shareholders have each given certain representations, warranties and undertakings to the Banks and the Company has given certain indemnities to the Banks, including indemnities for liabilities under applicable securities laws, under and subject to the terms of the Underwriting Agreement.

The Major Shareholder has granted the Stabilising Manager the Over-allotment Option, pursuant to which the Stabilising Manager may require the Major Shareholder to transfer additional Ordinary Shares of up to 10 per cent. of the total number of Ordinary Shares comprised in the Offer (before any exercise of the Over-allotment Option) at the Offer Price to cover over-allotments, if any, made in connection with the Offer. The Over-allotment Option may be exercised, in whole or in part, at any time during the period from the commencement of conditional dealings of Ordinary Shares on the London Stock Exchange and ending 30 calendar days thereafter.

The parties to the Underwriting Agreement have given certain covenants to each other regarding compliance with law and regulations affecting the making of the Offer in relevant jurisdictions.

### **18.2 Lock-up arrangements**

Each of the Company, the Directors, the Senior Managers and the other Selling Shareholders has agreed to certain lock-up arrangements. Details of these lock-up arrangements are set out below and in Section 10 of Part XVII (*Details of the Offer*).

The Company has agreed that, subject to certain exceptions, during the period of 180 days from Admission, it will not directly or indirectly, without the prior written consent of the Global Coordinators, issue, lend, offer, sell or contract to sell, issue options in respect of or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction (including through derivatives) with the same economic effect as, or agree to do, any of the foregoing.

Each of the Directors and Senior Managers has agreed with the Banks that, subject to certain exceptions, he or she will not, directly or indirectly, without the prior written consent of the Global Coordinators, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing:

- (A) during the period to and including the first anniversary of Admission, with this restriction applying in respect of such Director's entire holding of Ordinary Shares following Admission;
- (B) during the period from the first anniversary of Admission to and including the second anniversary of Admission, with this restriction applying in respect of two thirds of such Director's holding of Ordinary Shares following Admission; and
- (C) during the period from the second anniversary of Admission to and including the third anniversary of Admission, with this restriction applying in respect of one third of such Director's holding of Ordinary Shares following Admission.

Each of the Investor Selling Shareholders has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, directly or indirectly, without the prior written consent of the Global Coordinators, offer, lend, sell or contract to sell or issue options in respect of or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.

### **18.3 Relationship Agreement**

The Company entered into the Relationship Agreement with the Major Shareholder on 31 March 2015. The principal purpose of the Relationship Agreement is to ensure that the Company will be capable of carrying on its business independently of the Major Shareholder after Admission.

The Relationship Agreement will take effect on Admission and will continue for so long as the Major Shareholder (and/or its affiliates) continues to be interested in at least 10 per cent. of the aggregate voting rights of the Company.

Pursuant to the Relationship Agreement, the Major Shareholder will:

- (A) for so long as it or any of its affiliates continues to be interested in at least 20 per cent. of the voting rights of the Company, have the right to nominate two people to be its Representative Directors on the Boards of the Company and Shawbrook Bank, and

(B) for so long as it or any of its affiliates continues to be interested in less than 20 per cent. but more than 10 per cent. of the voting rights of the Company, have the right to nominate one person to be its Representative Director on the Boards of the Company and Shawbrook Bank.

Any such Representative Director may be paid reasonable fees or expenses on a consistent basis with other Non-Executive Directors or entities providing the services of a Representative Director to the Company or Shawbrook Bank in respect of the performance of that Representative Director's duties as a Director of the Company or Shawbrook Bank.

The Major Shareholder will have the right to nominate an observer to attend meetings of the Remuneration Committee and Nomination Committee of the Company and Shawbrook Bank.

The Listing Rules now contain a regime for "controlling shareholders", being shareholders with upwards of 30 per cent. of the voting rights of the company subject to the Listing Rules. In light of the Listing Rules, the Major Shareholder has provided certain undertakings pursuant to the Relationship Agreement, including an undertaking not to take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules.

In relation to transactions in Ordinary Shares, the Major Shareholder will notify the Company where it enters any agreement for the sale of Ordinary Shares representing 5 per cent. or more of the Company's issued share capital. The Company will, subject to applicable law and regulation, provide such cooperation, information and assistance as the Major Shareholder may reasonably request in relation to any proposed sale of Ordinary Shares by the Major Shareholder.

#### 18.4 Centric acquisition

On 9 June 2014, the Company acquired 100 per cent. of the share capital and voting rights in Centric Group Holdings Limited ("Centric Group Holdings"), the holding company for the Centric group (which trades as Centric Commercial Finance). The consideration for the acquisition was paid as a mixture of cash and shares.

Centric is a UK-based financial services group which provides invoice discounting facilities and asset based lending facilities to the small and medium-sized business marketplace. Prior to the acquisition, Centric's primary shareholders were funds managed by Cabot Square Capital LLP, John Onslow (CEO of Centric) and Timothy Hawkins (commercial director of Centric).

The cash consideration was funded in part by a subscription by the Company for shares in the Company (with such subscription following an equivalent equity injection into the Company by its Shareholders). Following completion of the acquisition, the business and assets of the Centric group were hived up to the Company.

Following completion of the acquisition and the hive-up, Centric was re-branded Shawbrook Business Credit in October 2014.

#### 19. Property

The Group leases its head offices in Brentwood, Essex and has supporting offices in locations including Surrey, London, Birmingham, Leeds and Manchester. The details of those interests are as listed below:

Type of facility	Location	Tenure	Term	Business Divisions
Head office space	Lutea House, Warley Hill Business Park, The Drive, Brentwood, Essex	Leasehold	Ten years expiring on 28 September 2021	Commercial Mortgages Secured Lending Consumer Lending Retail Savings
Office space	Second Floor, Jupiter House, Warley Hill Business Park, Warley, Brentwood, Essex	Leasehold	From and including 16 April 2014 to and including 25 April 2023.	Commercial Mortgages Secured Lending Consumer Lending Retail Savings

Type of facility	Location	Tenure	Term	Business Divisions
Office space	Ground Floor, Juniper House, Warley Hill Business Park, Warley, Brentwood, Essex	Leasehold	From and including 26 April 2013 to and including 25 April 2023.	Commercial Mortgages Secured Lending Consumer Lending Retail Savings
Office space	Shawbrook House, Dorking Business Park, Station Road Dorking, Surrey	Leasehold	From 1 December 2014 to 30 November 2019.	Asset Finance
Office space	Second Floor, The Athenaeum, 8 Nelson Mandela Place, Glasgow	Leasehold	From 1 October 2014 to 30 September 2019.	Asset Finance
Office space	Citypoint, 1 Ropemaker Street, London	The commercial equivalent of an agreement for accommodation in a hotel providing the client with user rights on the terms of the agreement.	From 1 February 2014 to 31 July 2014 then renewed automatically on a three- month basis.	Asset Finance
Office space	Suite 4, 20 Churchill Square, West Malling, Kent	Licence	From 1 March 2013 until termination upon one month's written notice by either party.	Asset Finance
Office space	22 Enterprise Way (Wisbech)	Freehold	—	Asset Finance
Office space	West One – 114 Wellington Street, Leeds	Licence	From 1 August 2014 until termination upon three month's written notice.	Business Credit
Office space	Colmore Plaza, Queensway, Birmingham	Licence	From 1 January 2015 until 31 December 2015.	Business Credit
Office space	Eighth Floor, 69 Park Lane, Croydon	Leasehold	From and including 8 April 2010 until and including 7 April 2020.	Business Credit

Type of facility	Location	Tenure	Term	Business Divisions
Office space	Centurion House, 129 Deansgate, Manchester	Licence	From 1 December 2014 until 1 December 2015.	Business Credit

## 20. Environmental matters

The Directors believe that the Group has no material environmental compliance costs or environmental liabilities.

## 21. Other interests in the Company's securities

As at 31 March 2015 (being the latest practicable date prior to the publication of this Prospectus), none of the Banks hold any interest in the Company's securities.

## 22. Working capital statement

The Company is of the opinion that, taking into account the net proceeds of the Offer receivable by the Company, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of the publication of this Prospectus.

## 23. Consents

KPMG has given and has not withdrawn its written consent to the inclusion in this Prospectus of its accountants' reports as included in Part XV (*Historical Financial Information*) of this Prospectus and its report concerning the pro forma financial information as included in Part XVI (*Unaudited Pro Forma Financial Information*) of this Prospectus and the references thereto in the form and context in which they appear and has authorised the contents of its reports for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules. As the offered securities have not been and will not be registered under the US Securities Act, KPMG LLP has not filed a consent under the US Securities Act.

Each Joint Sponsor has given and not withdrawn its consent to the inclusion in this Prospectus of its name in the form and context in which it appears.

## 24. Documents available for inspection

Copies of the following documents may be inspected at the registered office of the Company, Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex CM13 3BE, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for the duration of the Offer:

- the Articles;
- the reports of KPMG set out in Parts XV (*Historical Financial Information*) and XVI (*Unaudited Pro Forma Financial Information*) of this Prospectus;
- consent letters referred to in paragraph 23 above; and
- a copy of this Prospectus.

For the purposes of PR 3.2.4 of the Prospectus Rules, the Prospectus will be published in printed form and available free of charge for the duration of the Offer at the registered office of the Company in the UK at Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex CM13 3BE. In addition the Prospectus will be published in electronic form and made available on the Website, subject to access restrictions.

## **25. Sources of information**

This Prospectus contains information regarding the Group's business and the industry in which it operates and competes, which the Company has obtained from various third party sources. Where information has been sourced from a third party it has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## **26. No incorporation of website information**

The contents of the Group's websites do not form any part of this Prospectus.

## **27. General**

The total costs and expenses of, and incidental to, Admission and the Offer (including the listing fees, printer's fees, advisers' fees, professional fees and expenses, the costs of printing and distribution of documents, VAT and stamp duty or SDRT payable by the Company) are estimated to amount to £8 million and are payable by the Company. Included within the total are commissions in relation to the New Ordinary Shares which are expected to be up to approximately £3.2 million payable to the Banks.

As provided for and subject to the terms of the Underwriting Agreement, further details of which are set out in Section 18.1 of Part XIX (*Additional Information*) of this Prospectus, the Selling Shareholders will generally bear the amount of any stamp duty or SDRT chargeable on the sale of their Ordinary Shares and their share of any selling commissions.

The financial information contained in this Prospectus which relates to the Company does not constitute full statutory accounts as referred to in section 434(3) of the Companies Act. Statutory audited accounts of the Company, on which the auditors have given their unqualified report and which contained no statement under section 498(2) or (3) of the Companies Act, have been delivered to the Registrar of Companies in respect of the two accounting periods ended 31 December 2012 and 31 December 2013 and will shortly be delivered for the accounting period ended 31 December 2014.

## PART XX — DEFINITIONS

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

<b>ABFA</b>	Asset Based Finance Association;
<b>ABL</b>	asset-based lending;
<b>Admission</b>	admission of the Ordinary Shares to the Official List and to trading on the main market for listed securities of the London Stock Exchange becoming effective in accordance with LR 3.2.7G of the Listing Rules and paragraph 2.1 of the Admission and Disclosure Standards published by the London Stock Exchange;
<b>affiliate</b>	in relation to the Major Shareholder, means (i) the General Partner; (ii) the manager; (iii) the investment adviser, being Pollen Street Capital or such successor investment adviser from time to time; and (iv) associates of the Major Shareholder;
<b>ALCO</b>	the Group's asset and liability committee;
<b>Aldermore</b>	Aldermore Bank plc;
<b>Articles</b>	the articles of association of the Company which have been adopted to take effect from, and conditional upon, Admission;
<b>Asset Finance</b>	the Group's asset finance division;
<b>Auditor and Reporting Accountants</b>	KPMG LLP;
<b>B2B</b>	business-to-business;
<b>B2C</b>	business-to-consumer;
<b>Banking Act</b>	Banking Act 2009;
<b>Banking Reform Act</b>	Financial Services (Banking Reform) Act 2013;
<b>Banks</b>	each of Goldman Sachs International, Macquarie Capital (Europe) Limited, Merrill Lynch International and Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods);
<b>Barclays</b>	Barclays Bank PLC;
<b>base rate</b>	the base lending rate most recently set by the Monetary Policy Committee of the Bank of England in connection with its responsibilities under Part 2 of the Bank of England Act 1998;
<b>Basel III reforms</b>	a package of capital and liquidity requirements published by the Basel Committee intended to establish minimum liquidity standards for credit institutions;
<b>Basel Committee</b>	the Basel Committee on Banking Supervision;
<b>BBA</b>	British Bankers' Association;
<b>BIS</b>	Department for Business, Innovation & Skills;

<b>Board</b>	..... board of Directors of the Company;
<b>BofA Merrill Lynch</b>	..... Merrill Lynch International;
<b>Bribery Act</b>	..... the UK Bribery Act 2010 as amended;
<b>BRD</b>	..... the Bank Recovery Resolution Directive, a legislative proposal published by the European Commission in June 2012;
<b>Business Credit</b>	..... the Group's business credit division;
<b>Business Partners</b>	..... intermediaries, brokers and professional introducers through whom the Company distributes its lending products;
<b>CAGR</b>	..... compounded annual growth rate;
<b>Capital Requirements Directive or CRD IV Directive</b>	..... Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC;
<b>Capital Requirements Regulation</b>	..... Capital Requirements Regulation implementing the Basel III reforms in Europe;
<b>CCA</b>	..... Consumer Credit Act 1974;
<b>Centric</b>	..... Centric Commercial Finance Limited;
<b>Centric Group Holdings</b>	..... Centric Group Holdings Limited;
<b>CFO</b>	..... chief financial officer;
<b>Chief Executive Officer</b>	..... chief executive officer;
<b>CGU</b>	..... cash generating units;
<b>Chairman</b>	..... Sir George Mathewson, CBE;
<b>City Code</b>	..... the City Code on Takeovers and Mergers;
<b>Close Brothers</b>	..... Close Brothers Group plc;
<b>CMA</b>	..... Competition and Markets Authority;
<b>CML</b>	..... Council of Mortgage Lenders;
<b>Co-Lead Manager</b>	..... Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods);
<b>Commercial First</b>	..... Commercial First Mortgages Limited;
<b>Commercial Mortgages</b>	..... the Group's commercial mortgages division;
<b>Companies Act</b>	..... the UK Companies Act 2006, as amended;

<b>Company or Issuer</b>	Shawbrook Group plc, a public limited liability company incorporated under the laws of England and Wales, with its registered office at Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, CM13 3BE;
<b>CONC</b>	the consumer credit sourcebook, a module of the FCA and PRA Handbooks;
<b>Consumer Lending</b>	the Group's consumer lending division;
<b>Corporate Reorganisation</b>	as described in paragraph 3 of Part XIX ( <i>Additional Information</i> );
<b>CPB</b>	capital planning buffer;
<b>CRD IV</b>	the legislative package implementing the Basel III proposals, consisting of the Capital Requirements Regulation and the Capital Requirements Directive;
<b>CREST</b>	the electronic transfer and settlement system for the paperless settlement of trades in listed securities operated by Euroclear UK & Ireland Limited;
<b>CSA</b>	credit support annex;
<b>De Montfort</b>	De Montfort University;
<b>Debt Service Coverage Ratio</b>	the amount of cash flow available to meet interest and principal payments on debt. It is calculated as net income/total debt service.
<b>Deferred Shares</b>	deferred shares of £1 each in the capital of the Company;
<b>Directors or Board</b>	the Executive and Non-Executive Directors of the Company from time to time;
<b>Disclosure and Transparency Rules</b>	the disclosure and transparency rules of the FCA relating to Admission to the Official List;
<b>DJ System</b>	the Group's loan origination system for its Secured Lending division;
<b>DSBP</b>	the deferred share bonus plan the Company intends to operate following Admission, as described in Section 11 of Part XIX ( <i>Additional Information</i> );
<b>DTA</b>	deferred tax asset;
<b>DTC</b>	Depository Trust Company, the US clearing system;
<b>EBITDA</b>	earnings before interest, tax, depreciation and amortisation as described in Part XI ( <i>Operating and Financial Review</i> );
<b>EBT</b>	the Company's employee benefit trust, a discretionary employee trust;
<b>EIR</b>	effective interest rate;

<b>Element</b>	as described in Part I ( <i>Summary</i> );
<b>EMIR</b>	European market infrastructure regulation;
<b>EU DGSD</b>	EU Deposit Guarantee System Directive;
<b>Euro, euro or €</b>	the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;
<b>European Economic Area or EEA</b>	the European Union, Iceland, Norway and Liechtenstein;
<b>European Union or EU</b>	an economic and political union of 27 Member States which are located primarily in Europe;
<b>Eurozone</b>	the Member States of the European Union that have adopted the euro as their common currency and sole legal tender;
<b>Executive Directors</b>	each of Richard Pyman and Tom Wood;
<b>Existing Ordinary Shares</b>	the Ordinary Shares in issue immediately prior to Admission;
<b>Experian</b>	Experian plc;
<b>FATCA</b>	certain provisions of the US Internal Revenue Code and Treasury Regulations promulgated thereunder (commonly referred to by that term);
<b>FCA</b>	the UK Financial Conduct Authority;
<b>FCA Handbook</b>	the FCA's Handbook of Rules and Guidance;
<b>FLA</b>	Finance and Leasing Association;
<b>FLS</b>	Funding for Lending Scheme, introduced by the UK Government and the Bank of England;
<b>FOS</b>	the Financial Ombudsman Service, established by FSMA;
<b>FPC</b>	Financial Policy Committee (a part of the Bank of England);
<b>FSA</b>	Financial Services Authority;
<b>FSCS</b>	the Financial Services Compensation Scheme, established by FSMA;
<b>FSMA</b>	the UK Financial Services and Markets Act 2000, as amended;
<b>G8</b>	the countries of Canada, France, Germany, Italy, Japan, Russia, the UK, and the United States;
<b>GDP</b>	UK gross domestic product;
<b>Global Coordinators</b>	each of Goldman Sachs International and BofA Merrill Lynch;
<b>Group</b>	the Company and its subsidiaries;

<b>HFI</b>	historical financial information;
<b>HILs</b>	home improvement loans;
<b>Hitachi</b>	Hitachi Capital UK plc;
<b>HMRC</b>	Her Majesty's Revenue and Customs;
<b>HOLs</b>	holiday ownership loans;
<b>HSBC</b>	HSBC Bank plc;
<b>IASB</b>	International Accounting Standards Board;
<b>ICAAP</b>	the Group's internal capital adequacy assessment process;
<b>ICB</b>	Independent Commission on Banking;
<b>ICG</b>	the Group's individual capital guidance;
<b>IFRIC</b>	International Financial Reporting Interpretation Committee;
<b>IFRS</b>	International Financial Reporting Standards as adopted by the European Commission for use in the European Union;
<b>IFRS 9</b>	IFRS 9 Financial Statements;
<b>IGA</b>	an inter-governmental agreement between the US and the UK implementing FACTA in the UK;
<b>IGA Regulations</b>	the UK regulations giving effect to the IGA;
<b>ILAA</b>	the Group's individual liquidity adequacy assessment;
<b>Investor Selling Shareholders</b>	the Major Shareholder, and Cabot Square Capital Nominee Limited;
<b>IRS</b>	US Internal Revenue Service;
<b>ISA</b>	individual savings account;
<b>ISDA</b>	International Swap and Derivatives Association;
<b>ISIN</b>	International Securities Identification Number;
<b>Issuer</b>	see definition of "Company" above;
<b>IT</b>	information technology;
<b>Joint Bookrunners</b>	each of Goldman Sachs International, BofA Merrill Lynch and Macquarie Capital (Europe) Limited;

<b>Joint Sponsors</b>	each of Goldman Sachs International and BofA Merrill Lynch;
<b>KPI</b>	key performance indicators;
<b>KPMG</b>	means KPMG LLP;
<b>LIBOR</b>	the London Interbank Offered Rate;
<b>Link Loans</b>	Link Loans Limited;
<b>Liquidity Coverage Ratio</b>	leverage ratio introduced under the Basel III reforms;
<b>Listing Rules</b>	the listing rules made by the UK Listing Authority under Part VI of FSMA (as set out in the FCA Handbook), as amended;
<b>Lloyds</b>	Lloyds Banking Group plc;
<b>London Stock Exchange or LSE</b>	London Stock Exchange plc;
<b>Lower-Tier PFIC</b>	a company in which the Company invests that is treated as a PFIC;
<b>LTV</b>	loan-to-value;
<b>Major Shareholder</b>	Special Opportunities Fund (Guernsey) LP (acting through its general partner and manager, SOF General Partner (Guernsey) Limited), which holds its shares in the Company through its nominee, SOF Annex Nominees Limited;
<b>Management Selling Shareholders</b>	the Directors and Senior Managers listed in the table set out in Section 8.2 of Part XIX ( <i>Additional Information</i> );
<b>Member State</b>	member state of the European Economic Area;
<b>MFI</b>	monetary and financial institutions;
<b>MiFID II</b>	Markets in Financial Instruments Regulation and Directive, adopted by the European Parliament and EU;
<b>Mintel</b>	Mintel Market Research;
<b>MMR</b>	mortgage market review conducted by the FCA;
<b>Model Code</b>	the model code published in Annex I to LR9 of the Listing Rules;
<b>Money2Improve</b>	Money2Improve Limited;
<b>MPC</b>	the Bank of England's Monetary Policy Committee;
<b>Net Stable Funding Ratio or NSFR</b>	short-term and longer-term standards for funding liquidity introduced under the Basel III reforms;

<b>New Ordinary Shares or New Issue Ordinary Shares</b> .....	those Ordinary Shares to be issued by the Company pursuant to the Offer as described in Part XVII ( <i>Details of the Offer</i> );
<b>NHS Trusts</b> .....	authorities and trusts of the National Health Service;
<b>Non-Executive Directors</b> .....	each of Graham Alcock, Sir George Mathewson, CBE, Lindsey McMurray, Robin Ashton and Roger Lovering;
<b>Offer</b> .....	the offer of Ordinary Shares to certain institutional and professional investors (including QIBs in the United States) described in Part XVII ( <i>Details of the Offer</i> ) being made by way of this Prospectus;
<b>Offer Price</b> .....	290p;
<b>Offer Shares</b> .....	the New Issue Ordinary Shares, the Over-allotment Shares and the Existing Ordinary Shares subject to the Offer as described in Part XVII ( <i>Details of the Offer</i> );
<b>Official List</b> .....	the Official List maintained by the FCA;
<b>OFT</b> .....	Office of Fair Trading;
<b>OJ</b> .....	Official Journal of the EU;
<b>ONS</b> .....	Office for National Statistics;
<b>Operating Company</b> .....	Shawbrook Group plc;
<b>Ordinary Shares or Shares</b> .....	ordinary shares of £0.01 each in the Company;
<b>Other Employee Shareholders</b> .....	Shareholders who are employees and former employees of the Group (other than the Directors and Senior Managers) and hold beneficial interests in certain Ordinary Shares that are held by SOF Annex Nominees Limited as nominee;
<b>Over-allotment Option</b> .....	the over-allotment option granted by the Company to the Stabilising Manager in the Underwriting Agreement;
<b>Over-allotment Shares</b> .....	the Existing Ordinary Shares that are sold by the Major Shareholders pursuant to the exercise of the Over-allotment Option (if it is exercised);
<b>Overseas Shareholder</b> .....	a Shareholder resident outside the UK;
<b>Payment Systems Regulator</b> .....	a body corporate established by the FCA under the Banking Reform Act 2013 to regulate payment systems;
<b>PCBS</b> .....	Parliamentary Commission on Banking Standards;
<b>PD Regulation</b> .....	the Prospectus Directive Regulation (2004/809/EC);
<b>PFIC</b> .....	passive foreign investment company;
<b>Pollen Street Capital</b> .....	Pollen Street Capital Limited;
<b>Pounds Sterling, £, sterling, British pound, GBP, pence or p</b> .....	the lawful currency of the UK;
<b>PPE</b> .....	property, plant and equipment;

<b>PPI</b>	..... payment protection insurance;
<b>PRA</b>	..... the UK Prudential Regulation Authority;
<b>PRA Handbook</b>	..... the PRA's Handbook of Rules and Guidance;
<b>Premium Listing</b>	..... the premium listing segment of the Official List;
<b>Prospectus</b>	..... this document;
<b>Prospectus Directive</b>	..... Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State;
<b>Prospectus Rules</b>	..... the prospectus rules made by the UK Listing Authority under Part VI of FSMA (as set out in the FCA Handbook), as amended;
<b>PSD II</b>	..... revised payment services directive, proposed by the European Commission;
<b>PSR</b>	..... Payment Services Regulations 2009;
<b>QEF</b>	..... qualified electing fund;
<b>Qualified Institutional Buyer or QIB</b>	..... Qualified Institutional Buyer within the meaning of Rule 144A;
<b>RAS</b>	..... risk appetite statement, as defined in Part XIII ( <i>Risk Management</i> );
<b>RBS</b>	..... The Royal Bank of Scotland Group plc;
<b>Registrar</b>	..... Equiniti Limited;
<b>Regulation S</b>	..... Regulation S under the US Securities Act;
<b>Relationship Agreement</b>	..... the relationship agreement between the Company and the Major Shareholder described in Part XIX ( <i>Additional Information</i> );
<b>Relevant Member State</b>	..... each Member State of the European Economic Area that has implemented the Prospectus Directive;
<b>Remuneration Committee</b>	..... the remuneration committee of the Board or a sub-committee of it;
<b>Representative Directors</b>	..... Lindsey McMurray and any other person nominated by the Major Shareholder as its representative director;
<b>restricted securities</b>	..... "restricted securities" within the meaning of Rule 144;

<b>Retail Savings</b>	the Group's retail savings division;
<b>RSA</b>	New Hampshire Revised Statutes, annotated;
<b>Rule 144A</b>	Rule 144A under the US Securities Act of 1933;
<b>Sale Elections</b>	the deeds of share sale election pursuant to certain Selling Shareholders have irrevocably instructed the Company to agree the sale of Ordinary Shares as agent for and on behalf of that Selling Shareholder;
<b>SFFL</b>	Singer & Friedlander Finance Limited;
<b>Singers Asset Finance</b>	Singers Asset Finance Holdings and its subsidiaries;
<b>Singers Asset Finance Holdings</b>	Singers Asset Finance Holdings Limited;
<b>Santander</b>	Santander UK plc;
<b>SDRT</b>	stamp duty reserve tax;
<b>Secondary Offer</b>	the sale of up to 55,215,517 Existing Ordinary Shares that are owned by the Selling Shareholders prior to Admission (assuming exercise in full of the Over-allotment Option);
<b>Secured Lending</b>	the Group's secured lending division;
<b>SEDOL</b>	Stock Exchange Daily Official List;
<b>Selling Shareholders</b>	the Investor Selling Shareholders and the Management Selling Shareholders, the Other Employee Shareholders and Sir Brian Ivory CBE;
<b>Senior Managers</b>	members of the Company's management team, details of whom are set out in Part VIII ( <i>Directors, Senior Managers and Corporate Governance</i> ) and "Senior Manager" means any one of them;
<b>Shareholder</b>	a holder of Ordinary Shares;
<b>Shawbrook Bank</b>	Shawbrook Bank Limited;
<b>SID</b>	a senior independent director;
<b>SIP</b>	means the share incentive plan the Company intends to operate following Admission, as described in Section 11 of Part XIX ( <i>Additional Information</i> );
<b>SME or SMEs</b>	small and medium-sized enterprise;
<b>Stabilising Manager</b>	Goldman Sachs International;
<b>Stock Lending Agreement</b>	the stock lending agreement between the Stabilising Manager and the Major Shareholder;
<b>Takeover Panel</b>	the UK Panel on Takeovers and Mergers;
<b>Target</b>	Target Servicing Limited;
<b>Tier 2 Facility</b>	the Group's 10-year Tier 2 subordinated debt facility, entered into in October 2013 with Drake Recoveries S.A.R.L., an investment vehicle of Carval Investors LLC;
<b>Treasury Regulations</b>	the final, temporary and proposed US Treasury regulations;

<b>UK</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>UK Corporate Governance Code</b>	the UK Corporate Governance Code dated September 2014 issued by the Financial Reporting Council;
<b>UK Listing Authority or UKLA</b>	the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
<b>Underwriting Agreement</b>	the underwriting agreement entered into between the Company (for itself and as agent for and on behalf of the Management Selling Shareholders pursuant to the Sale Elections), the Directors, the Investor Selling Shareholders and the Banks described in Part XIX ( <i>Additional Information</i> );
<b>United States or US</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
<b>US Holder</b>	a beneficial owner of Ordinary Shares that is (1) an individual who is a citizen or resident of the United States for US federal income tax purposes; (2) a corporation (or other entity treated as a corporation for US federal income tax purposes) created or organised under the laws of the United States or any state thereof or the District of Columbia; (3) an estate the income of which is subject to US federal income taxation regardless of its source; or (4) a trust (A) if a court within the United States is able to exercise primary supervision over its administration and one or more US persons have authority to control all substantial decisions of the trust or (B) that has a valid election in effect under applicable US Treasury regulations to be treated as a US person;
<b>US Internal Revenue Code</b>	US Internal Revenue Code of 1986, as amended;
<b>US Securities Exchange Act</b>	US Securities Exchange Act of 1934, as amended;
<b>US SEC</b>	US Securities and Exchange Commission;
<b>US Securities Act</b>	US Securities Act of 1933, as amended;
<b>US Treasury</b>	US Department of the Treasury;
<b>US/UK Income Tax Treaty</b>	the income tax treaty between the US and the UK as currently in force;
<b>VAT</b>	value added tax;
<b>Website</b>	<a href="http://www.shawbrook.co.uk/">http://www.shawbrook.co.uk/</a> ;
<b>West One Index</b>	West One Bridging Index promulgated by West One Loans; and
<b>WLB</b>	Whiteaway Laidlaw Bank.

