

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

**IMPORTANT: You must read the following before continuing.** The following applies to the following Prospectus (the “**Prospectus**”, which term, in this disclaimer, means the following Prospectus in final form). You must read this disclaimer carefully before reading, accessing or making any other use of the Prospectus. In accessing the 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.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY NOTES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES DESCRIBED IN THE PROSPECTUS 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. SUCH NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE.

**Confirmation of your Representation:** In order to be eligible to view the Prospectus or make an investment decision with respect to the Notes described therein (the “**Notes**”), you must not be in the United States or be, or be acting on behalf of, a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to Shawbrook Group plc (the “**Issuer**”) and to Merrill Lynch International (the “**Lead Manager**”) that:

- (i) you are outside the United States and are not a U.S. person, as defined in Regulation S under the Securities Act, nor acting on behalf of a U.S. person and, to the extent you purchase any Notes, you will be doing so pursuant to Regulation S under the Securities Act;
- (ii) the electronic mail address to which the Prospectus has been delivered is not located in the United States of America, its territories and its possessions;
- (iii) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 (the “**Order**”) or a certified high net worth individual within Article 48 of the Order; and
- (iv) you consent to delivery of the Prospectus and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer, the Lead Manager or their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling any of the foregoing accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Issuer.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the 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 the Prospectus, electronically or otherwise, to any other person. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to ensure that it is free from viruses and other items of a destructive nature. Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction in which such offer or solicitation would be unlawful. No action has been or will be taken in any jurisdiction by the Issuer or the Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Recipients of the Prospectus who intend to subscribe for or purchase any Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the Prospectus in final form.

Prospectus dated 26 October 2015



## Shawbrook Group plc

(incorporated under the laws of England and Wales with company number 07240248)

**£75,000,000**

**8.50 per cent. Fixed Rate Reset Callable Subordinated Notes due 2025**

**Issue price: 100 per cent.**

The £75,000,000 per cent. Fixed Rate Reset Callable Subordinated Notes due 2025 (the “Notes”) will be issued by Shawbrook Group plc (the “Issuer”) on or about 28 October 2015 (the “Issue Date”). The Notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 28 October 2020 (the “Reset Date”), at a rate of 8.50 per cent. per annum and thereafter at the Reset Rate of Interest as provided in Condition 5. Interest will be payable on the Notes semi-annually in arrear on each Interest Payment Date in equal instalments, commencing on 28 April 2016.

Unless previously redeemed or purchased and cancelled, the Notes will mature on 28 October 2025. Noteholders will have no right to require the Issuer to redeem or purchase the Notes at any time. The Issuer may, in its discretion but subject to the conditions described in Condition 6(b), elect to (i) redeem all, but not some only, of the Notes on the Reset Date at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption, or at any time if a Tax Event has occurred and is continuing or a Capital Disqualification Event (each as defined in Condition 19) has occurred and is continuing, subject to compliance with the conditions described in Condition 6(b) or (ii) repurchase the Notes at any time.

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

Application has been made to the Financial Conduct Authority in its capacity as competent authority (the “UK Listing Authority”) for the Notes to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for the Notes to be admitted to trading on the London Stock Exchange’s regulated market. The London Stock Exchange’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) (“MiFID”).

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

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

### Lead Manager and Structuring Adviser

**BofA Merrill Lynch**

This Prospectus may be used only for the purposes for which it has been published.

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and its subsidiaries taken as a whole (the “**Group**”) and the Notes which according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

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

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

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

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

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

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”). Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of

investing in the Notes and the information contained in this Prospectus or any applicable supplement; (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency; (d) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and (e) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

The historical financial information incorporated by reference in this Prospectus has been prepared in accordance with the International Financial Reporting Standards (the “**IFRS**”) issued by the International Accounting Standards Board (“**IASB**”) and as adopted by the European Union.

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

Because of the discretion that the Issuer and other banking groups have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks. These measures should not be used as a substitute for evaluating the performance of the Issuer based on its audited balance sheet and results of operations.

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

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

IN CONNECTION WITH THE ISSUE OF THE NOTES, MERRILL LYNCH INTERNATIONAL AS STABILISING MANAGER (THE “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## FORWARD-LOOKING STATEMENTS

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

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

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

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

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have been previously published and have been filed with the Financial Conduct Authority shall be incorporated in, and form part of, this Prospectus:

- (a) the consolidated historical financial information of the Issuer for the financial periods ended 31 December 2013 with the accountant's report thereon as set out at pages 159 to 213 of the prospectus dated 1 April 2015 in particular:

Consolidated Statement of Financial Position .....	Page 163
Consolidated Income Statement and Consolidated Statement of Comprehensive Income .....	Pages 161 to 162
Notes to the consolidated historical financial information .....	Pages 166 to 213
Accountant's Report.....	Pages 159 to 160

The consolidated historical financial information of the Issuer for the financial periods ended 31 December 2013 with the accountant's report thereon were not prepared for the purposes of inclusion in this Prospectus but were prepared for inclusion in the prospectus dated 1 April 2015<sup>1</sup>.

- (b) the audited consolidated financial statements of the Issuer for the financial periods ended 31 December 2014 with the audit report thereon including the information set out at the following pages of the annual report for the year ended 31 December 2014 in particular:

Consolidated Statement of Financial Position .....	Page 72
Consolidated Income Statement and Consolidated Statement of other Comprehensive Income .....	Pages 70 to 71
Notes to the Accounts .....	Pages 76 to 123
Independent Auditor's Report.....	Page 69

- (c) the unaudited consolidated interim financial statements of the Issuer for the six months ended on 30 June 2015 including the information set out at the following pages of the interim report for the six months ended on 30 June 2015 in particular:

Consolidated Statement of Financial Position .....	Page 23
Consolidated Income Statement .....	Page 22
Notes to the Interim Financial Statements.....	Pages 26 to 44
Independent Review Report .....	Page 19

Other than such financial statements, none of the contents of the Issuer's website, any websites referred to in this Prospectus nor any website directly or indirectly linked to these websites form part of this Prospectus.

The contents of the Issuer's website, any website mentioned in this Prospectus, with the exception of the website of the London Stock Exchange (where the Issuer's audited financial statements and interim unaudited financial

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<sup>1</sup> The financial information contained in this Prospectus which relates to the Issuer for the financial year ended 2013, does not constitute full statutory accounts as referred to in section 434(3) of the Companies Act 2006. Statutory audited accounts of the Issuer, on which the auditors have given their unqualified report and which contained no statement under section 498(2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies in respect of the accounting periods ended 31 December 2013.

statements have been published), or any website directly or indirectly linked to these websites have not been verified and do not form part of this Prospectus, and investors should not rely on such information.

Copies of the documents incorporated by reference in this Prospectus can be obtained (without charge) from the “Investor Centre” area of the Issuer’s website (as at the date of this Prospectus at [www.shawbrook.co.uk](http://www.shawbrook.co.uk)) and from the specified office of the Principal Paying Agent from the time being in London.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.



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## OVERVIEW OF THE PRINCIPAL FEATURES OF THE NOTES

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

<b>Issuer</b>	Shawbrook Group plc
<b>Trustee</b>	U.S. Bank Trustees Limited
<b>Principal Paying Agent</b>	Elavon Financial Services Limited, UK Branch
<b>Registrar and Transfer Agent</b>	Elavon Financial Services Limited
<b>Notes</b>	£75,000,000 8.50 per cent. Fixed Rate Reset Callable Subordinated Notes due 2025.
<b>Risk factors</b>	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Notes and the Trust Deed. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. These are set out under “ <i>Risk Factors</i> ”.
<b>Status of the Notes</b>	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank <i>pari passu</i> , without any preference, among themselves.
<b>Rights on a Winding-Up</b>	The rights and claims of Noteholders in the event of a Winding-Up of the Issuer are described in Conditions 3 and 4.
<b>Interest</b>	<p>The Notes will bear interest on their principal amount:</p> <ul style="list-style-type: none"> <li>(a) from (and including) the Issue Date to (but excluding) the Reset Date, at the rate of 8.50 per cent. per annum; and</li> <li>(b) thereafter, at the Reset Rate of Interest (as described in Condition 5(d)),</li> </ul> <p>in each case payable, semi-annually in arrear in equal instalments on 28 April and 28 October in each year (each, an “<b>Interest Payment Date</b>”), commencing 28 April 2016.</p>
<b>Maturity</b>	Unless previously redeemed or purchased and cancelled or, pursuant to Condition 6(f), substituted, the Notes will mature on 28 October 2025. The Notes may only be redeemed or repurchased by the Issuer in the circumstances described below (as more fully described in Condition 6).
<b>Optional redemption</b>	The Issuer may, in its sole discretion but subject to the conditions set out under “ <i>Conditions to redemption</i> ” below, elect to redeem all, but not some only, of the Notes on the Reset Date at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption.
<b>Redemption following a Capital Disqualification Event or a Tax Event</b>	The Issuer may, in its sole discretion but subject to the conditions set out under “ <i>Conditions to redemption</i> ” below, elect to redeem in

accordance with the Conditions at any time all, but not some only, of the Notes following the occurrence of a Capital Disqualification Event or a Tax Event, in each case which has occurred, and in each case, at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption, subject to, in the case of a redemption occurring prior to the fifth anniversary of the Issue Date, the Issuer demonstrating to the satisfaction of the Competent Authority that (i) in the case of a Tax Event, the relevant Tax Law Change is material and was not reasonably foreseeable as at the Issue Date or (ii) in the case of a Capital Disqualification Event, the relevant change in regulatory classification was not reasonably foreseeable as at the Issue Date.

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

The Issuer may, subject to certain conditions and upon notice to Noteholders, at any time elect to substitute all (and not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Qualifying Tier 2 Securities if, immediately prior to the giving of the relevant notice to Noteholders, a Tax Event or Capital Disqualification Event has occurred and is continuing.

**Conditions to redemption**

Any redemption (or purchase) of the Notes prior to their maturity or any substitution or variation of the Notes will be subject to obtaining Supervisory Permission and (to the extent required by prevailing Regulatory Capital Requirements) to either:

- (a) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
- (b) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds of the Issuer would, following such redemption or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time.

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

**Purchase of the Notes**

The Issuer may, at its option but subject to the conditions set out under “*Conditions to redemption*” above, purchase (or otherwise acquire) any of the outstanding Notes at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements. All Notes purchased by or on behalf of the Issuer may be held, reissued, resold or, at the option of the Issuer, cancelled.

**Withholding tax and Additional Amounts**

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or

governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer will (subject to certain customary exceptions) pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction.

In no event will the Issuer be required to pay any Additional Amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to Sections 1471 through 1474 of the US Internal Revenue Code of 1986 and any regulations or agreements thereunder or any official interpretations thereof or any law implementing an intergovernmental approach thereto.

#### **Enforcement**

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

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

See Condition 8 for further information.

#### **Modification**

The Trust Deed will contain provisions for convening meetings of Noteholders to consider any matter affecting their interests, pursuant to which defined majorities of the Noteholders may consent to the modification or abrogation of any of the Conditions or any of the provisions of the Trust Deed, and any such modification or abrogation shall be binding on all Noteholders.

#### **Substitution of the Issuer**

The Trustee may, without the consent of the Noteholders but subject to Supervisory Permission, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute of the Issuer) as the principal debtor under the Notes and the Trust

	Deed of certain other entities subject to the Trustee being satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders and certain other conditions set out in the Trust Deed being complied with.
<b>Form</b>	The Notes will be issued in registered form. The Notes will initially be represented by a Global Certificate and will be registered in the name of a nominee of a common depositary for the Clearing Systems.
<b>Denomination</b>	£100,000 and integral multiples of £1,000 in excess thereof.
<b>Clearing systems</b>	Euroclear and Clearstream, Luxembourg.
<b>Rating</b>	The Notes will not be rated.
<b>Listing</b>	Application has been made to the UK Listing Authority for the notes to be admitted to the Official List and to the London Stock Exchange for admission of the Notes to trading on its regulated market.
<b>Governing law</b>	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed, will be governed by, and construed in accordance with, English law.
<b>ISIN</b>	XS1303933573
<b>Common Code</b>	130393357
<b>Selling Restrictions</b>	There are certain restrictions on the offer, sale and delivery of the Notes and on the distribution of offering materials in the United States of America and the United Kingdom, see “ <i>Subscription and Sale</i> ”.

## RISK FACTORS

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

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

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

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

### **RISKS RELATED TO THE MACROECONOMIC ENVIRONMENT IN WHICH THE GROUP OPERATES**

**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. (30 June 2015: 61.9 per cent.) of the Group's Commercial Mortgages division's loan portfolio and 54 per cent. (30 June 2015: 55.9 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.

**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 speculation about the UK remaining 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 small and medium-sized enterprises ("**SME**" or "**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 (30 June 2015: £1,147.6 million), a weighted average LTV of 64.8 per cent. (30 June 2015: 64.9 per cent.) (with 0.01 per cent. (30 June 2015: 0.69 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, as at 31 December 2014 and 30 June 2015.

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. (30 June 2015: 14.8 per cent.) of the Group's Commercial Mortgages loan portfolio, interest-only loans comprised 76.5 per cent. (30 June 2015: 76.2 per cent.) and part and part loans comprised 10.2 per cent. (30 June 2015: 9.0 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 (30 June 2015: £641.0 million). 0.8 per cent. of the division's loans were more than 90 days past due or impaired as at 31 December 2014 and 30 June 2015.

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 (30 June 2015: £211.6 million) with a weighted average advance rate (calculated as the average loan balance divided by average gross collateral/receivables) of 47 per cent. (30 June 2015: 52 per cent.). 0.2 per cent. (30 June 2015: 0.8 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 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 (30 June 2015: £456.2 million), with a weighted average LTV of 61.4 per cent. (30 June 2015: 62.3 per cent.) (taking into account the LTV of the first charge mortgage) and with 15.8 per cent. (30 June 2015: 17.0 per cent.) of the division's loan book having LTV ratios above 75 per cent. 1.4 per cent. (30 June 2015: 1.6 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. (30 June 2015: £260.3 million) 2.8 per cent. (30 June 2015: 2.9 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.

**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. (30 June 2015: 55 per cent.) of the Group's loan book comprised products linked to base rates or LIBOR and 17 per cent. (30 June 2015: 15 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.

**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, as at 31 December 2014, 53 per cent. (30 June 2015: 55 per cent.) of the Group's lending portfolio is linked to LIBOR and base rates (of this 79 per cent. (30 June 2015: 77 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.

**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.

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

**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 £543.8 million as at 31 December 2013 to £1,147.6 million as at 30 June 2015, the Secured Lending loan book increased from £295.0 million as at 31 December 2013 to £456.2 million as at 30 June 2015 and the Consumer Lending loan book increased from £115.6 million as at 31 December 2013 to £260.3

million as at 30 June 2015. 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.

**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 (e.g. brokers, professional introducers, home improvement suppliers and retailers) 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.

**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.

#### **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 on-going 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.

#### **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 substantial changing laws and regulation*” 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.

**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.

**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.

**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 £75,000 per person per institution, although in practice the previous limit of £85,000 will apply to most depositors until 1 January 2016), 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.

**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 (30 June 2015: £208.1 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 a 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.

**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 'garden 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.

**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. 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.

**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 failure 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 cyber-security 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 cyber-security 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 cyber-security, 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.

**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.

**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 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 incorporated herein by reference. 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.

**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.

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

As at 30 June 2015, the Group had 75 loans with exposures at default of greater than £4.0 million and an aggregate exposure at default of £642.5 million and an outstanding balance of £416.7 million representing 15 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.

**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 Issuer 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 on-going 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, 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.

**Certain Shareholders exercise significant influence over the Group, its management and its operations.**

Special Opportunities Fund (Guernsey) LP (acting through its general partner and manager, SOF General Partner (Guernsey) Limited, which holds its shares in the Issuer through its nominee, SOF Annex Nominees Limited) (the "**Major Shareholder**") owns 54.59 per cent. of the ordinary shares in the Issuer as at 14 September 2015. The Major Shareholder will, through the votes it will be able to exercise at general meetings of the Issuer, be able to exercise a significant degree of influence over the Issuer'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 Issuer and changes in the Issuer'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 stakeholders.

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

**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. Although the Issuer is 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.

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, the press and politicians may continue and the Financial Conduct Authority (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, created 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 currently being implemented in stages pursuant to the Banking Reform Act commencement orders.

- Since 1 April 2014, the Group has also been subject to the new consumer credit regime which comprises the FSMA and its secondary legislation, retained provisions of the CCA and rules and guidance in the FCA Handbook, in particular in the consumer credit sourcebook ("**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. A wide range of credit and hire agreements are regulated under the UK consumer credit regime. This new regime contains very detailed and highly technical requirements which have not been subject to significant judicial consideration and the regulatory approach which the FCA may adopt is not clear. If requirements under the regime as to: (i) authorisation of lenders or intermediaries; (ii) entering into and documenting a credit or hire agreement; or (iii) servicing such agreements, are not or have not been met, the relevant agreement may not be enforceable against the borrower and the lender might be precluded from recovering interest from borrowers for the period of non-compliance. Relevant lenders within the Group have interpreted certain technical rules under the consumer

credit regime in a way common with many other lenders in the consumer credit market. If such an interpretation were held to be incorrect by a court, the FCA or other dispute resolution authority, then the relevant agreement(s) could be unenforceable without obtaining a court order. Where the court is able to exercise its discretion in considering an enforcement order, the court will take into account any prejudice suffered by the borrower, the court's power to reduce or discharge sums owed to compensate for prejudice caused, to suspend or place conditions on enforcement or amend an agreement or security, and any culpability by the lender. In 2014, the Group commissioned an external review of its compliance with the consumer credit regime. The Group has identified some areas of potential non-compliance, although these are not likely to lead to total unenforceability and are therefore not considered to be material. While the Group considers that no material present obligation in relation to non-compliance with the consumer credit regime 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. As part of this transfer, firms that held an OFT licence and had registered with the FCA by 31 March 2014, including Shawbrook Bank Limited, have been granted an interim permission under the new regime and must apply to the FCA for full authorisation during an application period notified by the FCA. If Shawbrook Bank Limited is not granted the necessary permission by the FCA, or if the FCA were to impose certain conditions attached to such permission, this could have an adverse effect on the Group's operating results, financial condition and prospects.
- In addition, as part of the April 2014 transfer, certain sections of the CCA, statutory regulations made under it and OFT guidance were carried across or replaced by FCA general standards, rules and guidance, for example, CONC. Many consumer protection measures, such as those relating to the form and content of pre-contract credit information, credit agreements, annual statements and notices of sums in arrears were retained 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 exercising its product intervention rules, imposing penalties, requiring reimbursement to customers and imposing other sanctions if the FCA identifies non-compliance.
- In addition, sections 140A-C of the CCA contain an "unfair relationship" test that applies to all credit agreements other than regulated mortgage contracts under the FSMA. If the court makes a determination that the relationship between a lender and a borrower is unfair, then it may make an order, among other things, requiring that the originator, or any assignee, repay amounts received from such borrower. In applying the "unfair relationship" test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the lender's conduct before and after making the agreement. There is no statutory definition of the word "unfair" in the CCA as the intention is for the test to be flexible and subject to judicial discretion and it is therefore difficult to predict whether a court find a relationship "unfair". However, the word "unfair" is not an unfamiliar term in the UK and the principle of "treating customers fairly" under the FSMA, and guidance published by the FSA and, as of 1 April 2013, the FCA on that principle and by the OFT on the unfair relationship test, may also be relevant. Under the CCA, once the borrower alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary. A November 2014 Supreme Court judgment clarified that compliance with the relevant regulatory regime by the lender (or a person acting on behalf of the lender) does not preclude a finding of unfairness, as a wider range of considerations may be relevant to the fairness of the relationship than those which would be relevant to the application of the rules. The FCA is currently considering whether additional rules and/or guidance are required to deal with the impact of the judgment on complaints about PPI.
- On 28 February 2014, the text of the Mortgage Credit Directive was published in the Official Journal of the European Union ("OJ"). Member States are required to transpose the directive 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 a consultation on the implementation of the directive on 5 September 2014. This was followed by a policy statement in July 2015 containing the final rules as well as the Mortgage Credit Directive Order 2015, both of which come into effect on 21 March 2016. However, it is too early 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. (30 June 2015: 59.0 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 February 2015, the FCA published its 'Wholesale sector competition review 2014-2015' to identify any areas that might merit further investigation through an in-depth market study and, as a result, published in May 2015 its terms of reference for a wholesale market study into investment banking and corporate banking services, with a focus on primary market activities (i.e. equity and debt capital markets, mergers and acquisitions and acquisition financing), in particular the choice of banks and advisers faced by clients when selecting services, transparency in the provision of services, the practices of bundling and cross-subsidising services within primary market activities and between primary market and related activities. The study is on-going and the FCA expects to publish its final report in spring 2016. 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 and released an updated issues statement in May 2015. The investigation is on-going and 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 it 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 management 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.

**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 of the Issuer 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 Issuer 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 and 30 June 2015, 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 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 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 section "Risk Factors".

#### **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. The provisions in the Banking Reform Act are due to come into force on various dates between this date and 1 January 2019. 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 Independent Commission on Banking (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 ("**PLAC**"); (v) preferential ranking of insured depositors on a winding up to rank ahead of all other unsecured creditors; (vi) a senior managers and certification regime (replacing the approved persons regime established under FSMA); (vii) a criminal offence of reckless misconduct in the management of a bank; and (viii) the establishment of a new payment systems regulator. The concept of PLAC has been superseded by the minimum requirement for own funds and eligible liabilities ("**MREL**") provisions which were introduced by the BRRD and transposed in the UK via statutory instrument. BRRD transposition within the UK also gave rise to revisions to the bail-in tool as introduced by the Banking Reform Act. These took effect from 1 January 2015.

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, 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 as well as a bail-in tool comprising a more general power for resolution authorities, to write-down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. The BRRD was transposed in the UK from 1 January 2015 mainly through amendments being made to the Banking Act to ensure that the objectives, tools and powers of the UK authorities were consistent with the European requirements. Use of bail-in powers by the UK authorities may result in the issuance of additional share capital or capital instruments, and 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. 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.

In the UK, the FSCS was established under the Financial Services and Markets Act 2000 and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a PRA or FCA authorised firm is unable, or likely to be unable, to pay claims against it (for instance, if an authorised bank is unable to pay claims by depositors). The FSCS is funded by levies on firms authorised by the PRA or the FCA.

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. There can 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 the EU, 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" (but expand the definition of "eligible deposits" which, notably, no longer excludes the deposits of 'large companies' from protection), to reduce time limits for payments of verified claims by depositors, to require banks to provide information on the aggregated deposits of a depositor, to make provisions on how deposit guarantee schemes should be funded (including mandatory part pre-funding of deposit guarantee schemes), to introduce insolvency preference for certain deposits (as well as £1 million protection limit for certain temporary high balances). The recast EU DGSD was published in the OJ of the EU on 12 June 2014 and Member States were required to transpose the majority of the EU DGSD into national law by 3 July 2015. In the UK, implementations required revisions to the legislation and regulation relating to the FSCS which, among other things, affected the methodology employed by the FSCS for determining levies on institutions. While the methodology includes maximum amounts and provides for the maximum aggregate levy to only be imposed on firms once in each financial year, there is the ability for the FSCS to impose higher levies and/or impose interim levies at any time. Such imposition could have a material effect on the Group's operating results, financial condition and prospects. In addition, 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.

**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 UK 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.

**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 (e.g. brokers, professional introducers, home improvement suppliers and retailers) 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.

**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.

**Risks Related to the Notes**

***The obligations of the Issuer in respect of the Notes are unsecured.***

The Notes constitute unsecured and subordinated obligations of the Issuer.

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

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

Although the Notes may pay a higher rate of interest than securities which are not subordinated, there is a substantial risk that investors in the Notes will lose all or some of the value of their investment should the Issuer become insolvent.

All of the Issuer's outstanding liabilities rank senior to the Notes. Other than the ordinary shares of the Issuer, all claims against the Issuer will be senior to the Notes.

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

***The remedies available to Noteholders under the Notes are limited.***

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

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

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

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

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

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

Under the Banking Act, substantial powers are granted to HM Treasury, the PRA, the FCA and the Bank of England (together, the "**Authorities**") as part of a special resolution regime (the "**SRR**"). These powers enable the authorities to deal with, amongst others, a UK bank or building society (each a "**relevant entity**") in circumstances in which the Authorities consider that the resolution conditions are satisfied. The stabilisation options which may be commenced by the Authorities are: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" established by the Bank of England; (iii) transfer to an asset management vehicle; (iv) temporary public ownership (nationalisation) of the relevant entity; and (v) a bail-in tool which permits the Bank of England to (a) cancel, modify or convert the form of a liability owed by, amongst others, a relevant entity or provide that a contract under which, amongst others, a relevant entity has a liability is to have effect as if a specified right had been exercised under it, or (b) transfer securities issued by, amongst others, a relevant entity to a bail-in administrator. In each case, the Authorities have

wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively. The paragraphs below set out some of the possible consequences of the exercise of those powers under the SRR. The taking of any action under the Banking Act could adversely affect Noteholders.

*The SRR may be triggered prior to insolvency of the Issuer.*

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may be exercised if (i) the PRA (or the FCA, as the case may be) in consultation with the Bank of England, is satisfied that a relevant entity (such as the Issuer) is “failing or is likely to fail” (“**Condition 1**”), (ii) following consultation with the other relevant Authorities, the Bank of England determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will result in Condition 1 ceasing to be met, (iii) the Bank of England, in consultation with the other relevant Authorities, considers the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors), and (iv) the Bank of England, in consultation with the other relevant Authorities, considers that the specific resolution objectives would not be met to the same extent by the winding up of the relevant entity. It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

On 26 May 2015, the EBA published guidelines on the circumstances in which an institution shall be deemed as “failing or likely to fail” by supervisors and resolution authorities. These will apply from 1 January 2016. The guidelines set out the objective criteria which should apply when supervisors and Authorities make such a determination.

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

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

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

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

The Bank of England may exercise the bail-in tool under the Banking Act to recapitalise a relevant entity in resolution by allocating losses to its shareholders and unsecured creditors (which include Noteholders) in a manner that (i) ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders

and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the "no creditor worse off" safeguard).

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

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

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

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

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

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

*Minimum requirement for own funds and eligible liabilities.*

To support the effectiveness of bail-in and other resolution tools, the BRRD requires that all institutions must meet an individual MREL which may be bailed-in, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. Items eligible for inclusion in MREL will include an institution's own funds, along with "eligible liabilities". The UK has opted to defer (until 1 January 2016) the implementation of the MREL regime.

The extent and nature of the MREL requirements remain unclear and so it is not possible to determine the impact that they will have on the Issuer once implemented. The proposals could increase the Issuer's costs and may affect the Issuer's plans to grow its balance sheet. Accordingly, the effects of these proposals could adversely impact the results of operations, financial condition and prospects of the Issuer.

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

If the Issuer were made subject to the SRR and a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Notes) may result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the

risk that it may be unable to meet its obligations in respect of the Notes and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Prospectus, the Authorities have not made an instrument or order under the Banking Act in respect of the Issuer and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such order or instrument if made.

***The Notes are not ‘protected liabilities’ for the purposes of any Government compensation scheme.***

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

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

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

The Notes mature on 28 October 2025. The Issuer is under no obligation to redeem the Notes at any time prior thereto and the Noteholders have no right to require the Issuer to redeem or purchase any Notes at any time. Any redemption of the Notes and any purchase of any Notes by the Issuer will be subject always to the prior approval of the Competent Authority and to compliance with prevailing Regulatory Capital Requirements, and the Noteholders may not be able to sell their Notes in the secondary market (if at all) at a price equal to or higher than the price at which they purchased their Notes. Accordingly, investors in the Notes should be prepared to hold their Notes for a significant period of time.

***The Notes are subject to early redemption at the option of the Issuer and upon the occurrence of certain tax and regulatory events.***

Subject to the prior approval of the Competent Authority and to compliance with prevailing Regulatory Capital Requirements, the Issuer may, at its option, elect to redeem all, but not some only, of the Notes on the Reset Date at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption, or, following the occurrence of a Tax Event or a Capital Disqualification Event, at any time.

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

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

It is not possible to predict whether the events referred to above will occur and lead to circumstances in which the Issuer may elect to redeem the Notes, and if so whether or not the Issuer will satisfy the conditions, or elect, to redeem the Notes. The Issuer may be more likely to exercise its option to redeem the Notes referred to in the paragraph above on the Reset Date if the Issuer’s funding costs would be lower than the prevailing interest rate payable in respect of the Notes. If the Notes are so redeemed, there can be no assurance that Noteholders will be

able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Notes.

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

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

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

At any time, the Trustee may (subject to the approval of the Competent Authority) agree to the substitution in place of the Issuer as the principal debtor under the Notes of certain entities, in each case subject to the Trustee being satisfied that such substitution is not materially prejudicial to the interests of the Noteholders and to certain other conditions set out in the Trust Deed being complied with.

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

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

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

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

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

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

***Integral multiples of less than £100,000.***

The denomination of the Notes will be £100,000 and integral multiples of £1,000 in excess thereof. Accordingly, it is possible that the Notes may be traded in the clearing systems in amounts in excess of £100,000 that are not integral multiples of £100,000. Should Certificates be required to be issued, they will be issued in principal amounts of £100,000 and higher integral multiples of £1,000 but will in no circumstances be issued to Noteholders who hold Notes in the relevant clearing system in amounts that are less than £100,000. Accordingly, any

Noteholder who holds an amount which is less than £100,000 in principal amount of the Notes in his account with the relevant clearing system at the relevant time may not receive a Certificate (should Certificates be printed) in respect of such holding. Such a Noteholder would need to purchase a principal amount of Notes such that its holding amounts to £100,000 in order to receive a Certificate.

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

#### ***Meetings of Noteholders and modification.***

The Conditions of the Notes will contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

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

#### ***Change of law.***

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

#### ***Legality of purchase.***

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

#### ***EU Savings Directive.***

Under Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. A number of other non-EU countries and territories have adopted similar measures.

The Council of the European Union has adopted a Directive (the “**Amending Savings Directive**”) which would, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above, including by expanding the range of payments covered by the Savings Directive, in particular to include additional types of income payable on Notes, and by expanding the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive), which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Savings Directive



requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The European Commission has published a proposal for a Council Directive repealing the Savings Directive from 1 January 2016 (1 January 2017 in the case of Austria) (in each case subject to transitional arrangements). The proposal also provides that, if it is adopted, EU Member States will not be required to implement the Amending Savings Directive.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, if the Amending Savings Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

The Issuer is required to maintain a Principal Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. However, investors should be aware that any custodians or intermediaries through which they hold their interest in the Notes may nonetheless be obliged to withhold or deduct tax pursuant to such laws unless the investor meets certain conditions, including providing any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive, as amended.

Investors who are in any doubt as to their position or would like to know more should consult their professional advisers.

#### ***Foreign Account Tax Compliance Act Withholding.***

Certain provisions of U.S. law, commonly known as “**FATCA**”, impose a reporting regime and, potentially, a 30 per cent. withholding tax with respect to, among other things, “foreign passthru payments” made to certain non-U.S. financial institutions that do not comply with this reporting regime and payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. While the Notes are in global form and held within Euroclear and Clearstream, Luxembourg (together, the “**ICSDs**”), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs. However, if FATCA withholding were relevant with respect to payments on the Notes, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding.

#### ***A Noteholder’s actual yield on the Notes may be reduced from the stated yield by transaction costs.***

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for own

commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Noteholders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of Notes (direct costs), Noteholders must also take into account any follow-up costs (such as custody fees). Prospective investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

## **Risks Related to the Market Generally**

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

### ***The secondary market generally.***

The Notes represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop; in particular, holdings in the Notes upon issue may be concentrated as they will be purchased by a limited number of initial investors, one or more of whom may hold a significant proportion of the total issuance. If such investors decide to sell any Notes and a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes.

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

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

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

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

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

Although applications have been made for the Notes to be admitted to trading on the Irish Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop.

***Exchange rate risks and exchange controls.***

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

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

***Interest rate risks.***

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

## TERMS AND CONDITIONS OF THE NOTES

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

The issue of the £75,000,000 8.50 per cent. Fixed Rate Reset Callable Subordinated Notes due 2025 (the “**Notes**”) of Shawbrook Group plc (the “**Issuer**”) was authorised by a resolution of the Board of Directors of the Issuer passed on 29 September 2015. The Notes are constituted by a trust deed (the “**Trust Deed**”) dated 28 October 2015 between the Issuer and U.S. Bank Trustees Limited (the person or persons for the time being the trustee or trustees under the Trust Deed, the “**Trustee**”) as trustee for the Holders (as defined below) of the Notes. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes. Copies of the Trust Deed and of the agency agreement (the “**Agency Agreement**”) dated 28 October 2015 relating to the Notes between the Issuer, Elavon Financial Services Limited, UK Branch as the initial principal paying agent (the person for the time being the principal paying agent, the “**Principal Paying Agent**”) and agent bank (the person for the time being the agent bank, the “**Agent Bank**”), Elavon Financial Services Limited as the initial registrar (the person for the time being the registrar, the “**Registrar**”), and the initial transfer agents named therein (the person(s) for the time being the transfer agent(s), the “**Transfer Agent(s)**”), and the Trustee, are available for inspection during usual business hours at the principal office of the Trustee (presently at Fifth Floor, 125 Old Broad Street, London EC2N 1AR) and at the specified offices of the Principal Paying Agent, the Registrar and each of the Transfer Agents. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

### 1 Form, Denomination and Title

#### (a) Form and Denomination

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

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

#### (b) Title

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

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

### 2 Transfers of Notes

#### (a) Transfer

A holding of Notes may, subject to Condition 2(d), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a Holder of Notes, a new Certificate representing the enlarged holding shall only be issued against

surrender of the Certificate representing the existing holding. All transfers of Notes and entries in the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

**(b) Delivery of New Certificates**

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

**(c) Transfer Free of Charge**

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

**(d) Closed Periods**

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

**3 Status**

The Notes constitute direct and unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of Holders in respect of, or arising under, their Notes (including any damages awarded for breach of obligations in respect thereof) are subordinated as described in Condition 4.

**4 Subordination**

**(a) Winding-Up**

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

**(b) Set-off**

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

## **5 Interest Payments**

### **(a) Interest Rate**

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

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

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

### **(b) Interest Accrual**

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

### **(c) Initial Fixed Interest Rate**

For the Initial Fixed Rate Interest Period, the Notes bear interest at the rate of 8.50 per cent. per annum (the “**Initial Fixed Interest Rate**”).

### **(d) Reset Rate of Interest**

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

### **(e) Determination of Reset Rate of Interest**

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on the Reset Determination Date, determine the Reset Rate of Interest in respect of the Reset Period. The determination of the Reset Rate of Interest by the Agent Bank shall (in the absence of manifest error) be final and binding upon all parties.

**(f) Publication of Reset Rate of Interest**

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

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

**(g) Agent Bank and Reset Reference Bank**

The Issuer will maintain an Agent Bank where the Reset Rate of Interest is to be calculated by reference to them. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

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

**(h) Determinations of Agent Bank Binding**

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

**6 Redemption, Substitution, Variation and Purchase**

**(a) Final Redemption**

Unless previously redeemed, purchased and cancelled or (pursuant to Condition 6(f)) substituted, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest on 28 October 2025 (the “**Maturity Date**”). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

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

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

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

Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the change in tax treatment is material and was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Capital Disqualification Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

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

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

**(c) Issuer’s Call Option**

Subject to Condition 6(b), the Issuer may, by giving not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 14, the Trustee, the Registrar and the Principal Paying Agent (which notice shall be irrevocable), elect to redeem all, but not some only, of the Notes on the Reset Date at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

**(d) Redemption Due to Taxation**

If, prior to the giving of the notice referred to in this Condition 6(d), a Tax Event has occurred, then the Issuer may, subject to Condition 6(b) and having given not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 14, the Trustee, the Registrar, the Principal Paying Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

**(e) Redemption for Regulatory Purposes**

If, prior to the giving of the notice referred to in this Condition 6(e), a Capital Disqualification Event has occurred, then the Issuer may, subject to Condition 6(b) and having given not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 14 the Trustee, the Registrar and the Principal Paying Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any unpaid interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

**(f) Substitution or Variation**

If a Tax Event or a Capital Disqualification Event has occurred, then the Issuer may, subject to Condition 6(b) and having given not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 14, the Trustee, the Registrar and the Principal Paying Agent (which notice shall be irrevocable and shall specify the date for substitution or variation, as the case may be, of the Notes) but without any requirement for the consent or approval of the Holders, at any time (whether before or following the Reset



Date) either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities, and the Trustee shall (subject to the following provisions of this Condition 6(f) and subject to the receipt by it of the certificates of the Authorised Signatories referred to in Condition 6(b) above and in the definition of Qualifying Tier 2 Securities) agree to such substitution or variation. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 6(f), as the case may be. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution of the Notes for, or the variation of the terms of the Notes so that they remain, or as appropriate, become, Qualifying Tier 2 Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed alternative Qualifying Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided above, redeem the Notes as provided in, as appropriate, Condition 6(d) or (e).

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

**(g) Purchases**

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

**(h) Cancellation**

All Notes redeemed or substituted by the Issuer pursuant to this Condition 6 will forthwith be cancelled. All Notes purchased by or on behalf of the Issuer may, subject to obtaining any Supervisory Permission therefor, be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation to the Registrar. Notes so surrendered, shall be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

**(i) Trustee Not Obligated to Monitor**

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and will not be responsible to Holders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual written notice of the occurrence of any event or circumstance within this Condition 6, it shall be entitled without liability to assume that no such event or circumstance exists.

## **7 Payments**

**(a) Method of Payment**

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

**(b) Payments Subject to Laws**

Save as provided in Condition 9, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or its

Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

**(c) Payments on Business Days**

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

**(d) Delay in Payment**

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

## **8 Default**

**(a) Default**

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

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

**(b) Enforcement**

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

**(c) Entitlement of Trustee**

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

**(d) Right of Holders**

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

**(e) Extent of Holders' Remedy**

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

**9 Taxation**

All payments of principal, interest and any other amounts by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event the Issuer will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

- (a) held by or on behalf of a Holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Note by reason of having some connection with the Relevant Jurisdiction otherwise than merely by holding the Note or by the receipt of amounts in respect of the Note; or
- (b) held by or on behalf of a Holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (c) in respect of which the certificate representing such Note is presented for payment more than 30 days after the Relevant Date except to the extent that the Holder would have been entitled to such Additional Amounts on presenting the Note for payment on the last day of such period of 30 days; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) to, or on behalf of, a Holder who would have been able to avoid such withholding or deduction by presenting the relevant certificate representing such Note to another paying agent in a Member State of the European Union (provided such a paying agent had been appointed at the relevant time).

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

Notwithstanding any other provision of these Conditions, in no event will the Issuer be required to pay any Additional Amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to FATCA.

**10 Prescription**

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

**11 Meetings of Holders, Modification, Waiver and Substitution**

**(a) Meetings of Holders**

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

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

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

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

**(b) Modification of the Trust Deed**

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

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

**(c) Substitution**

The Trust Deed contains provisions permitting the Trustee, subject to the Issuer giving at least 30 days' prior written notice thereof to, and receiving Supervisory Permission therefor from, the Competent Authority (or such other period of notice as the Competent Authority may from time to time require or accept and, in any event, provided that there is a requirement to give such notice and obtain such Supervisory Permission) to agree, subject to the Trustee being satisfied that the interests of the Holders will not be materially prejudiced by the substitution and to such amendments to the Trust Deed and such other

conditions as the Trustee may require but without the consent of the Holders, to the substitution on a subordinated basis equivalent to that referred to in Conditions 3 and 4 of certain other entities (any such entity, a “**Substitute Obligor**”) in place of the Issuer (or any previous Substitute Obligor under this Condition) as a new principal debtor under the Trust Deed and the Notes.

**(d) Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

**(e) Notices**

Any such modification, waiver, authorisation or substitution shall be binding on all Holders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Holders in accordance with Condition 14 as soon as practicable thereafter.

**12 Replacement of the Notes**

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

**13 Rights of the Trustee**

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

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

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

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

**14 Notices**

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

**15 Further Issues**

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

single series with the Notes. Any further securities forming a single series with the Notes then outstanding shall be constituted by the Trust Deed or a deed supplemental to it.

## **16 Agents**

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

- (a) at all times maintain a Principal Paying Agent, a Registrar and a Transfer Agent;
- (b) whenever a function expressed in these Conditions to be performed by the Agent Bank falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank; and
- (c) at all times maintain a Paying Agent having a specified office in a major city in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced to conform to such Directive, which is approved by the Trustee.

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

## **17 Governing Law and Jurisdiction**

### **(a) Governing Law**

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

### **(b) Jurisdiction**

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

## **18 Contracts (Rights of Third Parties) Act 1999**

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

## **19 Definitions**

In these Conditions:

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

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

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

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

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

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

“**Capital Disqualification Event**” is deemed to have occurred if there is a change (which has occurred or which the Competent Authority considers to be sufficiently certain) in the regulatory classification of the Notes which becomes effective after the Issue Date and that results, or would be likely to result, in the entire principal amount of the Notes being excluded from the Tier 2 Capital of the Issuer;

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

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

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

“**FATCA**” means Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 and any regulations or agreements thereunder or official interpretations thereof or any law implementing an intergovernmental approach thereto;

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

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

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

“**Interest Payment Date**” means 28 April and 28 October in each year, starting on (and including) 28 April 2016;

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

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

“**Issue Date**” means 28 October 2015, being the date of the initial issue of the Notes;

“**Margin**” means 7.079 per cent.;

“**Market**” means the London Stock Exchange’s regulated market;

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

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

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

“**Official List**” means the official list of the London Stock Exchange;

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

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

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

- (a) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer), and provided that a certification to such effect (including as to such consultation) of two Authorised Signatories shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without further enquiry and without liability to any person) prior to the issue or, as appropriate, variation of the relevant securities), and, subject thereto, which (1)

contain terms which comply with the then current requirements of the Competent Authority in relation to Tier 2 Capital; (2) include terms which provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Notes and do not provide for interest cancellation or deferral; (3) rank senior to, or *pari passu* with, the ranking of the Notes; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption and (5) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; and

- (b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld or delayed;

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

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

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

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

**“Regulatory Capital Requirements”** means, at any time, any requirement contained in the law, regulations, requirements, guidelines and policies of the Competent Authority, the United Kingdom or of the European Parliament and Council then in effect in the United Kingdom relating to capital adequacy and applicable to the Issuer;

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

**“Relevant Jurisdiction”** means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes;

**“Reset Date”** means 28 October 2020;

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

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

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

**“Reset Reference Banks”** means five leading swap dealers in the principal interbank market relating to pounds sterling selected by the Agent Bank in its discretion after consultation with the Issuer;

**“Reset Reference Rate”** means in respect of the Reset Period, (i) the semi-annual mid-swap rate for swap transactions in pounds sterling (with a maturity equal to five years) as displayed on the Screen Page at 11.00 a.m. (in London) on the Reset Determination Date or (ii) if such rate is not displayed on the Screen Page at such time and date, the relevant Reset Reference Bank Rate on the Reset Determination Date;

Where:

**“Mid-Swap Quotations”** means the arithmetic mean of the bid and offered rates for a semi-annual fixed leg (calculated on an Actual/365 (Fixed) day count basis) of a fixed for floating interest rate swap transaction in



pounds sterling which (i) has a term commencing on the Reset Date which is equal to five years; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month LIBOR rate (calculated on an Actual/365 (Fixed) day count basis);

**“Reset Reference Bank Rate”** means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Agent Bank at or around 11:00 a.m. in London on the Reset Determination Date and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be an amount equal to 1.421 per cent.; and

**“Screen Page”** means Reuters screen page “ISDAFIX4”, or such other screen page as may replace it on Thomson Reuters or, as the case may be, on such other information service that may replace Thomson Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates;

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

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

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

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

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

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

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

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

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

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

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

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

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

**“Winding-Up”** means:

- (i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which reorganisation, reconstruction or amalgamation have previously been approved in writing by the Trustee or an Extraordinary Resolution and do not provide that the Notes thereby become redeemable or repayable in accordance with these Conditions);
- (ii) following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend; or
- (iii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) or (ii) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009.

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

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

### **Initial Issue of Certificates**

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

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

### **Relationship of Accountholders with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) as the holder of a Security represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

### **Exchange of the Global Certificate**

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

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

- (i) if the Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) upon or following any failure to pay principal in respect of any Notes when it is due and payable,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the holder of the Notes represented by the Global Certificate has given the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such transfer. Where the holding of Notes represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be

Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

### **Calculation of Interest**

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

### **Payments**

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

### **Notices**

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

### **Prescription**

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

### **Meetings**

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

### **Written Resolution and Electronic Consent**

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

- (i) where the terms of the proposed resolution have been notified to the Noteholder through the relevant clearing system(s), each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per

cent. in principal amount of the Notes outstanding (“**Electronic Consent**”). None of the Issuer or the Trustee shall be liable or responsible to anyone for such reliance; and

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

#### **Euroclear and Clearstream, Luxembourg**

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

## **USE OF PROCEEDS**

The Notes are being issued to optimise, strengthen and diversify the Issuer's sources of capital. The Issuer intends to apply the net proceeds from the issue of the Notes to support its planned business activities including any future medium-term growth.

## DESCRIPTION OF THE ISSUER'S BUSINESS

### Overview

The Group is an independent specialist lending and savings bank serving UK SMEs and consumers. As at 31 December 2014, 73 per cent. (30 June 2015: 74 per cent.) of the Group's loan book comprised loans to SMEs, with the remaining 27 per cent. (30 June 2015: 26 per cent.) comprising loans to consumers.

The Issuer was incorporated under the name Laidlaw Acquisitions Limited on 30 April 2010. The Issuer was incorporated and registered in England and Wales with registered number 7240248. The Issuer was established for the purpose of acquiring Whiteaway Laidlaw Bank ("**WLB**").

The registered office of the Issuer is Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex CM13 3BE. The telephone number of the Issuer's registered office is 01277 751110. On 11 March 2015, the Issuer changed its name to Shawbrook Group Limited. On 24 March 2015, the Issuer re-registered as a public limited company named Shawbrook Group plc.

The principal legislation under which the Issuer operates and under which the Ordinary Shares were created is the Companies Act 2006 and regulations made thereunder.

The Issuer is the holding company of the Group.

The Issuer was formed for the purpose of acquiring WLB (which changed its name on 17 October 2011 to Shawbrook Bank) from the Manchester Building Society in January 2011. WLB was subsequently renamed Shawbrook Bank. The strategic plan for the Issuer 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 Issuer 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 (e.g. brokers, professional introducers, home improvement suppliers and retailers) 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 Issuer, 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 £3.1 billion of assets, over 125,000

customers and over 520 employees as at 30 June 2015. 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 and 30 June 2015 were as follows:

<b>Division</b>	<b>As at 31 December 2014</b>	<b>As at 30 June 2015</b>
	<b>(£m)</b>	<b>(£m)</b>
Commercial Mortgages.....	968.9	1,147.6
Asset Finance.....	564.1	641.0
Business Credit.....	169.8	211.6
Secured Lending.....	401.3	456.2
Consumer Lending.....	226.9	260.3
<b><u>TOTAL</u></b> .....	<b><u>2,331.0</u></b>	<b><u>2,716.7</u></b>

The following table sets out summary information for each of the Group's lending divisions as at or for the six months ended 30 June 2015:



	Six months ended 30 June 2015						
	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Savings/ Central	Total
	<i>(£m)</i>						
Net interest income	22.6	19.1	3.4	13.4	10.0	1.4	69.9
Net Operating Income/(Expense)	22.3	23.2	7.3	13.0	9.9	1.4	77.1
<b>Profit/(Loss) before taxation</b>	<b>17.9</b>	<b>18.5</b>	<b>2.6</b>	<b>10.2</b>	<b>4.6</b>	<b>(29.1)</b>	<b>24.7</b>
Total Assets	1,147.6	641.0	211.6	456.2	260.3	340.4	3,057.1
Total Liabilities	-	-	-	-	-	(2,729.8)	(2,729.8)

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

	Year ended 31 December 2014						
	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Savings/ Central	Total
	<i>(£m)</i>						
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 following table sets out summary information for each of the Group's lending divisions as at or for the year ended 31 December 2013:

	Year ended 31 December 2013						
	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Savings/ Central	Total
	<i>(£m)</i>						
Net interest income	10.8	24.0	-	14.6	5.3	0.2	54.9
Net Operating Income/(Expense)	10.8	28.9	-	14.8	5.4	0.2	60.1
<b>Profit/(Loss) before taxation</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>
Total Assets	543.8	444.4	-	295.0	115.6	269.2	1,668.0
Total Liabilities	-	-	-	-	-	(1,532.5)	(1,532.5)

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 (30 June 2015: 14 months) and 85 per cent. (30 June 2015: 88 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 (30 June 2015: £208.1 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 (e.g. brokers, professional introducers, home improvement suppliers and retailers). 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.

### **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.

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

The Issuer 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 Issuer, 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 (30 June 2015: £641.0 million).

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.

In April 2015 the Group completed a successful IPO with admission to the London Stock Exchange, raising £90 million (£82 million net of costs) of gross primary proceeds to support the Group's capital position and future growth.

## **The Group's current operations**

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

### ***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 (30 June 2015: £2.7 billion). The Group's origination platform supported £1.4 billion of new loans in 2014 (Six months ended 30 June 2015: £0.8 billion), demonstrating its capabilities.

A summary of the performance of each of the Group's lending divisions for the six months ended 30 June 2015 and years ended 31 December 2014 and 2013 is set out below:

**6 months ended 30 June 2015**

	Net loans and advances to customers <sup>(1)</sup>	Total originations	Average gross monthly originations	Risk-adjusted yield <sup>(2)</sup>
	(£m)	(£m)	(£m)	(per cent.)
Commercial Mortgages	1,147.6	306.6	51.1	6.2
Asset Finance	641.0	241.4	40.2	9.6
Business Credit	211.6	64.6	10.8	8.1
Secured Lending	456.2	109.4	18.2	9.1
Consumer Lending	260.3	89.9	15.0	9.5
<b><u>TOTAL</u></b>	<b><u>2,716.7</u></b>	<b><u>811.9</u></b>	<b><u>135.3</u></b>	<b><u>8.1</u></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 (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) less cost of risk (calculated as impairment losses on financial assets divided by average principal employed) for 6 months ended 30 June 2015 (annualised).

**Year ended 31 December 2014**

	Net loans and advances to customers(1)	Total originations	Average gross monthly originations	Risk-adjusted yield <sup>(3)</sup>
	(£m)	(£m)	(£m)	(per cent.)
Commercial Mortgages	968.9	550.9	45.9	6.4
Asset Finance	564.1	386.1	32.2	10.0
Business Credit	169.8	47.9	8.0(2)	9.9
Secured Lending	401.3	191.3	15.9	9.7
Consumer Lending	226.9	190.2	15.9	9.2
<b><u>TOTAL</u></b>	<b><u>2,331.0</u></b>	<b><u>1,366.4</u></b>	<b><u>113.9(4)</u></b>	<b><u>8.6</u></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 (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) less cost of risk (calculated as impairment losses on financial assets divided by average principal employed) 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(1)	Total originations	Average gross monthly originations	Risk-adjusted yield <sup>(2)</sup>
	(£m)	(£m)	(£m)	(per cent.)
Commercial Mortgages	543.8	400.6	33.4	6.4
Asset Finance	444.4	305.4	25.4	10.7
Business Credit	-	-	-	-
Secured Lending	295.0	180.8	15.1	9.8
Consumer Lending	115.6	112.9	9.4	9.7
<b><u>TOTAL</u></b>	<b><u>1,398.8</u></b>	<b><u>999.7</u></b>	<b><u>83.3</u></b>	<b><u>9.2</u></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 (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) less cost of risk (calculated as impairment losses on financial assets divided by average principal employed) for year ended 31 December 2013.

### ***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. 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, it undertakes an intensive training process in respect of the Group's products, procedures and systems and attends updated training on an on-going 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 the 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 it receives. Consistent with the Group's commitment to customer service, 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 directly charge their customers a fee.

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.

### ***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 (93 per cent.) of the division's loans as at 30 June 2015 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 5,100 loans with a total value of £1.5 billion. The loan book for the division stood at £968.9 million at 31 December 2014 (30 June 2015: £1,147.6 million).

The following table sets out a breakdown of the Group's Commercial Mortgages loan book by product category as at 31 December 2014 and 30 June 2015:

<b>Product category</b>	<b>As at 31 December 2014</b>	<b>As at June 2015</b>
	<b>(per cent.)</b>	<b>(per cent.)</b>
Residential .....	56	59
Commercial .....	30	29
Short-term loans .....	14	12
<b><u>TOTAL</u></b> .....	<b><u>100</u></b>	<b><u>100</u></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 and 30 June 2015:

<b><u>Region</u></b>	<b><u>As at December 2014</u></b>	<b><u>As at June 2015</u></b>
	<b>(per cent.)</b>	<b>(per cent.)</b>
Greater London.....	42.4	42.1
South East.....	17.5	19.9
North West.....	9.1	9.0
South West.....	8.5	7.3
Yorkshire & Humberside.....	4.7	4.4
Other.....	17.8	17.3
<b><u>TOTAL</u></b> .....	<b><u>100.0</u></b>	<b><u>100.0</u></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 (30 June 2015: £254,000) and its loans had a weighted average behavioural half-life (being the average number of years for which each £1 of unpaid principal on a loan remains outstanding) of 53 months (30 June 2015: 53 months). The division has approximately 3,100 customers (30 June 2015: 3,900 customers). For the year ended 31 December 2014, the Commercial Mortgages division originated loans amounting to £550.9 million (six months ended 30 June 2015: £306.6 million).

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. (30 June 2015: 14.8 per cent.) of the Group's Commercial Mortgage loans were repayment mortgages, 76.5 per cent. (30 June 2015: 76.2 per cent.) were interest-only and 10.2 per cent. (30 June 2015: 9.0 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. (six months ended 30 June 2015: 6.3 per cent.) As at 31 December 2014, its loan book had an average LTV of 64.8 per cent. (30 June 2015: 64.9 per cent.), 0.2 per cent. (30 June 2015: 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. (six months ended 30 June 2015: 0.1 per cent.). Its contribution to the Group's overall operating profit for the year ended 31 December 2014 was £23.3 million (six months ended 30 June 2015: £17.9 million).

### ***Asset Finance***

The Asset Finance division is a proven lender in the UK SME and healthcare markets in which it 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. (30 June 2015: 51 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 (30 June 2015: £641.0 million). The following table sets out a breakdown of the Group's Asset Finance loan book by product category as at 31 December 2014 and 30 June 2015:

<b><u>Product category</u></b>	<b><u>As at December 2014</u></b> <b>(per cent.)</b>	<b><u>As at 30 June 2015</u></b> <b>(per cent.)</b>
Corporate asset finance	56	55



(including taxi and marine finance).....		
Block discounting.....	14	14
Healthcare.....	13	11
Wholesale finance.....	17	20
<b><u>TOTAL</u></b> .....	<b><u>100</u></b>	<b><u>100</u></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 (30 June 2015: 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 (30 June 2015: 7,700 customers).

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. (six months ended 30 June 2015: 10.0 per cent.), 0.8 per cent. (30 June 2015: 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. (six months ended 30 June 2015: 0.4 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 and 30 June 2015, 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 (six months ended 30 June 2015: £18.5 million).

### ***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, 79 per cent. as at 30 June 2015) 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 as at 31 December 2014.) 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 (30 June 2015: £211.6 million). The following table sets out a breakdown of the Group's Business Credit facilities by product category as at 31 December 2014 and 30 June 2015:

<b><u>Product category</u></b>	<b><u>As at 31 December 2014</u></b>	<b><u>As at 30 June 2015</u></b>
	<b><u>(per cent.)</u></b>	<b><u>(per cent.)</u></b>
Invoice discounting.....	86	79
Inventory.....	5	6
Cash-flow loans.....	4	7
Property.....	3	3
Plant and machinery.....	2	5
<b><u>TOTAL</u></b> .....	<b><u>100</u></b>	<b><u>100</u></b>

The division's asset-based lending business (when it was operating as Centric) has consistently demonstrated higher growth than the market, with the value of outstanding balances on its loans having achieved a compounded annual growth rate ("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 and a presence in 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 (30 June 2015: 219 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 (30 June 2015: 21 months). For the year ended 31 December 2014, the Business Credit division's sales volumes amounted to £2.8 billion (six months ended 30 June 2015: £1.3 billion).

For the year ended 31 December 2014, the Business Credit division's gross asset yield was 10.2 per cent. (six months ended 30 June 2015: 9.7 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. (30 June 2015: 52 per cent.). 0.2 per cent. (30 June 2015: 0.8 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 0.3 per cent. (six months ended 30 June 2015: 1.5 per cent.). Its contribution to the Group's overall operating profit for the year ended 31 December 2014 was £4.5 million (six months ended 30 June 2015: £2.6 million).

### ***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 (30 June 2015: £456.2 million).

The following table sets out the geographical distribution of the Group's Secured Lending loans as at 31 December 2014 and 30 June 2015:

<b><u>Region</u></b>	<b><u>As at 31 December 2014</u></b> <b>(per cent.)</b>	<b><u>As at 30 June 2015</u></b> <b>(per cent.)</b>
Greater London.....	25.6	27.3
South East.....	28.7	28.6
North West.....	6.8	6.6
South West.....	8.9	8.7
Yorkshire & Humberside.....	4.8	4.8
Other.....	25.2	24.0
<b><u>TOTAL</u></b> .....	<b><u>100.0</u></b>	<b><u>100.0</u></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 (30 June 2015: £40,500), and its loans had a weighted average maturity on a behavioural half-life basis of 46 months (30 June 2015: 46 months). The division had approximately 10,500 customers (30 June 2015: 11,200 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. (30 June 2015: 9.4 per cent.).

For the year ended 31 December 2014, the Secured Lending division's gross asset yield was 9.7 per cent. (six months ended 30 June 2015: 9.2 per cent.) and its loan book had an average LTV of 61.4 per cent. (30 June 2015: 62.3 per cent.) taking into account the LTV of the first charge mortgage. 1.4 per cent. (30 June 2015: 1.6 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. (30 June 2015: 0.0 per cent.). Its contribution to the Group's overall operating profit for the year ended 31 December 2014 was £19.0 million (six months ended 30 June 2015: £10.2 million).

### ***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 Store, 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 (30 June 2015: £260.3 million). The following table sets out a breakdown of the Group's Consumer Lending loan book by product category as at 31 December 2014 and 30 June 2015:

<b><u>Product category</u></b>	<b><u>As at 31 December 2014</u></b>	<b><u>As at 30 June 2015</u></b>
	<b>(per cent.)</b>	<b>(per cent.)</b>
Home improvement.....	75	76
Holiday ownership.....	15	13
Retail.....	4	4
Personal loans.....	6	7
<b><u>TOTAL</u></b> .....	<b><u>100</u></b>	<b><u>100</u></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 (30 June 2015: £5,100) and its loans had a weighted average maturity on a behavioural half-life basis of 34 months (30 June 2015: 33 months). The Group has approximately 40,000 Consumer Lending customers (30 June 2015: 49,000 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. (six months ended 30 June 2015: 10.9 per cent.), 2.8 per cent. (30 June 2015: 2.9 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. (six months ended 30 June 2015: 1.3 per cent.). Its contribution to the Group's overall operating profit for the year ended 31 December 2014 was £5.5 million (six months ended 30 June 2015: £4.6 million).

### ***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 the first quarter of 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 the second quarter with a full market launch in the fourth quarter of 2015.

As at 31 December 2014, the Retail Savings division had approximately 57,000 customers (30 June 2015: 64,000 customers) and £2.4 billion (30 June 2015: £2.6 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 (30 June 2015: 102.0 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. (30 June 2015: 88 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.

## **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 £1.25 million (£300,000 in the case of Secured Lending) to a single counterparty or group of connected counterparties are subject to approval by a mandated credit risk officer in the second line of defence who sits outside of the business division. Any exposure in excess of £5.0 million (£500,000 in the case of Secured Lending) is reviewed by a credit approval committee chaired by either the Chief Risk Officer or Group Head of Credit (or an approved deputy). 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 (30 June 2015: 0.9 per cent.).

## Directors

The following table presents information about the Issuer's directors and lists other directorships held. The business address for all directors is Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex CM13 3BE.

Name	Position	Other directorships
<b>Iain Cornish</b>	Chairman (Independent Non-Executive Director)	
<b>Tom Wood</b>	Director ( <i>Chief Financial Officer and Interim Chief Executive Officer*</i> )	
<b>Stephen Johnson</b>	Director ( <i>Deputy Chief Executive Officer and Managing Director, Commercial Mortgages</i> )	Latchglen Limited
<b>Robin Ashton</b>	Senior Independent Non-Executive Director	Leeds Building Society Non-Standard Finance plc
<b>Graham Alcock</b>	Independent Non-Executive Director	
<b>Roger Lovering</b>	Independent Non-Executive Director	Caswell Consultancy Limited Logical Glue Limited
<b>Lindsey McMurray</b>	Non-Executive Director	Pollen Street Capital Limited PSC 4 Limited PSC Nominee 1 Limited Villon Holdings (UK) Limited Future First Alumni Limited SOF General Partner (Scotland) II Limited SOF General Partner (UK) Limited SOF Annex Nominees Limited

		Freedom Acquisitions Limited P2P Investment Management Limited SC II GP Limited Bumblebee Loans LTD Honeycomb Holdings Limited Capitalflow Holdings Limited
<b>Paul Lawrence</b>	Independent Non-Executive Director	
<b>Daniel Rushbrook</b>	Secretary	

Each of the directors has declared his/her interests and none of the directors of the Issuer has any actual or potential conflict between their duties to the Issuer and their private interests or other duties listed above.

\* On 2 October 2015 the Issuer announced that, subject to regulatory approval, Steve Pateman will take up the position of Chief Executive Officer from 1 January 2016.



## SUPERVISION AND REGULATION

### 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.

#### *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 closed 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.

#### *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.

#### *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.

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

The BRRD was published in the Official Journal of the EU on 12 June 2014, with Member States expected to apply their implementing legislation and regulations from 1 January 2015 (except for certain bail-in provisions, which are to be implemented by 1 January 2016 at the latest). In the U.K., extensive amendments were made to the Banking Act to implement the BRRD as described under “*The Group’s business is subject to the potential impacts of UK and European banking reform initiatives*” in the “Risk Factors” section above.

#### ***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 prohibits 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.

#### ***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 with Member States expected to apply their implementing legislation and regulations from 3 July 2015. 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.

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

In July 2013 the European Commission proposed a revised payment services directive 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.

#### ***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 Payment Systems Regulator***

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 became fully operational in April 2015. The Payment Systems Regulator operates under the FCA but has separate duties and powers, with its regulatory tools including legislation, rules issued by it ("general directions" and "requirements"), written guidance, and decisions. The full impact of the Payment Systems Regulator's powers, which include powers to regulate pricing, is as yet unclear. However, the Payment Systems Regulator's policy intentions include developing and protecting competitive markets where possible and contributing to the creation of market conditions in which innovation thrives and service-users' interests are protected.

The Payment Systems Regulator has published a work programme, which includes two market reviews, one on supply of indirect access to payment systems and the other on ownership and competitiveness of infrastructure provision (the scope of which does not include cards).

### ***The Competition Markets Authority***

The CMA is an independent non-ministerial department, responsible for matters such as: (i) investigating mergers which could restrict competition; (ii) conducting market studies and investigations in markets where there may be competition and consumer problems; (iii) investigating possible breaches of UK / EU prohibitions against anti-competitive agreements and abuses of a dominant position.

### ***The Financial Policy Committee***

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.

### ***Her Majesty's Revenue and Customs ("HMRC")***

HMRC is the UK's tax and customs authority. Through its customs service it facilitates legitimate trade and protects the UK's economic, social and physical security. HMRC acts as a supervisory authority for certain supervised businesses that are covered by the Money Laundering Regulations 2007.

### ***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 finance activities (including entering into regulated mortgage contracts as well as unsecured regulated credit agreements) 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 the FCA Handbook and the PRA Rulebook. 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 parts of the FCA Handbook and PRA Rulebook which are of particular relevance to the Group include the Senior Management Arrangements, Systems and Controls 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.

### ***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 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.

### ***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), as revised under the new Deposit Guarantee Schemes Directive which was required to be implemented into national law by 3 July 2015:

- for deposits, 100 per cent. of the first £75,000, as well as a £1 million protection limit for certain temporary high balances (although in practice the previous limit of £85,000 will apply to most depositors until 1 January 2016);
- 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. The methodology for determining levies per institution is now governed by the new Deposit Guarantee Schemes Directive

### ***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.

### ***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.

#### ***UK Money Laundering Regulations 2007 and the EU Money Laundering Directive***

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. In February 2013 the European Commission adopted a legislative proposal for the “Fourth Money Laundering Directive” 2015/849/EU, (“**MLD4**”), to replace Directive 2005/60/EC, being the Third Money Laundering Directive. MLD4 was adopted by the Council of the EU and the European Parliament in April and May 2015 respectively. MLD4 entered into force on 25 June 2015. Member States have two years to

transpose its requirements into domestic-level laws. MLD4 is a minimum harmonising directive (allowing it to be "gold-plated" by Member States) and prescribes fewer concrete measures than its predecessor. This gives Member States additional flexibility in determining how best to apply its requirements according to the risks they face, whilst also allowing them to focus on the effectiveness of the measures they implement. The Commission has stated that it does not expect that entities which have obligations pursuant to the Third Money Laundering Directive will be unduly impacted by the changes envisaged by the MLD4.

#### ***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.

#### ***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.

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 (which are expected to be implemented from 1 January 2019) and the senior managers regime. On 27 May 2015, the PRA published PS10/15 containing near-final rules and near-final supervisory statements covering legal structure, governance and the continuity of services and facilities in relation to ring-fencing requirements.

#### ***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. In July 2015, the FCA and PRA published their final rules on the new Senior Managers and Certification Regime in, respectively, the FCA's consultation paper CP15/22 and the PRA's policy statement PS16/15, each of which comes into force for most purposes of 7 March 2016. Additionally, in August 2015, the PRA and FCA published their respective final accountability rules for individuals working in insurance firms that are subject to Solvency II (PRA policy statement PS22/15 and FCA policy statement PS15/21) and further consultation papers on the PRA's Senior Insurance Managers Regime (SIMR) and the FCA's approved persons regime, for insurance firms not subject to Solvency II (PRA CP26/15 and CFA CP 15/25).



## TAXATION

### United Kingdom

The comments below are of a general nature and are not intended to be exhaustive. The following applies only to persons who are the beneficial owners of Notes and who hold those Notes as investments, and is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs ("HMRC") practice (which may not be binding on HMRC) relating only to United Kingdom withholding tax and to United Kingdom stamp duty and stamp duty reserve tax. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

The statements below are made on the assumption that the Notes qualify, or have qualified, as Tier 2 instruments under Article 62 of Commission Regulation (EEC) No 575/2013 (the "**CRR**") and form, or will have formed, a component of Tier 2 Capital for the purposes of the CRR, and will therefore be "regulatory capital securities" for the purposes of the Taxation of Regulatory Capital Securities Regulations 2013 (the "**Regulations**"). Prospective Noteholders should note that, if the Notes are not such Tier 2 instruments, or if there are arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the Regulations, then this would affect the statements below.

#### *Interest on the Notes*

Payments of interest on the Notes by the Issuer may be made without deduction of or withholding on account of United Kingdom income tax pursuant to the Regulations.

#### *Information Reporting*

Information in relation to securities and accounts may be required to be provided to HMRC in certain circumstances. This may include the name and address of the recipient or the beneficial owner of the payments under the Notes (or persons for whom the Notes are held), the value of the Notes, amounts paid or credited with respect to the Notes (including interest and amounts treated as interest), other payments derived from the Notes, details of the persons who exercise control over entities that are, or are treated as, holders of the Notes, details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with issues of and other transactions in or relating to the Notes. Information may be required to be provided by (amongst others) the Issuer, the holders of the Notes, persons who effect or are a party to a transaction in the Notes on behalf of others, registrars and administrators of such transactions, persons who make, receive or are entitled to receive payments derived from the Notes and persons by or through whom interest and other payments treated as interest are paid or credited. Any information so reported or obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of other jurisdictions.

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

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

## European Union

The following relates only to the Savings Directive. It does not deal with any other European Union taxation implications of acquiring, holding or disposing of Notes. The tax treatment of prospective Noteholders in Member States of the European Union depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be unsure as to their tax position should seek their own professional advice.

### EU Information Reporting and Withholding

Under the Savings Directive, EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid by a person established within its jurisdiction (or secured by such a person or for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. A number of other non-EU countries and territories have adopted similar measures.

The Council of the European Union has adopted the Amending Savings Directive which would, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above, including by expanding the range of payments covered by the Savings Directive, in particular to include additional types of income payable on Notes, and by expanding the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive), which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Savings Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The Council of the European Union has also adopted a Directive (the “Amending Cooperation Directive”) amending Council Directive 2011/16/EU on administrative cooperation in the field of taxation so as to introduce an extended automatic exchange of information regime in accordance with the Global Standard released by the OECD Council in July 2014. The Amending Cooperation Directive requires EU Member States to adopt national legislation necessary to comply with it by 31 December 2015, which legislation must apply from 1 January 2016 (1 January 2017 in the case of Austria). The Amending Cooperation Directive is generally broader in scope than the Savings Directive, although it does not impose withholding taxes, and provides that to the extent there is overlap of scope, the Amending Cooperation Directive prevails. The European Commission has therefore published a proposal for a Council Directive repealing the Savings Directive from 1 January 2016 (1 January 2017 in the case of Austria) (in each case subject to transitional arrangements). The proposal also provides that, if it is adopted, Member States will not be required to implement the Amending Savings Directive. Information reporting and exchange will however still be required under Council Directive 2011/16/EU (as amended).

### *The proposed financial transactions tax (“FTT”)*

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State.

A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

Merrill Lynch International (the “**Lead Manager**”) has, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 26 October 2015, agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of their principal amount less a combined management and underwriting commission, subject to the provisions of the Subscription Agreement. The Issuer will also reimburse the Lead Manager in respect of certain of its expenses, and has agreed to indemnify the Lead Manager against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer. The Notes are expected to be purchased by a limited number of initial investors, one or more of whom may hold a significant proportion of the total issuance.

### **Selling restrictions**

#### *United States*

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

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

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

#### *United Kingdom*

The Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

#### *General*

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

## GENERAL INFORMATION

### Authorisation

The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer passed on 29 September 2015.

### Listing

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List, and to the London Stock Exchange for the Notes to be admitted to trading on its regulated market.

The Issuer estimates that the total expenses related to the admission to trading will be approximately £4,000.

### Indication of Yield

Based upon a re-offer price of 100 per cent. of the principal amount of the Notes, the yield of the Notes for the period from (and including) the Issue Date to (but excluding) the Reset Date, is 8.50 per cent. *per annum* on an annual basis. The yield is calculated at the Issue Date and is not an indication of future yield.

### Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1303933573 and the Common Code is 130393357.

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

### No significant change

There has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2015 and no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2014.

### Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Issuer is aware in the 12 months preceding the date of this Prospectus which may have or have had in the recent past a significant effect on the financial position or profitability of the Issuer or the Group.

### Auditors

The financial statements of the Issuer for the financial periods ended 31 December 2013 and 31 December 2014 have been audited in accordance with IFRS and have been reported on without qualification by KPMG LLP.

KPMG LLP (member of the Institute of Chartered Accountants in England and Wales) is the auditor appointed by the Issuer for the purposes of auditing its financial statements.

### Documents available

Physical copies of the following documents will be available from the date hereof and for so long as the Notes remain outstanding at the registered office of the Issuer, 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):

- (a) the Agency Agreement and the Trust Deed (which includes the form of the Global Certificate);
- (b) the Memorandum and Articles of Association of the Issuer;
- (c) the published annual report and audited accounts of the Issuer for the two financial periods most recently ended 31 December 2013 and 31 December 2014;
- (d) the published unaudited interim financial statements for the six months ending 30 June 2015; and
- (e) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus.

In addition, this Prospectus will be published via the Regulated News Service (RNS) operated by the London Stock Exchange.

### **Conflicts of Interest**

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

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**LEAD MANAGER**

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*To the Issuer as to English law*

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