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IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the following Information Memorandum (the "**Information Memorandum**", which term, in this disclaimer, means the following Information Memorandum in preliminary or final form). You must read this disclaimer carefully before reading, accessing or making any other use of the Information Memorandum. In accessing the Information Memorandum, 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 INFORMATION MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE INFORMATION MEMORANDUM 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 INFORMATION MEMORANDUM 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 SECURITIES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE INFORMATION MEMORANDUM 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 SECURITIES 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 Information Memorandum or make an investment decision with respect to the securities described therein (the "**Securities**"), 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 email and accessing the Information Memorandum, you shall be deemed to have represented to Aldermore Group PLC (the "**Issuer**") and to Deutsche Bank AG, London Branch (the "**Sole 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 Securities you will be doing so pursuant to Regulation S under the Securities Act;
- (ii) the electronic mail address to which the Information Memorandum has been delivered is not located in the United States of America, its territories and its possessions; and
- (iii) you consent to delivery of the Information Memorandum 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 Sole Manager and 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 Information Memorandum has been delivered to you on the basis that you are a person into whose possession the Information Memorandum 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 Information Memorandum, 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. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and the Sole Manager or any affiliate of the Sole Manager is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the Sole Manager or such affiliate, as the case may be, on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Information Memorandum constitute an offer to sell or the solicitation of an offer to buy any Securities 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 Sole Manager that would, or is intended to, permit a public offering of the Securities, or possession or distribution of the Information Memorandum or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required.

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

Restrictions on marketing and sales to retail investors

The Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Securities to retail investors.

In particular, in August 2014, the U.K. Financial Conduct Authority published the TMR which took effect on 1 October 2014. Under the rules set out in the TMR (as amended or replaced from time to time, the “**TMR Rules**”), certain contingent write-down or convertible securities, such as the Securities, must not be sold to retail clients in the European Economic Area (the “**EEA**”) and nothing may be done that would or might result in the buying of such securities or the holding of a beneficial interest in such securities by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than in accordance with the limited exemptions set out in the TMR Rules.

The Sole Manager is required to comply with the TMR Rules. By purchasing, or making or accepting an offer to purchase, any Securities from the Issuer and/or the Sole Manager, each prospective investor represents, warrants, agrees with, and undertakes to, the Issuer and the Sole Manager that:

- (i) it is not a retail client in the EEA (as defined in the TMR Rules);
- (ii) whether or not it is subject to the TMR Rules, it will not sell or offer the Securities to retail clients in the EEA or do anything (including the distribution of the Information Memorandum) that would or might result in the buying of the Securities or the holding of a beneficial interest in the Securities by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than (i) in relation to any sale or offer to sell Securities to a retail client in or resident in the United Kingdom (the “**UK**”), in circumstances that do not and will not give rise to a contravention of the TMR Rules by any person and/or (ii) in relation to any sale or offer to sell Securities to a retail client in any EEA member state other than the UK, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Securities and is able to bear the potential losses involved in an investment in the Securities and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) (“**MiFID**”) to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and
- (iii) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Securities, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Securities by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Securities from the Issuer and/or the Sole Manager, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

The Information Memorandum is being distributed only to and directed only at (i) persons who are outside the UK, or (ii) persons who are in the UK who are (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (b) otherwise, persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as “**relevant persons**”). The Information Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Information Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. The Information Memorandum may only be communicated to persons in the UK in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.



Aldermore Group PLC

(incorporated under the laws of England and Wales with company number 06764335)

£75,000,000 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities

Issue price: 100.148 per cent.

The £75,000,000 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the “**Securities**”) will be issued by Aldermore Group PLC (the “**Issuer**”) on or about 9 December 2014 (the “**Issue Date**”). The Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 30 April 2020 (the “**First Reset Date**”), at a rate of 11.875 per cent. per annum and thereafter at the relevant Reset Interest Rate as provided in Condition 6. Interest will be payable on the Securities annually in arrear (with a short first interest period) on each Interest Payment Date, commencing on 30 April 2015, provided that the Issuer may elect to cancel any interest payment (in whole or in part) at its full discretion, and must cancel payments of interest (i) in the circumstances described in Condition 6(a) or 9(a) and/or (ii) if and to the extent that such payment could not be made in compliance with the Solvency Condition (as defined in Condition 4(a)). Any interest which is so cancelled will not accumulate or be payable at any time thereafter, no amount will become due from the Issuer in respect thereof and cancellation thereof shall not constitute a default for any purpose on the part of the Issuer.

If a Trigger Event (as defined in Condition 21) occurs at any time, the Securities will be Converted into Ordinary Shares (as defined in Condition 21) of the Issuer at the Conversion Price and delivered to the Settlement Shares Depositary, all as more fully described in Condition 9.

The Securities will be perpetual securities with no fixed redemption date, and the Securityholders will have no right to require the Issuer to redeem or purchase the Securities at any time. The Issuer may, in its discretion but subject to Regulatory Approval and compliance with the Solvency Condition, elect to (a) redeem all (but not some only) of the Securities at their principal amount, together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to (but excluding) the redemption date, (i) on the First Reset Date or on any Interest Payment Date thereafter or (ii) at any time if a Tax Event (as defined in Condition 8(d)) has occurred and is continuing or a Capital Disqualification Event (as defined in Condition 8(c)) has occurred and is continuing, and in the case of paragraphs (i) and (ii), subject to compliance with the Regulatory Preconditions, or (b) repurchase the Securities at any time in accordance with the then prevailing Regulatory Capital Requirements.

Application has been made to the Irish Stock Exchange (the “**ISE**”) for the approval of this Information Memorandum as listing particulars. Application has been made to the ISE for the Securities to be admitted to the official list and to trading on the global exchange market (the “**GEM**”) which is the exchange regulated market of the ISE. The GEM is not a regulated market for the purposes of the Markets in Financial Instruments Directive (2004/39/EC) (“**MiFID**”).

The Securities will be issued in registered form and available and transferable in minimum denominations of £200,000 and integral multiples of £1,000 in excess thereof. The Securities 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**”).

The Securities are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time, the “**TMR**”) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed “**Restrictions on marketing and sales to retail investors**” on pages 3 to 4 of this Information Memorandum for further information.

Potential investors should read the whole of this document, in particular the “**Risk Factors**” set out on pages 18 to 62.

Sole Bookrunner and Sole Manager

Deutsche Bank AG, London Branch

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

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

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

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

Neither Deutsche Bank AG, London Branch (the “**Manager**”) nor any of its affiliates have authorised the whole or any part of this Information Memorandum and none of them makes any representation or warranty or accepts any responsibility as to the accuracy and completeness of the information contained in this Information Memorandum.

As further described in the Conditions, if a Trigger Event occurs, the Securities will be converted in whole and not in part on the Conversion Date as provided in Condition 9, at which point all of the Issuer’s obligations under the Securities shall be irrevocably discharged and satisfied by the Issuer’s issuance and delivery of the relevant Ordinary Shares to the Settlement Shares Depositary on the Conversion Date. Provided that the Issuer issues and delivers the relevant Ordinary Shares to the Settlement Shares Depositary in accordance with the Conditions, with effect from the Conversion Date, no Securityholder will have any rights against the Issuer with respect to the repayment of the principal amount of the Securities or the payment of interest or any other amount on or in respect of such Securities and the principal amount of the Securities shall be reduced to, and at all times thereafter equal, zero until the Securities are cancelled. Accordingly, Securityholders should be aware that they may lose their entire investment in the Securities.

Neither the Trustee nor any Agent (as defined in the Conditions) shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Trigger Event or any consequent cancellation of the Securities or write down of any claims in respect thereof, and neither the Trustee nor the Agents shall be responsible for any calculation or determination or the verification of any calculation or determination in connection with the same.

Neither this Information Memorandum nor any other information supplied in connection with the offering of the Securities (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer that any recipient of this Information Memorandum or any other information supplied in connection with the offering of the Securities should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Information Memorandum nor any other information supplied in connection with the offering of the Securities constitutes an offer or invitation by or on behalf of the Issuer to any person to subscribe for or to purchase any Securities in any jurisdiction where such offer or invitation is not permitted by law.

Neither the delivery of this Information Memorandum nor the offering, placing, sale or delivery of the Securities 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 Securities is correct as of any time subsequent to the date indicated in the document containing the same.

The Securities 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 Securities may not be offered, sold or delivered within the United States or to U.S. persons.

The Securities may not be a suitable investment for all investors. Each potential investor in the Securities 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 Securities, the merits and risks of investing in the Securities and the information contained in this Information Memorandum or any applicable supplement; (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities 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 Securities, including where the currency for principal or interest payments is different from the potential investor’s currency; (d) understands thoroughly the terms of the Securities 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.

Restrictions on marketing and sales to retail investors

The Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Securities to retail investors.

In particular, in August 2014, the U.K. Financial Conduct Authority (the “**FCA**”) published the TMR which took effect on 1 October 2014. Under the rules set out in the TMR (as amended or replaced from time to time, the “**TMR Rules**”), certain contingent write-down or convertible securities, such as the Securities, must not be sold to retail clients in the European Economic Area (the “**EEA**”) and nothing may be done that would or might result in the buying of such securities or the holding of a beneficial interest in such securities by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than in accordance with the limited exemptions set out in the TMR Rules.

The Manager is required to comply with the TMR Rules. By purchasing, or making or accepting an offer to purchase, any Securities from the Issuer and/or the Manager, each prospective investor represents, warrants, agrees with, and undertakes to, the Issuer and the Manager that:

- (a) it is not a retail client in the EEA (as defined in the TMR Rules);
- (b) whether or not it is subject to the TMR Rules, it will not sell or offer the Securities to retail clients in the EEA or do anything (including the distribution of this Information Memorandum) that would or might result in the buying of the Securities or the holding of a beneficial interest in the Securities by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than (i) in relation to any sale or offer to sell Securities to a retail client in or resident in the United Kingdom (the “**UK**”), in circumstances that do not and will not give rise to a contravention of the TMR Rules by any person and/or (ii) in relation to any sale or offer to sell Securities to a retail client in any EEA member state other than the UK, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Securities and is able to bear the potential losses involved in an investment in the Securities and (b) it has at all times acted in relation to such sale or offer in compliance with MiFID to the extent it applies to it or, to the extent

MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

- (c) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Securities, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Securities by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Securities from the Issuer and/or the Manager, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

The Securities may be considered by eligible investors who are in a position to give the above representations, warranties and undertakings and to be able to satisfy themselves that the Securities would constitute an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

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

IN CONNECTION WITH THE ISSUE OF THE SECURITIES, DEUTSCHE BANK AG, LONDON BRANCH AS STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SECURITIES 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 SECURITIES 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 SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES. 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 Information Memorandum, including any information as to the Group's (as defined below) 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 Information Memorandum speak only as at the date of this Information Memorandum, 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 Information Memorandum that could cause actual results to differ before making an investment decision. All of the forward looking statements made in this Information Memorandum are qualified by these cautionary statements. Specific reference is made to the information set out in "*Risk Factors*" and "*Description of Aldermore's business*".

Subject to applicable law or regulation, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward looking statements in this Information Memorandum that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Information Memorandum. In this Information Memorandum, references to "**Aldermore**" and to "**Group**" are to Aldermore Group PLC and its subsidiaries, taken as a whole. The term "**Issuer Group**" has the meaning given to it in Condition 21 of the Conditions.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical financial information

The historical financial information in this Information Memorandum has been prepared in accordance with the Listing and Admission to Trading Rules of GEM and the International Financial Reporting Standards (the “**IFRS**”) issued by the International Accounting Standards Board (“**IASB**”) and as adopted by the European Union. The basis of preparation is further explained in “*Historical Financial Information*”. The historical financial information presented in this Information Memorandum consists of audited consolidated financial information of the Group for the years ended 31 December 2013, 2012 and 2011, the audited consolidated financial information of the Group for the six months ended 30 June 2014 and the unaudited consolidated financial information of the Group for the six months ended 30 June 2013.

Non IFRS Financial Measures

The Group 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, cost/income ratio, return on equity, Core Tier 1 ratio, Common Equity Tier 1 capital ratio and total capital ratio. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides the Group with certain discretion in making its calculations.

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

Non financial information operating data

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

Currency presentation

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

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

Roundings

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

Market, economic and industry data

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

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

Warrants

The figures included in this Information Memorandum for the number and percentages of Ordinary Shares assumes the Warrants (as defined in “*Description of the Ordinary Shares and rights – Warrants*”) will not be exercised. For further information on the Warrants, see “*Description of the Ordinary Shares and rights – Warrant Instruments*”.

No incorporation of website information

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

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OVERVIEW OF ALDERMORE AND THE PRINCIPAL FEATURES OF THE SECURITIES

*The following overview provides an overview of (i) the business of the Issuer and Aldermore and (ii) certain of the principal features of the Securities and, in each case, is qualified by the more detailed information contained elsewhere in this Information Memorandum. Capitalised terms which are defined in “Terms and Conditions of the Securities” have the same meaning when used in this overview. References to numbered Conditions are to the terms and conditions of the Securities (the “**Conditions**”) as set out under “Terms and Conditions of the Securities”.*

Aldermore

Overview and History

The Issuer is the holding company of the Group and has one principal subsidiary, Aldermore Bank PLC (the “**Bank**”), which is registered in England and Wales. The Bank is a UK deposit taking institution, which is authorised by the Prudential Regulation Authority (the “**PRA**”) and regulated by the PRA and the FCA. As at the date of this Information Memorandum, funds advised by the private equity firm AnaCap Financial Partners LLP (“**AnaCap**”) hold 89.96 per cent. of the issued share capital (excluding Class C Ordinary Shares) of the Issuer.

The Issuer is a public limited company originally incorporated as a private limited company on 3 December 2008 under the Companies Act 1985. On 30 September 2014, the Issuer was re-registered as a public limited company under the Companies Act 2006 (the “**Companies Act**”) and changed its name from AC Acquisitions Limited to Aldermore Group PLC.

Aldermore is a British bank which focuses on secured and bespoke lending to the SME market and residential mortgages for retail customers. It was founded in May 2009 following the acquisition of Ruffler Bank Plc and Base Commercial Mortgages Limited by funds managed and advised by AnaCap. At the time of the acquisitions, Aldermore had customer lending in the region of £76 million and approximately 50 employees. Since then Aldermore has developed into a multi product asset based lender and through its focus on organic loan origination has grown significantly, having £4.8 billion of assets, approximately 160,000 customers and over 800 employees and contractors as at 30 June 2014. Between 1 January 2011 and 30 June 2014, 98 per cent. of loan origination was generated organically.

Aldermore has successfully grown in both scale and profitability. Profit before tax increased from a loss of £(0.7) million for the year ended 31 December 2011 to a profit of £25.7 million for the financial year ended 31 December 2013 and £18.6 million for the six months ended 30 June 2014. Return on equity for the six months ended 30 June 2014 was 11.7 per cent. (excluding costs relating to the Proposed IPO (as defined in “*Description of Aldermore’s Business – History and development of Aldermore*”) (the “**Proposed IPO Costs**”)) compared with 5.5 per cent. for the six months ended 30 June 2013 and 11.6 per cent. for the financial year ended 31 December 2013.

As at 30 June 2014, Aldermore’s fully loaded CRD IV CET1 ratio was 10.9 per cent., its Total Capital Ratio was 12.7 per cent. and its Leverage Ratio was 5 per cent.

Strategy

Aldermore focuses on specialist lending to SMEs and homeowners across four targeted lending segments which the directors of the Issuer (the “**Directors**”) have identified as being underserved by incumbent banks and where they believe there are significant, sustainable and profitable growth opportunities. Aldermore’s lending activity is supported by its deposit franchise and other sources of funding:

- **Asset Finance:** Aldermore offers Asset Finance loans on single transactions of predominantly between £5,000 and £1 million primarily to fund SME capital investment in certain key assets

including plant and machinery, commercial vehicles, cars, IT equipment and business equipment. As at 30 June 2014, Aldermore's Asset Finance business had net loans of £871.1 million;

- **Invoice Finance:** Aldermore provides working capital for SMEs by lending against outstanding invoices issued by a borrower to its customers. Borrower limits are set on a borrower specific basis and they typically operate with an advance rate of up to 85 per cent. of the value of the approved invoices. As at 30 June 2014, Aldermore's Invoice Finance business had net loans of £203.7 million;
- **SME Commercial Mortgages:** Aldermore offers SME Commercial Mortgages up to a maximum of £2 million on a single property, rising to £5 million over multiple properties, primarily to SMEs and professional property investors, secured on commercial property (including retail premises, offices, industrial units and warehouses) and professionally managed residential buy to let portfolios. As at 30 June 2014, Aldermore's SME Commercial Mortgages business had net loans of £894.9 million; and
- **Residential Mortgages:** Aldermore offers Residential Mortgages of up to a maximum of £1 million in the form of owner occupied or buy to let mortgages. As at 30 June 2014, Aldermore's Residential Mortgages had net loans of £2.0 billion.

Aldermore is funded predominantly through online retail and SME deposits and, as at 30 June 2014, had a loan to deposit ratio of 104 per cent. Additional funding is provided by Aldermore's £333 million RMBS issued in April 2014 (its first securitisation transaction), participation in the Funding for Lending Scheme and £40 million Subordinated Fixed-to-Fixed Rate Notes due 2022 issued in May 2012 by Aldermore Bank PLC (the "**Subordinated Notes**"). This increasingly diversified mix of funding has resulted in declining funding costs. For the six months ended 30 June 2014, Aldermore's average cost of funds was 2.3 per cent. compared to 2.8 per cent., 3.9 per cent. and 3.7 per cent. for the financial years ended 31 December 2013, 2012 and 2011 respectively.

Business strengths

Aldermore is a "legacy free" bank which employs a modern digital platform to support its distribution and customer service proposition and provide a scalable, efficient operating model. Aldermore has a strong and diversified online deposit franchise and the Directors believe that its target lending segments provide a significant and sustainable organic growth opportunity.

Aldermore has clearly defined control and risk functions in place and employs a modern IT infrastructure to support its operations and customer service proposition. This scalable digital platform has no "legacy" issues and can support Aldermore's planned organic growth.

Aldermore does not have a traditional branch network and as such does not have any costs associated with running such a branch network. Lending originations are conducted primarily through intermediaries with increasing direct distribution online, by phone and in person through Aldermore's regional offices across Great Britain which also provide product expertise, customer services and operational support services. Deposit accounts and savings products are directly originated and in the six months ended 30 June 2014 almost all SME deposits and approximately 76 per cent. of retail deposits were originated online.

Principal features of the Securities

Issuer	Aldermore Group PLC
Trustee	Deutsche Trustee Company Limited
Principal Paying Agent and Conversion Agent	Deutsche Bank AG, London Branch

Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A.
Securities	£75,000,000 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities.
Risk factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Securities and the Trust Deed. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Securities and certain risks relating to the structure of the Securities. These are set out under " <i>Risk Factors</i> ".
Status of the Securities	The Securities will constitute direct, unsecured and subordinated obligations of the Issuer and will rank <i>pari passu</i> , without any preference, among themselves.
Rights on a winding-up	The rights and claims of Securityholders in the event of a Winding-Up of the Issuer are described in Conditions 5 and 12, and will depend on whether the Winding-Up occurs prior to, or on or after, the occurrence of a Trigger Event.
Solvency Condition	Except in the event of a Winding-Up of the Issuer, payments in respect of or arising from (including any damages awarded for breach of any obligations under) the Securities are conditional upon the Issuer being solvent (within the meaning given in Condition 4(a)) at the time of payment by the Issuer and no payments shall be due and payable in respect of or arising from the Securities except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the " Solvency Condition ").
Interest	<p>The Securities will bear interest on their principal amount:</p> <ul style="list-style-type: none"> (a) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 11.875 per cent. per annum; and (b) thereafter, at the relevant Reset Interest Rate (as described in Condition 6(d)), <p>in each case payable, subject to cancellation as described below, annually in arrear (with a short first interest period) on 30 April in each year (each, an "Interest Payment Date"), commencing 30 April 2015.</p>
Optional cancellation of interest	The Issuer may elect at its full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any Interest Payment Date. See Condition 6(a) for further information.
Mandatory cancellation of interest	Further, the Issuer will cancel any Interest Amount otherwise scheduled to be paid on an Interest Payment Date if and to the extent that such Interest Amount, when aggregated together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current financial year on all other own funds items of the Issuer (excluding any such interest

payments or distributions paid or made on Tier 2 Capital items or which have already been provided for, by way of deduction, in the calculation of Distributable Items), exceeds the amount of Distributable Items of the Issuer as at such Interest Payment Date.

In addition, the Issuer will also be required to cancel any Interest Amount otherwise scheduled to be paid on an Interest Payment Date if and to the extent that payment of such Interest Amount would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Issuer Group to be exceeded.

See Condition 6(a) for further information.

Payments of interest will also be subject to the Solvency Condition (see "*Solvency Condition*" above).

Following the occurrence of a Trigger Event, the Issuer will also cancel all interest accrued up to (and including) the Conversion Date (see "*Conversion following a Trigger Event*" below).

Non-cumulative interest

If the payment of interest scheduled on an Interest Payment Date is cancelled in accordance with the Conditions as described above, the Issuer shall not have any obligation to make such interest payment on such Interest Payment Date and the failure to pay such amount of interest or part thereof shall not constitute a default of the Issuer for any purpose. Any such interest will not accumulate or be payable at any time thereafter and holders of the Securities shall have no right thereto whether under the Securities, or the Trust Deed, in a Winding-Up of the Issuer or otherwise.

Conversion following a Trigger Event

If the Common Equity Tier 1 Capital Ratio of the Issuer Group at any time falls below 7.00 per cent. (a "**Trigger Event**"), the Issuer shall immediately notify the Supervisory Authority of the occurrence of the Trigger Event and, without delay and by no later than one month (or such shorter period as the Supervisory Authority may then require) from the occurrence of the relevant Trigger Event the Issuer shall:

- (a) cancel any interest which is accrued and unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment); and
- (b) issue, by way of conversion of the Securities (as more fully described in Condition 9(b)), on the Conversion Date to the Settlement Shares Depositary to be held for the Securityholders such number of Ordinary Shares as is equal to the aggregate principal amount of the Securities divided by the Conversion Price rounded down to the nearest whole number of Ordinary Shares

(such issue of Ordinary Shares being referred to as a **“Conversion”** and **“Converted”** shall have a corresponding meaning), and each Security shall, subject to and as provided in Condition 9, thereby be irrevocably discharged and satisfied.

“Ordinary Shares” means (i) prior to an IPO Event, the Class E Ordinary Shares; and (ii) on or following an IPO Event, ordinary voting shares in the capital of the Issuer (or, in the event of an Exempt Newco Scheme, the ordinary shares of the Newco) which form part of the same class of ordinary shares which is admitted to trading as described in the definition of IPO Event.

See Condition 9 for further information.

The **“Issuer Group”** means the Issuer and each entity which is part of the UK prudential consolidation group (as that term, or its successor, is used in the Regulatory Capital Requirements) of which the Issuer is part from time to time.

The **“Conversion Price”** shall be:

- (i) prior to an IPO Event, the prevailing Pre-IPO Conversion Price; and
- (ii) on and from an IPO Event, the prevailing Post-IPO Conversion Price (each as defined in Condition 9(a)).

Maturity

The Securities are perpetual securities with no fixed redemption date. The Securities may only be redeemed or repurchased by the Issuer in the circumstances described below (as more fully described in Condition 8).

Optional redemption

The Issuer may, in its sole discretion but subject to the conditions set out under “Conditions to redemption” below, redeem all (but not some only) of the Securities on the First Reset Date or on any Interest Payment Date thereafter at their principal amount together with any interest accrued and unpaid from and including the immediately preceding Interest Payment Date.

Redemption following a Capital Disqualification Event or a Tax Event

The Issuer may, in its sole discretion but subject to the conditions set out under “Conditions to redemption” below, redeem all (but not some only) of the Securities at any time following the occurrence of a Capital Disqualification Event (as defined in Condition 8(c)) or a Tax Event (as defined in Condition 8(d)), in each case which has occurred and is continuing, and in each case, at their principal amount together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the relevant redemption date, subject to, in the case of a redemption occurring prior to the First Reset Date, the Issuer demonstrating to the satisfaction of the Supervisory 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

exclusion was not reasonably foreseeable as at the Issue Date.

Conditions to redemption

Any redemption of the Securities will be subject to obtaining Regulatory Approval and (to the extent required by prevailing Regulatory Capital Requirements) to:

- (a) the Issuer Group having replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer Group; or
- (b) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer Group would, following such redemption, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; or
- (c) if, at the time of such redemption, the prevailing Regulatory Capital Requirements permit the redemption after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (a) and (b) above, the Issuer having complied with such other pre-condition.

In addition, if the Issuer has elected to redeem the Securities and either (i) the Solvency Condition is not satisfied in respect of the relevant payment on the date scheduled for redemption, or (ii) prior to redemption of the Securities, a Trigger Event occurs, then the relevant notice of redemption will be automatically rescinded and will be of no force and effect.

Purchase of the Securities

The Issuer or any of its Subsidiaries may, at its option but subject to the Solvency Condition and Regulatory Approval, purchase or otherwise acquire any of the outstanding Securities at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements. All Securities purchased by or on behalf of the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, cancelled.

Withholding tax and Additional Amounts

All payments by or on behalf of the Issuer in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction is required by law. In that event, 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 Securityholders after the withholding or deduction shall equal

the amounts which would have been receivable in respect of the Securities in the absence of such withholding or deduction.

Payments in respect of principal and interest on the Securities will be made subject to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986 or otherwise imposed pursuant to Sections 1471 through 1474 of the US Internal Revenue Code of 1986, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the preceding paragraph) any law implementing an intergovernmental approach thereto and the Issuer will not be liable to Securityholders for any taxes or duties of whatever nature imposed or levied by such laws, agreements or regulations.

Enforcement

In the event of a Winding-Up, or if the Issuer has not made payment of any amount in respect of the Securities for a period of seven days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and, unless proceedings for a Winding-Up have already commenced, the Trustee may institute proceedings for a Winding-Up. The Trustee may prove 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 5.

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) provided that in no event shall the Issuer, by virtue of the institution of any such 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 Securityholder 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 12 for further information.

Modification

The Trust Deed will contain provisions for convening meetings of Securityholders to consider any matter affecting their interests, pursuant to which defined majorities of the Securityholders 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 Securityholders.

In addition, the Trustee may agree (other than in respect of a Reserved Matter, as defined in the Trust Deed), without the

consent of the Securityholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed or the Agency Agreement (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Securityholders) or may agree, without any such consent as aforesaid and irrespective of whether the same constitutes a Reserved Matter, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

Substitution of the Issuer

The Trustee may, without the consent of the Securityholders but subject to Regulatory Approval, 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 Securities and the Trust Deed of the Issuer's Successor in business or, in the event of a Newco Scheme, Newco, subject to:

- (a) the Trustee being satisfied that such substitution will not be materially prejudicial to the interests of the Securityholders; and
- (b) certain other conditions set out in the Trust Deed being complied with.

Form

The Securities will be issued in registered form. The Securities 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.

Denomination

£200,000 and integral multiples of £1,000 in excess thereof.

Clearing systems

Euroclear and Clearstream, Luxembourg.

Listing

Application has been made for admission of the Securities to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange with effect from the Issue Date.

Selling restrictions

United States and United Kingdom (including, but not limited to, the TMR).

Governing law

The Securities and the Trust Deed, and any non-contractual obligations arising out of or in connection with the Securities or the Trust Deed, will be governed by, and construed in accordance with, English law.

ISIN

XS1150025549

Common Code

115002554

RISK FACTORS

Any investment in the Securities 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 Securities, prospective investors should carefully consider the risk factors associated with any investment in the Securities, the Group and the financial services industry in the UK in general, together with all the other information contained in this document. This section describes the risk factors which are considered by the Issuer to be material to the Group and an investment in the Securities. 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 Group's business, results of operation, financial condition or prospects which in turn would be likely to cause the price of the Securities to decline and, as a result, an investor in the Securities 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 Securities are also described below. Any of these factors, individually or in the aggregate, could have an adverse effect on the Group's business, results of operations and financial position. In addition, many of these factors are correlated and may require changes to the Group's capital requirements, and events described therein could therefore have a compounding adverse effect on the Group.

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

Risks Related to Aldermore's Business

Aldermore's business and financial performance has been and will continue to be primarily affected by general economic conditions in the UK. Adverse developments in the UK or the Eurozone or other global economic and financial markets could have a material adverse effect on its business, results of operations, financial condition and prospects.

Aldermore's business is subject to inherent risks from general macro economic conditions in the UK and the state of 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 a significant degree of turbulence and a period of recession, adversely affecting, among other things, the conditions in the housing market, levels of unemployment, the cost and availability of credit, and the liquidity of the capital markets.

While certain economic indicators in the UK have exhibited signs of improvement, there continues to be uncertainty regarding a sustained recovery, and the outlook for the UK economy in the near to medium term remains challenging, with many forecasts predicting only modest levels of gross domestic product growth. As Aldermore's operations are based entirely in the UK and, accordingly, its revenue is derived almost entirely from UK customers, Aldermore is particularly exposed to macro economic conditions in the UK. If the UK economic condition weakens, or if financial markets exhibit uncertainty and/or volatility, Aldermore's impairment losses may increase and its ability to grow its business could be materially adversely impacted. Poor economic conditions in the UK could also create uncertainty in relation to the cash flows of Aldermore's borrowers and in relation to the value of their collateral. In addition, any weakening of economic conditions in the UK could have an adverse impact on consumer confidence,

spending and demand for credit, which could materially adversely affect Aldermore's business, financial condition, results of operations and prospects.

In addition, prevailing economic conditions in the Eurozone, including the possibility of further macro economic deterioration and/or any continuing or worsening of financial market instability, may pose a risk to Aldermore's business, despite Aldermore having only a limited direct financial exposure to the Eurozone. In recent years, the UK financial markets have been negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe. These impacts are felt in the UK economy generally and by UK financial institutions. While Aldermore currently has limited direct exposure to the Eurozone markets through its holding of supranational bonds, market volatility has an adverse impact on consumer confidence, spending and demand for credit, which could have an adverse impact on Aldermore's business, financial condition, results of operations and prospects.

Market turmoil and economic volatility, especially in the UK (but also in the Eurozone or wider global economy), could have a material adverse effect on the liquidity, business and financial condition of Aldermore's commercial and retail customers, affect consumer confidence, spending and demand for credit, which could, in turn, impair its loan portfolio. While the Directors have policies and procedures in place designed to allow Aldermore to mitigate any adverse consequences of such impairments, these policies and procedures have not been subjected to an actual downturn or period of severe stress and therefore may prove to be ineffective. Worsening economic and market conditions may lead to subdued levels of business investment in the UK, which could result in reduced demand for Aldermore's products. SME and retail consumers are particularly sensitive to adverse developments in the economy, and they may represent a relatively higher degree of risk than lending to other groups, such as large corporations. A deterioration of economic and market conditions could result in increased SME and retail loan losses, which could adversely affect Aldermore's business, financial condition, results of operations and prospects.

Aldermore's business is particularly sensitive to interest rates.

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

Fluctuations in interest rates affect Aldermore's net interest margin and revenue. Sustained low interest rates can negatively impact Aldermore's cost of funds. Low interest rates reduce incentives for consumers to save and as a result, this could increase Aldermore's cost of deposits, as Aldermore may be required to increase the interest rate payable on customer accounts to attract additional deposits. Low interest rates also reduce interest income from the Base Rate linked and LIBOR linked portion of Aldermore's loan book.

Aldermore's net interest margin and revenue may conversely be adversely impacted by rising interest rates as Aldermore is unable to realise increased interest payments from borrowers with fixed rate loan products or effectively hedge its interest rate exposure.

Rising interest rates could affect customer affordability as they may put pressure on new and existing borrowers who have variable rate mortgages and who may have become accustomed to the current, low interest rate environment. Borrowers with variable rate mortgages would be exposed to increased monthly payments as and when their mortgage interest rate adjusts upward. In an increasing interest rate environment, borrowers may seek to avoid these increased monthly payments by refinancing their mortgages. Aldermore tests the affordability of its mortgage products, including taking into account potential increases in interest rates, but if such borrowers are unable to find more affordable replacement loans, they could default on their payment obligations in respect of their mortgage, which could lead to an increase in arrears in Aldermore's mortgage portfolio as well as an increase in Aldermore's loan impairment charges. Similarly, an increase in interest rates, without sufficient improvement in customer

earnings or employment levels, could lead to an increase in default rates among customers with variable rate mortgages who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for Aldermore. A high interest rate environment also reduces demand for mortgages generally, as individuals are less likely or less able to borrow when interest rates are high, thereby reducing incremental revenue.

Interest rate volatility could also negatively impact Aldermore, especially if such changes occur rapidly. In the event of sudden or frequent increases in interest rates (or, conversely, a sudden decrease in interest rates subsequent to a recent increase in interest rates), Aldermore may not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short term, which, in turn, can negatively affect net interest income. Although Aldermore seeks to minimise the interest rate mismatch risk by entering into swap agreements to ensure that its fixed and variable rate deposits are matched with fixed and variable rate loans, respectively, and does not always increase interest payable on customer deposits to the full extent of any increase in interest rates, there is no guarantee that Aldermore will be able to effectively manage its exposure to interest rate volatility, which could materially adversely affect its business, financial condition, results of operation and prospects.

As at 30 June 2014, 42 per cent. of Aldermore's Residential Mortgage book and 90 per cent. of the SME Commercial Mortgage book comprised variable interest rate products. There is, therefore, the risk that an increase in interest rates, or an expectation thereof, could lead to an increased demand for fixed rate products. High levels of movement between products in a concentrated time period could put considerable strain on Aldermore's business and operational capability or lead to heightened attrition levels if customers are able to find more competitively priced, fixed rate products elsewhere.

Worsening economic and market conditions could result in increased Asset Finance loan losses.

As at 30 June 2014, on a gross basis, Aldermore's Asset Finance loan portfolio amounted to £875.5 million (21.7 per cent. of its total gross loan portfolio) of which 0.33 per cent. of gross balances were three months or more in arrears. Against its Asset Finance loan portfolio, Aldermore recorded total impairment losses on loans and advances to customers of £2.6 million, £1.2 million and £0.5 million in the financial years ended 31 December 2013, 2012 and 2011 (equal to 0.47 per cent., 0.41 per cent. and 0.39 per cent. of the average Asset Finance net loans), respectively, and £0.9 million in the six months ended 30 June 2014 (equal to 0.24 per cent. of the average Asset Finance net loans on an annualised basis).

Worsening economic and market conditions could negatively affect borrowers' businesses and they could default on their payment obligations in respect of their Asset Finance loans, which could lead to an increase in arrears as well as an increase in Aldermore's loan impairment charges.

In addition, worsening economic and market conditions could lead to reductions in the value of collateral used as security against loans. Volatility in the secondary markets may affect the demand for, and value of, collateral assets. In the event of defaults by borrowers, Aldermore may not be able to recover the estimated value of the relevant collateral assets, which could adversely affect Aldermore's business, financial condition, results of operations and prospects.

Worsening economic and market conditions could result in increased Invoice Finance loan losses.

Aldermore provides working capital for SMEs by lending against outstanding invoices issued by such SMEs to their underlying customers. As at 30 June 2014, on a gross basis, Aldermore's Invoice Finance portfolio amounted to £214.8 million (5.3 per cent. of its gross loan portfolio) of which 4.4 per cent. of balances were in a collect out situation. Against its Invoice Finance loan portfolio, Aldermore recorded total impairment losses on balances to customers of £5.7 million, £2.5 million and £0.2 million in the financial years ended 31 December 2013, 2012 and 2011 (equal to 2.9 per cent., 1.53 per cent. and 0.17

per cent. of the average Invoice Finance net loans), respectively, and £2.2 million in the six months ended 30 June 2014 (equal to 2.13 per cent. of the average Invoice Finance net loans on an annualised basis). The increased proportion of impairment losses relating to the Invoice Finance business was primarily due to a small number of facilities which were subject to fraudulent activity by the borrower. Facility fraud is one of the key risks of providing invoice finance facilities, and this risk is common to all providers of invoice financing.

During challenging trading or market conditions, companies often increase their use of invoice financing as a means of obtaining working capital and cash flow support. Notwithstanding Aldermore's risk management and control procedures, in such conditions there is a greater risk of borrower defaults. Lenders providing invoice finance facilities such as Aldermore also face the risk of fraudulent activity from borrowers to secure invoice financing. The fraudulent activity may include falsified or fictitious invoices raised by the borrower independently of, or in collusion with, the borrower's customers, or diverting payments due to Aldermore from the underlying customer into the borrower's own bank account. If Aldermore was to incur significantly higher losses or impairments to its Invoice Finance loan book as a result of borrower default and/or fraud, this could have a material adverse effect on its business, financial condition, results of operations and prospects.

Worsening economic and market conditions could result in increased SME Commercial Mortgage losses.

As at 30 June 2014, on a gross basis, Aldermore's SME Commercial Mortgage portfolio amounted to £902.4 million (22.4 per cent. of its gross loan portfolio) with an average indexed loan to value ratio of 54.9 per cent. and 1.5 per cent. of the SME Commercial Mortgage gross balances were three months or more in arrears. Against its SME Commercial Mortgage loan portfolio, Aldermore recorded total impairment losses on loans to customers of £2.0 million, £1.1 million and £1.5 million in the financial years ended 31 December 2013, 2012 and 2011 (equal to 0.30 per cent., 0.25 per cent. and 0.57 per cent. of its average SME Commercial Mortgage net loans), respectively, and £3 million in the six months ended 30 June 2014 (equal to 0.72 per cent. of its average SME Commercial Mortgage net loans on an annualised basis). The underlying credit quality of the loans in this portfolio could be negatively impacted by a range of factors resulting from difficult economic conditions in the UK and, to a lesser extent, the Eurozone, including, among others:

- depressed commercial real estate valuations, in part, as a result of a general focus by banks on reducing their exposures to commercial property assets through portfolio sales and individual asset disposals;
- lower availability of debt and equity finance to support lending and debt restructurings;
- uncertainty about the capital treatment of commercial real estate lending, with a trend towards higher regulatory capital requirements for commercial real estate lending;
- high profile tenant failures or corporate insolvencies;
- pressure on the rental market (as at 30 June 2014 54 per cent. of Aldermore's SME Commercial Mortgages are buy-to-let mortgages); and
- a continuation in the market trend for shorter lease life and of tenants exercising break clauses.

Any of these factors could reduce the certainty of cash flows and exacerbate shifts in collateral values and difficulties in refinancing. A material increase of loan loss provisions recorded against Aldermore's SME Commercial Mortgage lending could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects.

Worsening economic and market conditions could result in increased Residential Mortgage losses.

As at 30 June 2014, on a gross basis, Aldermore's Residential Mortgage portfolio amounted to £2.0 billion (50.6 per cent. of its gross loan portfolio) with an average indexed loan to value ratio of 65.7 per cent. and 0.27 per cent. of the Residential Mortgage gross balances were three months or more in arrears. Against its Residential Mortgage loan portfolio, Aldermore recorded total impairment losses on loans to customers of £1.3 million and £0.6 million in the financial years ended 31 December 2013 and 2012 (equal to 0.10 per cent. and 0.09 per cent. of its average Residential Mortgage net loans), respectively, and credits of £0.2 million and £0.1 million in the six months ended 30 June 2014 and financial year ended 31 December 2011 (equal to (0.02) per cent. on an annualised basis and (0.05) per cent. of its average Residential Mortgage net loans), respectively. Despite deleveraging, the consumer sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or declining housing prices. Worsening economic conditions resulting in increased unemployment and pressure on household income could, particularly if combined with an increase in interest rates, lead to affected borrowers being unable to make loan payments in a timely fashion, which would result in higher levels of arrears in Aldermore's mortgage loan portfolio. This, in turn, would lead to an increase in Aldermore's impairment charges in respect of its Residential Mortgage portfolio.

The value of Aldermore's Residential Mortgage portfolio is influenced by housing prices in the UK. A significant decline in property prices in the UK (or in a particular region in the UK to which Aldermore has significant exposure, such as Greater London), including as a result of worsening economic conditions, could lead to a reduction in the recovery value of Aldermore's assets in the event of customer default, and could lead to higher impairment charges and lower profitability. Higher impairment provisions would reduce Aldermore's capital and could negatively impact its ability to engage in lending and other income generating activities. As a result, a decline in house prices could have a material adverse effect on Aldermore's business and potentially on its ability to implement its strategy.

Moreover, a significant increase in property prices over a short period of time could result in a reduction in demand for new mortgages as borrowers may no longer be able to afford the higher prices. Sustained volatility in property prices could also discourage potential homebuyers from committing to a purchase, limiting Aldermore's ability to grow its Residential Mortgage portfolio.

In addition, Aldermore faces concentration risks relating to its buy to let mortgage portfolio, which accounted for 69 per cent. of Aldermore's Residential Mortgage portfolio as at 30 June 2014. Pressure on the rental market, including as a result of excess supply of rental property or a decline in demand for rental properties, could impact on a borrower's income and ability to meet loan obligations. Furthermore, Aldermore also faces concentration risks relating to its owner occupied mortgage portfolio, which accounted for 31 per cent. of Aldermore's Residential Mortgage portfolio as at 30 June 2014.

If any of the foregoing factors were to occur, it could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects.

Aldermore faces risks relating to the largely unseasoned nature of its loan book.

Aldermore faces risks relating to the largely unseasoned nature of its loan portfolios which makes estimates of credit losses more difficult. As the loan book matures, there is a risk that Aldermore could face greater customer arrears which could have a negative impact on its balance sheet, materially adversely affecting its business, financial condition, results of operations and prospects.

Aldermore faces risks associated with the implementation of its business strategy.

Aldermore has a limited operating history in the UK financial services market and faces risks associated with the implementation of its strategy. The key pillars of Aldermore's strategy are: (i) continuing organic growth in its loan origination whilst maintaining rigorous credit standards; (ii) further enhancing its customer value proposition; (iii) strengthening distribution channels including its direct to customer

channel, which during the six months ended 30 June 2014 amounted to approximately 15 per cent. of Aldermore's total distributions, and existing relationships with intermediaries; (iv) developing its product franchise and continuing product innovation; and (v) leveraging Aldermore's digital capability.

Implementing Aldermore's business strategy, in particular its growth strategy, requires the Directors to make complex judgements, including anticipating customer needs across a wide range of financial products, as well as anticipating and assessing competitor activity and the likely direction of a number of macro economic assumptions regarding the UK economy and the banking sector. Aldermore's ability to successfully implement its strategy is also subject to execution risks, its management of the associated cost base and limitations in its management or operational capacity. These risks may be exacerbated by a number of external factors, including, amongst others, a downturn in the UK, European or global economy, increased competition in the banking sector and/or significant or unexpected changes in regulation of the financial services sector in the UK.

In the context of Aldermore's strategy to increase its share of the Asset Finance, Invoice Finance, SME Commercial Mortgages and Residential Mortgages markets, external factors, such as competition and market structure are particularly relevant. Although the financial services markets in which Aldermore operates can shrink and have the capacity to expand, the maturity of such markets is such that growth by any bank may require taking market share from competitors. Furthermore, banks have to capitalise on any changes in the market structure, including in relation to any growth opportunity presented by the exit of an existing competitor. Failure to deal with external factors such as changes to the market structure could affect Aldermore's ability to implement its business strategy.

In recent years, there has been an increased focus by regulators on the appropriateness and sustainability of the business models and growth strategies of regulated firms, with regulators having the power to restrict such firms' ability to develop product areas or make material acquisitions. The regulators no longer focus exclusively on the financial strength of a regulated firm but also consider any non financial resources, including governance and infrastructure, available to the firm in assessing sustainability of the business model and whether it continues to meet certain regulatory conditions. If the regulators believe that a firm does not have a sustainable business model or does not meet any of the regulatory conditions, it can remove or restrict such firm's operating licences. Furthermore, regulators and other bodies in the UK and worldwide have proposed and, in many cases, have adopted a range of legislative and regulatory proposals and changes which have imposed and could impose operational restrictions on Aldermore in the future, requiring Aldermore to raise further capital, increase Aldermore's expenses and/or otherwise adversely affect its business, financial condition, results of operations or prospects.

Moreover, firms pursuing high rates of customer acquisition and balance sheet and income growth have historically in some cases been susceptible to reduced asset quality, higher levels of impairments and increased conduct risks such as mis selling. If Aldermore fails to manage these risks adequately, it could result in legal or regulatory action against Aldermore, reputational damage to its brand, have an adverse impact on the successful implementation of its strategy and ability to meet its cost/income, return on equity, capital or dividend targets, and/or have an adverse impact on its financial condition. Furthermore, a failure to successfully manage its business model or the implementation of its strategy for the foregoing, or any other, reasons could increase Aldermore's credit losses and impair Aldermore's ability to optimise its cost/income ratio at a key point in its development, which could, in turn, have a material adverse impact on Aldermore's business, financial condition, results of operations and prospects.

Aldermore's risk management systems and processes, and guidelines and policies may prove inadequate for the risks faced by its business and any failure to properly assess or manage the risks which it faces could cause harm to Aldermore and its business prospects.

Aldermore faces a wide range of risks in its business activities, including, in particular:

- Strategic risk, which is the risk that can affect Aldermore's ability to achieve its corporate and strategic objectives;
- Credit risk, which is the risk of financial loss arising from a borrower or counterparty failing to meet its financial obligations to Aldermore in accordance with agreed terms;
- Capital risk, which is the risk that Aldermore has insufficient capital to cover regulatory requirements and/or growth plans;
- Liquidity risk, which is the risk that Aldermore is not able to meet its financial obligations as they fall due, or can do so only at excessive cost;
- Interest rate risk, which is the risk of loss through un hedged or mismatched asset and liability positions sensitive to changes in interest rates;
- Market risk, which is the financial impact from movements in market prices on the value of assets and liabilities;
- Operational risk, which is the risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events; and
- Conduct risk, which is the risk of detriment caused to Aldermore's customers due to the inappropriate execution of its business activities and processes.

Management of such risks requires, among other things, robust systems and processes, and guidelines and policies which must be forward looking, clearly articulated, documented and communicated throughout the business for the accurate identification and control of a large number of transactions and events. In particular, as part of the effective management of Aldermore's capital, the PRA requires that policies in place to maintain Aldermore's various capital requirements, such as the capital planning buffer, are clear and embedded widely throughout the business. Such systems and processes, and guidelines and policies must also be continually reviewed and updated and effectively communicated to all personnel to ensure that resources, governance and infrastructure are appropriate for the increasing size and complexity of the business.

Risk management requires members of the Issuer's management team, details of whom are set out in "*Directors, Senior Management and Corporate Governance*" (the "**Senior Management**") to make complex judgements, including decisions (based on assumptions about economic factors) about the level and types of risk that Aldermore is willing to accept in order to achieve its business objectives, the maximum level of risk Aldermore 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 Aldermore operates, there is a risk that the decisions made by Senior Management may not be appropriate or yield the results expected or that Senior Management may be unable to recognise emerging risks for Aldermore quick enough to take appropriate action in a timely manner.

Risk management also involves the use of risk models which are mathematical representations of business systems designed to help describe, predict, experiment with or optimise decisions and scenarios used throughout the business. There is a risk that an adverse outcome occurs as a direct result of weaknesses or failures in the design or use of any such a model.

Furthermore, Aldermore 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' output. While Aldermore has guidelines, policies and contingency plans to manage such risks, they may not prove to be adequate in practice.

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

Aldermore is subject to risks concerning customer and counterparty credit quality.

Aldermore has exposure to many different products, counterparties and obligors whose credit quality (in addition to their capital position and liquidity) can have a significant adverse impact on Aldermore's earnings and the value of assets on Aldermore's balance sheet. As part of the ordinary course of its operations, Aldermore articulates its credit risk appetite as well as estimates provisions for credit risks based on the potential credit losses inherent in these exposures. This process, which is critical to Aldermore's results and financial condition, requires complex judgements, including, among others, forecasts of how changing macro economic conditions might impair the ability of customers to repay their loans. Aldermore may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could adversely affect Aldermore's business, financial position, results of operations and prospects.

Further, there is a risk that, despite Aldermore's belief that it conducts an accurate assessment of customer credit quality, customers might be unable to meet their commitments as they fall due as a result of customer specific circumstances, macro economic disruptions or other external factors. Although Senior Management are comfortable with Aldermore's current default rates, the failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative impact on fair value in Aldermore's lending portfolio. A deterioration in customer credit quality and the consequent increase in impairments would have a material adverse impact on Aldermore's business, financial condition, results of operations and prospects.

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

Financial institutions such as Aldermore are subject to liquidity risk as an inherent part of their business. While Aldermore raises funds principally through accepting retail and SME deposits, its funding needs may increase and/or its funding structure may not continue to be efficient, giving rise, in both cases, to a requirement to raise wholesale funding.

The availability of retail and SME deposit funding may be impacted by increased competition from other deposit takers or factors that constrain the volume of liquidity in the market, including, but not limited to, the end of the Funding for Lending Scheme. In addition, Aldermore's ability to access retail and SME funding sources on satisfactory economic terms is subject to a variety of factors, a number of which are outside its control, including, among others, liquidity constraints, general market conditions, increased competition, regulatory requirements and a loss of confidence in the UK banking system.

While Aldermore does not currently rely heavily on wholesale funding, it may need to access wholesale markets when there is a residual funding requirement over and above funds held from, among other sources, retail and SME deposits.

If access to retail and SME deposit funding is constrained for a prolonged period of time and the wholesale funding markets were to be fully or partially closed, Aldermore's cost of funding could increase and it may prove difficult to obtain funding on commercially attractive terms. This could have a negative impact on Aldermore's ability to grow and its margins and profit, materially adversely affecting its business, financial condition, results of operations and prospects.

Aldermore participates in the Funding for Lending Scheme. As at 30 June 2014, Aldermore had drawn £485 million of UK Treasury Bills under the scheme and repurchase transactions derived from this generated £189 million of on balance sheet funding, which accounted for less than 5 per cent. of its net

lending. Collateral drawn under the Funding for Lending Scheme is due for repayment in late 2016/early 2017. Aldermore currently intends to replace this source of funding through growth in its retail and SME deposits and securitisation transactions. If growth in deposits and/or securitisation transactions is not achieved, Aldermore would need to make the Funding for Lending Scheme repayment from then existing resources, which could have an impact on Aldermore's strategy, materially adversely affecting its business, financial condition, results of operations and prospects.

Investors should note that extreme market disruptions, such as the severe dislocation experienced in credit markets following the onset of the global financial crisis in 2008, a prolonged and severe restriction on Aldermore's access to liquidity (including to government and central bank funding and liquidity support) and a prolonged and severe decline in consumer confidence which results in high levels of withdrawals from Aldermore's retail and SME deposit base, could affect Aldermore's ability to meet its regulatory minimum liquidity requirements, or to fulfil its financial and lending commitments. Though the Directors believe that Aldermore has adequate liquidity headroom, in such extreme circumstances, Aldermore may not be in a position to continue its operations without additional funding support. Any inability to access such support could have a material impact on Aldermore's solvency.

Concentration of risks could increase Aldermore's potential for significant losses.

Aldermore's business is almost entirely conducted with customers in the UK, in particular in England and, to a lesser extent, Wales and Scotland (less than 10 per cent.). In the event of a disruption to the UK credit markets or general economic conditions in the UK or macro economic conditions generally (including increased interest rates and/or unemployment in regions where Aldermore has significant presence), this concentration of credit risk could cause Aldermore to experience significant losses.

In addition, Aldermore faces concentration risks relating to its interest only residential mortgage portfolio, which accounted for 74 per cent. of Aldermore's Residential Mortgage portfolio and 55 per cent. of the SME Commercial Mortgage portfolio as at 30 June 2014. As these mortgages near maturity, Aldermore could face greater repayment and asset quality risks.

Aldermore regularly monitors its credit portfolios to assess potential concentration risk but efforts to divest, diversify or manage Aldermore's credit portfolio against concentration risks may not be successful, which could have a material adverse impact on its business, financial condition, results of operations and prospects.

Damage to Aldermore's reputation could cause harm to its prospects.

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

- failing to appropriately address potential conflicts of interest;
- breaching or facing allegations of having breached legal and regulatory requirements (including money laundering and anti terrorism financing requirements and capital adequacy requirements);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record keeping;
- technology failures that impact customer services and accounts;
- failing to properly identify conduct, legal, reputational, credit, liquidity and market risks inherent in the products it offers;

- generally poor company performance;
- risk of association in respect of issues being faced by competitors or the banking industry generally, which may or may not be directly applicable to Aldermore; and
- negative reporting and wide dissemination of issues relating to Aldermore by the media, including social media.

In addition, Aldermore currently depends on a single brand and any reputational damage to that brand could adversely affect its ability to execute its strategy and grow.

A failure to adequately address these or any other relevant issues could make customers, depositors and investors unwilling to do business with Aldermore, which could adversely affect its business, financial condition, results of operations and prospects and could damage its relationships with its regulators.

Aldermore is subject to capital adequacy requirements.

Aldermore is subject to capital adequacy requirements implemented by the PRA. If Aldermore fails to meet its minimum regulatory capital requirements, this may result in administrative actions or sanctions against it which could adversely impact its business and, in particular, its reputation. Aldermore may also experience increased requirements for capital as a result of new regulations as more fully described below under the risk factor entitled “*Risk Factors – Risks Related to Aldermore’s Business – Regulatory Risks – Aldermore’s business is subject to substantial and changing prudential regulation.*”.

Effective management of Aldermore’s capital is critical to its ability to operate its business and to pursue its strategy. The Directors set Aldermore’s internal target amount of capital by taking account of its 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 requirements or expectations, Aldermore may be required to increase its capital ratios. Aldermore may also need to increase its capital level in response to changing market conditions or expectations. If Aldermore is unable to increase its capital in response, 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, and results of operations and prospects may be adversely impacted. Any change that limits Aldermore’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.

Aldermore is exposed to risks related to the operation and conduct of its third party, intermediary sales teams.

During the six months ended 30 June 2014, Aldermore derived approximately 85 per cent. of its lending business via intermediaries based in the UK. As a result, Aldermore is exposed to the risks inherent in relying on third parties. For example, although Aldermore undertakes reviews of its broker panel, it has limited oversight of the intermediaries’ interactions with prospective customers and, consequently, Aldermore faces certain risks related to the conduct of the intermediaries with which it does business. If the intermediaries are found to have acted inappropriately or violated applicable conduct regulations or standards in the sale of Aldermore’s loan products, Aldermore’s brand and/or reputation could be harmed as a result. In addition, Aldermore may fail to develop products that are attractive to intermediaries or otherwise not succeed in developing relationships with intermediaries as a result of the pricing of its loan products, among other reasons. Furthermore, Aldermore could lose the services of intermediaries with whom it currently does business, for example, as a result of market conditions causing their closure or intermediaries switching to Aldermore’s competitors due to higher commissions or other incentives offered by such competitors. Any of these factors could have a negative impact on

Aldermore's ability to meet its strategic objectives and, consequently, its business, financial condition, results of operations and prospects.

Aldermore's operations support complex transactions and are highly dependent on the proper functioning of IT and communications systems.

Aldermore relies heavily on its operational processes and on its IT and related communication systems to conduct its business. These systems are a fundamental enabler for originating and servicing business, including product pricing and product sales, assessing acceptable levels of risk exposure, setting required levels of provisions and capital, providing and maintaining customer service and meeting regulatory requirements, for example through accurate record keeping. These processes and systems may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by increases in usage, human error, unauthorised access, natural hazards or disasters, or similarly disruptive events. Any failure of the IT systems or failure to integrate new platforms including the transfer of data/customer information, or failure of third party processes, infrastructure and services on which Aldermore relies could lead to significant costs and disruptions that could adversely affect the overall operational or financial performance of the business, as well as harm Aldermore's reputation and/or attract increased regulatory scrutiny.

Aldermore relies on IT systems integral to its operational processes which have been licensed or developed for Aldermore under licence and development agreements with suppliers. Any failure by the suppliers to renew licence or maintenance agreements, or any termination of those agreements by the suppliers, could lead to significant disruptions in the operational performance of the business during the period until alternative suppliers are sought and new systems licensed or developed. Aldermore is similarly at risk if these suppliers are unable to modify or develop the systems in response to requirements associated with operational or regulatory changes in Aldermore's business or commercial requirements, such as the introduction of new products.

Furthermore, any breach in security of Aldermore's systems, for example, from increasingly sophisticated attacks by cybercrime groups, could disrupt its business, result in the disclosure of confidential information and/or create significant financial and/or legal exposure and the possibility of damage to Aldermore's reputation and/or brand.

In addition, Aldermore relies significantly on third parties for certain elements of its business, such as Newcastle Building Society for retail deposits back office operations. Although there are contractual provisions seeking to protect Aldermore, a failure of one or more of these third party suppliers may result in service disruptions through the cessation of the availability of systems or infrastructure. In addition, such reliance on third parties limits Aldermore's ability to adjust its IT and communication systems. While Aldermore does have in place policies and governance frameworks, as well as disaster recovery and business continuity contingency plans, the occurrence of a serious disaster resulting in interruptions, delays, the loss or corruption of data or the cessation of the availability of systems could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects. Moreover, as Aldermore seeks to implement its strategy and expand its business, it will need to invest capital in its IT systems in order to ensure that the processes and systems continue to operate as expected. Any inability to fund the necessary capital expenditure for such development could prevent Aldermore from successfully implementing its strategy and/or lead to system failures, which, in turn, could have a material adverse effect on Aldermore's reputation, its business, financial condition, results of operations and prospects.

Aldermore could fail to attract or retain Senior Management or other key employees.

Aldermore's success depends on the continued service and performance of its key employees, particularly its Senior Management, an organised plan of succession for Senior Management to ensure Aldermore's long term stability and its ability to attract, retain and develop high calibre talent. Aldermore

may not succeed in attracting and retaining key personnel if they do not identify or engage with Aldermore's brand and values. In addition, as a relatively new market entrant, Aldermore may not have sufficient scale to offer employees opportunities to advance within the organisation comparable to its larger competitors, particularly at more senior levels. Aldermore may also lose key employees due to natural attrition, including health, family and other reasons. In addition, external factors, such as macro economic conditions, the developing and increasingly rigorous regulatory environment and/or negative media attention on the financial services industry, could adversely impact employee retention, sentiment and engagement. Each of these factors could have an adverse effect on Aldermore's ability to recruit and/or retain key employees, which could, in turn, materially adversely affect Aldermore's business, financial condition, results of operations and prospects.

Furthermore, the successful expansion of Aldermore's operations would be a significant achievement for Aldermore's Senior Management team, making them more attractive to Aldermore's competitors or other institutions who may seek to recruit them from Aldermore. Should this happen, Aldermore may be unable to find and hire a qualified replacement for a departing member of the Senior Management team with an appropriate degree of experience and expertise.

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

The market for financial services in the UK is competitive, and the Directors expect such competition to intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The financial services markets in which Aldermore operates are also mature, such that growth by any bank typically requires taking market share from competitors.

Aldermore faces competition from established providers of financial services, including banks and building societies, many of which have greater scale and financial resources, stronger brand recognition, broader product offerings and more extensive distribution networks than Aldermore. Aldermore also faces potential competition from new entrants to the market. These banks and other institutions may engage in enhanced marketing activities which may result in customers switching their savings accounts or refinancing their loans and mortgages with other providers and may limit Aldermore's ability to attract new customers. This places elevated focus on interest rates charged and service as the key differentiators, each of which carries a cost to the provider. If Aldermore is unable to match the rates, service or efficiency of any of its competitors in these respects, it risks being unable to match its strategic growth aspirations.

Any failure to manage the competitive dynamics to which it is exposed could have a material adverse impact on Aldermore's business, financial condition, results of operations and prospects.

Aldermore may be subject to privacy or data protection failures and fraudulent activity.

Aldermore is subject to regulation regarding the use of personal customer data. Aldermore processes personal customer data (including name, address and bank details) as part of its business, some of which may be sensitive personal data, and therefore must comply with strict data protection and privacy laws and regulations. Such laws restrict Aldermore's ability to collect and use personal information relating to customers and potential customers including the use of that information for marketing purposes. Aldermore is also at risk from cyber theft. Aldermore 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, Aldermore is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations. If Aldermore 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, Aldermore could be subject to investigative or enforcement action by relevant

regulatory authorities and could face liability under data protection and privacy laws and regulations. Aldermore could also be targeted by other forms of fraudulent activity. 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 Aldermore's business, financial condition, results of operation and prospects.

Aldermore could be negatively affected by a deterioration in the soundness (or a perceived deterioration in the soundness) of other financial institutions and counterparties.

Given the high level of interdependence between financial institutions, Aldermore is and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions.

Within the financial services industry, the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, or a governmental "bail out" of, or "bail in" of, one institution could lead to significant liquidity problems, including increases in the cost of liquidity, losses or defaults by other institutions, as was the case after the bankruptcy 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 concerns about, a counterparty may lead to market wide liquidity problems and losses or defaults by Aldermore or by other institutions. This risk is often referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom Aldermore interacts on a daily basis. Whilst approximately 88 per cent. of Aldermore's funding as at 30 June 2014 was from customer deposits, systemic risk could have a material adverse effect on Aldermore's ability to raise new wholesale funding, which could impact its business, financial condition, results of operations, liquidity and/or prospects.

Aldermore also routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks and investment banks, resulting in large daily settlement amounts and significant credit exposure. Aldermore consequently faces concentration risk with respect to specific counterparties and customers. A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems or losses or defaults by other financial institutions.

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

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

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

Aldermore seeks to maintain comprehensive insurance coverage at commercially reasonable rates. Although Aldermore carries business interruption, building and contents, director and officer and employer's insurance to cover certain risks, its insurance policies do not cover all types of losses and liabilities and are subject to limits and excesses. There can be no assurance that Aldermore's insurance will be sufficient to cover the full extent of all losses or liabilities for which it is insured and Aldermore cannot guarantee that it will be able to renew its current insurance policies on favourable terms, or at all.

Regulatory Risks

Aldermore must comply with a wide range of laws and regulations.

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

- breaching general organisational requirements, such as the requirement to have robust governance arrangements (which include a clear organisational structure with well defined, transparent and consistent lines of responsibility), effective processes to identify, manage, monitor and report the risks Aldermore is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems;
- certain aspects of Aldermore's business may be determined by the relevant authorities, the Financial Ombudsman Service (the "FOS") or the courts not to have been conducted in accordance with applicable laws or regulations or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;
- the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to an employee of Aldermore, including as a result of having sales practices, complaints procedures and/or reward structures in place that are determined to have been inappropriate;
- breaching laws and requirements relating to the detection and prevention of money laundering, terrorist financing, bribery and corruption and other financial crime; and
- non compliance with legislation relating to unfair or required contractual terms or disclosures.

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

- substantial monetary damages or fines, other penalties and injunctive relief, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks;
- regulatory investigations, reviews, proceedings and enforcement actions;
- being required to amend sales processes, product and service terms and disclosures, withdraw products or provide redress or compensation to affected customers;
- Aldermore either not being able to enforce contractual terms as intended or having contractual terms enforced against Aldermore 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 Aldermore's business,

any or all of which could result in Aldermore incurring significant costs, may require provisions to be recorded in Aldermore's financial statements, could adversely impact future revenues from affected products and services and could have a negative effect on Aldermore's reputation and the confidence of customers in Aldermore, as well as taking a significant amount of the Directors' and management's time and resources away from the implementation of Aldermore's strategy. Regulatory restrictions could also

require additional capital and/or liquidity to be held. Any of these risks, should they materialise, could have an adverse impact on Aldermore'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 Aldermore's regulatory authorisations altogether, thereby preventing it from carrying on its business.

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

Aldermore 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. Aldermore'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 "*Risk Factors – Risks Related to Aldermore's Business – Regulatory Risks – Aldermore's business is subject to the potential impacts of UK and European banking reform initiatives.*" below.

CRD IV

CRD IV introduced significant changes in the prudential regulatory 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 future 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 are applicable in the UK from 1 January 2014.

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 Aldermore's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

A perceived or actual shortage of capital held by Aldermore could result in actions by regulatory authorities, including public censure and the imposition of sanctions. This may also affect Aldermore'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, Aldermore 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.

Financial Policy Committee's review of the leverage ratio

On 31 October 2014, the Financial Policy Committee ("**FPC**") of the Bank of England published its final review of the role of a leverage ratio in the UK's capital framework for banks. The FPC recommended introducing a leverage ratio framework ahead of an internationally agreed standard for UK global systemically important banks ("**G-SIBs**") and other major UK banks and building societies. For all other PRA-regulated banks, the FPC indicated that it was content for leverage ratio requirements and buffers

to come into force in line with the international timetable in 2018, subject to a review of progress internationally in 2017. In its report, the FPC made various recommendations including (i) a minimum leverage ratio requirement set at 3 per cent. (which would apply to all PRA-regulated firms), (ii) a supplementary leverage ratio buffer that will apply to G-SIBs and other major domestic UK banks and building societies and (iii) a countercyclical leverage ratio buffer (which would apply to all PRA-regulated firms).

Given that the FPC's recommendations have not yet been implemented, it is not possible to predict with any certainty the additional financial obligations or restrictions that may be imposed on Aldermore or the effect any additional leverage ratio requirements may have on Aldermore's business, financial condition, result of operations or prospects. However, depending on the specific nature of the requirements, their application to Aldermore and the proposed form of supervisory action for any breach of the requirements, such changes could have a significant impact on Aldermore's operations and capital structure.

Aldermore's business is subject to changing laws and regulation and regulatory focus and approach.

In addition to the substantial and changing prudential regulation described in the risk factor entitled "*Risk Factors – Risks Related to Aldermore's Business – Regulatory Risks – Aldermore's business is subject to substantial and changing prudential regulation.*" above, Aldermore 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 introduced which could affect Aldermore by, for example:

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

any of which could have an adverse impact on Aldermore'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 Aldermore's compliance with existing laws and regulation. This may result in Aldermore 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 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**") creates a new regime for senior managers of certain authorised firms, including deposit takers, as well as giving the FCA and the PRA the power to create a new set of banking conduct rules applying to a wider population of bank staff. It also provides for a new criminal offence for senior managers of reckless mismanagement causing certain financial institutions to fail. In addition, a certified persons regime is to be introduced for individuals not included in the senior managers regime but who are performing a role that involves, or might involve, a risk of significant harm to a firm or its customers. Such provisions could have a

significant impact on Aldermore's operations, structure and costs. The new regimes are anticipated to be implemented in stages from 2015.

- In April 2014, the FCA implemented new rules under its Mortgage Market Review (the "**MMR**"), which require, among other things, an assessment of customer affordability in connection with mortgage lending. The MMR also permits interest only loans solely where there is a clearly understood and credible strategy for repaying the principal of the loan, evidence of which the lender must obtain before making the loan and must check at least once during the term of the loan.
- The Chancellor of the Exchequer, in his 12 June 2014 Mansion House speech, stated that the UK Government intends to give the Bank of England new powers over mortgages that will allow it to limit the proportion of high loan to income mortgages that each bank can lend or to ban all new lending above a specific loan to income ratio. Under the new powers, similar caps on loan to value ratios will be able to be imposed. On 30 October 2014, HM Treasury published a consultation on implementing such powers in respect of owner-occupied mortgages with the intention of laying the final legislation before Parliament in early 2015. A separate consultation in respect of buy-to-let mortgages is anticipated to take place in 2015. In addition, at the board meeting of the FPC held on 17 June 2014, the FPC addressed a recommendation to the FCA and PRA that they take action to ensure that mortgage lenders do not extend more than 15 per cent. of their total number of new residential mortgages at loan to income ratios at or greater than 4.5. This recommendation applies in relation to all lenders which extend residential mortgage lending in excess of £100 million per annum. Following the recommendation, the PRA issued rules and the FCA issued guidance implementing the FPC's recommendation from 1 October 2014. The rules and guidance are relevant to a firm that, on an annual basis, enters into regulated mortgage contracts under which the credit provided is, or exceeds, £100 million, provided that the firm also enters into 300 or more regulated mortgage contracts in the same period.
- Aldermore is also subject to the consumer credit regime under the Financial Services and Markets Act 2000 (the "**FSMA**"), which regulates a wide range of credit agreements. If requirements under the regime as to licensing of lenders or brokers or entering into and documenting a credit agreement are not or have not been met, the relevant agreement may not be enforceable against the borrower. The regulation of consumer credit pursuant to the Consumer Credit Act 1974 and its related secondary legislation (the "**CCA**") was transferred from the Office of Fair Trading (the "**OFT**") to the FCA in April 2014. CCA statutory regulations and OFT guidance have, therefore, been replaced by FCA general standards, rules, guidance and retained consumer protections in the CCA. The FCA has greater powers of enforcement than the OFT had previously and is anticipated to take a more intrusive approach to the regulation of consumer credit. Along with other consumer credit providers, Aldermore'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 Aldermore's operations. Aldermore will also be subject to the possibility of the FCA imposing penalties and other sanctions if the FCA identifies non compliance.
- The FCA has an operational objective to promote effective competition in the interests of consumers and the PRA has a secondary objective to facilitate effective competition in the markets for services provided by PRA authorised firms. Recent initiatives include the introduction of a mobilisation phase for new firms wanting to enter the banking sector, intended to make entrance into the market easier and less costly, and a thematic review into cash savings. In July 2014, the FCA launched a review of competition in the wholesale sector to identify any areas that might merit further investigation through an in depth market study. In addition, the FCA will, in the future, assume concurrent powers with the Competition and Markets Authority (the "**CMA**") to

enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively. Further, as a result of market studies conducted by the CMA in relation to SME banking and personal current accounts (the SME banking market study is a joint project with the FCA), on 6 November 2014 the CMA announced its decision to launch a joined up in depth market investigation into the markets for personal current accounts and SME banking. Aldermore may therefore face increasing competition which may affect Aldermore's ability to generate revenues and achieve the aims of its strategy.

- From time to time, the IASB and/or the European Union change the IFRS that govern the preparation of Aldermore's financial statements. These changes can be difficult to predict and could materially impact how Aldermore records and reports its financial condition and results of operations. In some cases, Aldermore 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. 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 Aldermore. The IASB may make other changes to financial accounting and reporting standards that govern the preparation of Aldermore's financial statements, which Aldermore may be required to adopt or which Aldermore may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Directors. Any such change in Aldermore's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

Failure to manage these risks adequately could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects. Additionally, failing to comply with the changing regulatory landscape could lead to significant liabilities or reputational damage and damage to Aldermore's brand, which could negatively impact its relationships with customers.

Aldermore'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 remains uncertain, the Directors expect that the evolution of these and future initiatives will have an impact on Aldermore's business.

The Banking Reform Act received Royal Assent on 18 December 2013. Drafts of relevant secondary legislation were published in June 2014 and the UK Government intends for all relevant secondary legislation to be completed by May 2015 and banks will be expected to have implemented the necessary reforms by 2019 at the latest. The Banking Reform Act introduces a number of measures as further described in "*Risk Factors – Risks Related to the Securities – The Council of the European Union has adopted a bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The implementation of the directive or the taking of any action under it could materially affect the value of any Securities.*"

The BRRD as it relates to capital write down is required to be implemented by Member States not later than 1 January 2015 with the more general bail in tool (applicable to a broader range of eligible liabilities) being required to be implemented by not later than 1 January 2016. The BRRD, has considerable overlap with the Banking Act 2009 (the "**Banking Act**") and therefore a wide range of changes to the Banking Act are required in order to transpose the BRRD into UK national law. On 23 July 2014, HM

Treasury published a consultation paper on the UK transposition of the BRRD seeking views on key aspects of transposition. The consultation also states that the UK Government does not currently intend to delay the application of the BRRD bail in provisions to 1 January 2016, as permitted by the BRRD, and instead intends to implement all of the core provisions, including the bail in tool, by 1 January 2015. However, it is also stated that the UK Government no longer intends to commence its own previously proposed bail in legislation prior to the transposition of the BRRD into national law on 1 January 2015. On 23 October 2014, the Bank of England published a report on its approach to resolution. In its report, the Bank of England sets out its approach to the resolution of banks, building societies and certain investment firms from 1 January 2015, when most of the provisions of the BRRD will be transposed into national law. The report details the key phases to any resolution and the various stabilisation tools to be used at each stage in order to give greater clarity over how the Bank of England would likely approach a resolution. If Aldermore were to become subject to such bail in or resolution powers, Securityholders may experience a severe writing off of their Securities and may be unlikely to receive any compensation for such act or event despite the BRRD containing safeguards for certain creditors in specific circumstances which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings.

Given that implementation has not yet occurred, it is impossible to predict the financial obligations that may be imposed by the UK government or by the EU in relation to the BRRD or the effect that these proposed changes will have on Aldermore's business, financial condition, result of operations or prospects or how any of the above proposals will be implemented. However, depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on Aldermore's operations, structure, costs and/or capital requirements.

Aldermore is responsible for contributing to the UK Financial Services Compensation Scheme (the "FSCS") in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Further provisions in respect of these contributions may be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material effect on Aldermore's business, financial condition, results of operations and prospects.

In Europe, the EU Deposit Guarantee Scheme Directive ("EU DGSD") required Member States to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD was reviewed and a new legislative proposal was published by the European Commission in July 2010 to recast and replace the current EU DGSD. The changes to the recast EU DGSD include restricting the definition of "deposit", excluding deposits made by certain financial institutions and certain public authorities, reducing time limits for payments of verified claims by depositors and provisions on how deposit guarantee schemes should be funded. In addition the recast EU DGSD seeks to harmonise eligibility for protection (including an extension of scope to protect deposits of most companies, whatever their size) and allows for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a private residential property. The recast EU DGSD was published in the Official Journal of the EU on 12 June 2014 and Member States have until 3 July 2015 to transpose the majority of the EU DGSD into national law.

Aldermore's business is subject to substantial and increasing industry wide regulatory and governmental oversight.

In addition to the promulgation of new legislation and regulation, the UK Government, the PRA, the FCA and other regulators in the UK, the European Union and overseas have, in recent years, become substantially more pro active in their application and monitoring of certain regulations, and they may intervene further in relation to areas of industry risk already identified or in new areas, which could adversely affect Aldermore.

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

- general changes in UK Government, central bank or regulatory policy, or changes in regulatory regimes, including changes that apply retroactively, that may influence investor decisions in particular markets in which Aldermore operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- external bodies applying or interpreting standards or laws differently to those applied by Aldermore;
- one or more of Aldermore's regulators intervening to mandate the pricing of certain of Aldermore's products as a consumer protection measure;
- one or more of Aldermore's regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service;
- changes in competitive and pricing environments;
- further requirements relating to financial reporting, corporate governance and conduct of business and employee compensation;
- changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing;
- influencing business strategy, particularly the rate of growth of the business; and
- imposing conditions on the sales and servicing of products, which has the effect of making such products unprofitable or unattractive to sell.

The financial services industry continues to be a focus of significant regulatory change and scrutiny. This has led to a more intensive approach to supervision and oversight, increased expectations of authorised firms and their senior management and enhanced regulatory requirements. As a result, regulatory risk will continue to require the attention of Senior Management who are increasingly accountable to the regulators and will consume significant levels of business resources. Furthermore, as enhanced supervisory standards are developed and implemented, this more intensive approach and the enhanced regulatory requirements, along with uncertainty and the extent of international regulatory coordination, may adversely affect Aldermore's business, capital and risk management strategies and/or may result in Aldermore deciding to modify its legal entity structure, capital and funding structures and business mix or to exit certain business activities altogether or to determine not to expand in areas despite their otherwise attractive potential.

Aldermore regularly assesses the legal and regulatory developments which could have an effect on it and will participate in relevant consultation and calibration processes undertaken by the various regulatory and other bodies. Implementation of the foregoing regulatory developments could result in additional costs or limit or restrict the way in which Aldermore conducts business, although uncertainty remains about the details, impact and timing of these reforms. Aldermore continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate against risks to Aldermore and its stakeholders.

The Issuer is controlled by certain principal shareholders whose interests may differ from those of investors in the Securities or other shareholders.

The Issuer is controlled by AnaCap Financial Partners L.P., AnaCap Financial Partners II, L.P., AnaCap Derby Co-investment (No.1) LP and AnaCap Derby Co investment (No.2) L.P. (see "*Description of Aldermore's business – Shareholders*"). These shareholders (who, as at the date of this Information

Memorandum, hold Class A Ordinary Shares, Class D Ordinary Shares and Class E Ordinary Shares) have the power, among other things, to take actions which may favour the shareholders at the expense of the holders of any debt securities or the shareholders of any other class of ordinary shares. See “*The Pre-IPO Conversion Price is fixed and the Post-IPO Conversion Price will be fixed on the occurrence of an IPO Event and each are subject to adjustment in only very limited circumstances; Securityholders have limited anti-dilution protection.*” for a description of the different classes of ordinary shares in the Issuer.

Risks Related to the Securities

The obligations of the Issuer in respect of the Securities are unsecured and deeply subordinated, and the rights of the holders of Ordinary Shares will be further subordinated.

The Securities constitute unsecured and subordinated obligations of the Issuer.

On a winding-up or administration of the Issuer, all claims in respect of the Securities will rank junior to the claims of all Senior Creditors of the Issuer and senior to the claims of all holders of the Ordinary Shares. If, on a liquidation of the Issuer which commences prior to any Conversion Date, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Securityholders will lose their entire investment in the Securities. 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 Securities and all other claims that rank *pari passu* with the Securities, Securityholders will lose some (which may be substantially all) of their investment in the Securities.

For the avoidance of doubt, the holders of the Securities shall, in a liquidation of the Issuer which commences prior to any Conversion Date, 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.

In addition, as further described below under “*Risks Factors – Risks Related to the Securities – Upon the occurrence of a Trigger Event, the Securityholders will lose all or some of the value of their investment in the Securities*”, the principal amount of the Securities will, in certain circumstances, be irrevocably (without the need for the consent of Securityholders) converted into Ordinary Shares of the Issuer and the principal amount of the Securities will be reduced to zero. The claims of holders of Ordinary Shares in a liquidation of the Issuer are the most junior-ranking of all claims. Claims in respect of Ordinary Shares are not for a fixed principal amount, but rather are limited to a share of the surplus assets (if any) remaining following payment of all amounts due in respect of the liabilities of the Issuer.

Therefore, if a liquidation of the Issuer occurs following the Conversion Date, each Securityholder will be effectively further subordinated from being the holder of a subordinated investment to being the holder of Ordinary Shares, will not have a claim for a fixed amount in the winding-up of the Issuer and there is an enhanced risk that holders will lose all or some of the value of their investment.

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

As at 30 June 2014, the Issuer had indebtedness of £371 million, including but not limited to securitisation-related debt but excluding customer deposits, all of which are senior to the Securities. . Other than the ordinary shares of the Issuer, all current liabilities of the Issuer will be senior to the Securities.

Securityholders and holders of Ordinary Shares are also subject to the creditor hierarchy in respect of Aldermore applicable under the Banking Act and the BRRD as set out under “*Risks Factors – Risks*

Related to Aldermore's Business – Aldermore's business is subject to the potential impacts of UK and European banking reform initiatives.” and are further subject to structural subordination to creditors of Aldermore Bank PLC as set out under “Risks Factors – Risks Related to the Securities – The Issuer is a holding company.”.

The Issuer may at any time elect, and in certain circumstances shall be required, not to make interest payments on the Securities.

The Issuer may at any time elect, in its sole discretion, to cancel any interest payment (in whole or in part) on the Securities which would otherwise be due on any Interest Payment Date. Additionally, the PRA has the power under Article 104 of the CRD IV Directive to restrict or prohibit payments by an issuer of interest to holders of Additional Tier 1 instruments (such as the Securities).

Furthermore, the Issuer will cancel any Interest Amount (in whole or in part) which would otherwise fall due on an Interest Payment Date if and to the extent that payment of such Interest Amount would: (i) when aggregated with other relevant stipulated payments or distributions, exceed the Distributable Items of the Issuer; (ii) when aggregated with other relevant distributions, cause any Maximum Distributable Amount then applicable to the Issuer Group to be exceeded; or (iii) result in a breach of the Solvency Condition described in Condition 4(a).

In addition, if a Trigger Event occurs, the Issuer will cancel all interest accrued up to (and including) the Conversion Date.

With respect to cancellation of interest due to insufficient Distributable Items, see also *“Risks Factors – Risks Related to the Securities – The level of the Issuer's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Securities.”* below. With respect to cancellation of interest due to the application of a Maximum Distributable Amount, see also *“Risks Factors – Risks Related to the Securities – CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Issuer from making interest payments on the Securities in certain circumstances, in which case the Issuer will automatically cancel such interest payments.”* below.

Any interest not so paid on any such Interest Payment Date shall be cancelled, shall not accumulate and shall no longer be due and payable by the Issuer. A cancellation of interest in accordance with the Conditions will not constitute a default of the Issuer under the Securities for any purpose.

If the Issuer elects to cancel, or is prohibited from paying, interest on the Securities at any time, there is no restriction (other than any restriction imposed by any applicable law or regulation or the articles of association of the Issuer (the “**Articles**”)) on the Issuer from otherwise making distributions or any other payments to the holders of the Ordinary Shares or any other securities issued by any member of the Group, including securities ranking *pari passu* with or junior to the Securities. In determining the interim or final distributions (if any) to be declared in respect of the Ordinary Shares in respect of any given financial year, the Board of the Issuer will have regard to all relevant factors which it considers to be appropriate, including the profitability of the Issuer, its resources available for distribution and the capital and liquidity position of the Issuer at the time of declaring the distribution. The obligations of the Issuer under the Securities are senior in ranking to the Ordinary Shares. It is the Board of the Issuer's current intention that, whenever exercising its discretion to declare any distribution in respect of the Ordinary Shares, or its discretion to cancel interest on the Securities, the Board of the Issuer will take into account the relative ranking of these instruments in its capital structure. However, the Board of the Issuer may at any time depart from this policy at its sole discretion.

Any actual or anticipated cancellation of interest on the Securities will likely have an adverse effect on the market price of the Securities. In addition, as a result of the interest cancellation provisions of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive

generally to adverse changes in the Issuer's financial condition. Any indication that the Common Equity Tier 1 capital ratio of the Issuer Group is trending towards a failure to meet fully the combined capital buffer requirement (the level at which the Maximum Distributable Amount restriction under the CRD IV Directive becomes relevant) may have an adverse effect on the market price of the Securities.

The level of the Issuer's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Securities.

The Issuer will cancel any Interest Amount (in whole or in part) which would otherwise fall due on an Interest Payment Date if and to the extent that payment of such Interest Amount would, when aggregated with other relevant stipulated payments or distributions, exceed the Distributable Items of the Issuer.

The level of the Issuer's Distributable Items is affected by a number of factors. The Issuer's future Distributable Items, and therefore the ability of the Issuer to make interest payments under the Securities, are a function of the Issuer's existing Distributable Items and its future profitability. In addition, the Issuer's Distributable Items may also be adversely affected by the servicing of more senior instruments or parity ranking instruments.

The level of the Issuer's Distributable Items may be affected by changes to regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Issuer's Distributable Items in the future.

The Issuer's Distributable Items, and therefore the Issuer's ability to make interest payments under the Securities, may be adversely affected by the performance of the business of the Group in general, factors affecting its financial position (including capital and leverage), the economic environment in which the Group operates and other factors outside of the Issuer's control. In addition, adjustments to earnings, as determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Issuer from making interest payments on the Securities in certain circumstances, in which case the Issuer will automatically cancel such interest payments.

The Issuer will cancel any Interest Amount (in whole or in part) which would otherwise fall due on an Interest Payment Date if and to the extent that payment of such Interest Amount would cause any Maximum Distributable Amount then applicable to the Issuer Group to be exceeded.

Under CRD IV, institutions are required to hold a minimum amount of regulatory capital equal to 8 per cent. of risk weighted assets. In addition to these so-called "own funds" requirements under CRD IV, supervisors may add extra capital to cover other risks (thereby increasing the regulatory minimum required under CRD IV) and the Issuer may also decide to hold an additional amount of capital. CRD IV also introduces capital buffer requirements that are in addition to the minimum capital requirement and required to be met with Common Equity Tier 1 capital. It introduces five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific countercyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to the Issuer Group as determined by the PRA.

Under Article 141 (Restrictions on distributions) of the CRD IV Directive, EU Member States must require that institutions that fail to meet the "combined buffer requirement" (broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution) the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institutions buffer, in each case as applicable to the institution) will be subject to

restricted “discretionary payments” (which are defined broadly by CRD IV as payments relating to Common Equity Tier 1 and Additional Tier 1 instruments and variable remuneration). The restrictions will be scaled according to the extent of the breach of the “combined buffer requirement” and calculated as a percentage of the profits of the institution since the last distribution of profits or “discretionary payment”. Such calculation will result in a “maximum distributable amount” in each relevant period. As an example, the scaling is such that in the bottom quartile of the “combined buffer requirement”, no “discretionary distributions” will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce discretionary payments, including potentially exercising the discretion to cancel (in whole or in part) interest payments in respect of the Securities. The PRA, in Policy Statement PS3/14 (*Implementing CRDIV: capital buffers*), announced the final rules implementing the capital buffer requirements of CRDIV. These rules set out the requirements detailed above which arise under Article 141 of the CRDIV Directive where an institution does not meet its “combined buffer requirement”, PS3/14 further sets out the level of countercyclical capital buffer and capital conservation buffer applicable firms and further sets out the methodology for the calculation of a firm’s maximum distributable amount where it does not meet its “combined buffer requirement”. The PRA has also published its Supervisory Statement SS6/14 (*Implementing CRDIV: capital buffers*) which accompanies PS3/14 and sets out the PRA’s expectations in relation to the CRD IV capital buffers and provides clarifications of the PRA rules. The PRA expects to provide further information regarding the application of the buffers and their integration with Pillar 2 requirements during a consultation process to be launched later in 2014.

The Issuer currently intends to maintain an internal management buffer comprising Common Equity Tier 1 capital over the combined buffer requirement. There can be no assurance, however, that the Issuer will continue to maintain such internal management buffer or that any such buffer would be sufficient to protect against a breach of the combined buffer requirement resulting in restrictions on payments on the Securities. See further *“Risks Factors – Risks Related to the Securities – The Issuer may at any time elect, and in certain circumstances shall be required, not to make interest payments on the Securities.”* above.

The Issuer’s capital requirements are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable or capable of calculation by investors. In addition, the PRA, in Policy Statement PS7/13 (*Strengthening capital standards: implementing CRD IV, feedback and final rules*, December 2013), reaffirmed its view (originally expressed in consultation paper CP5/13) that, with respect to the relationship between Pillar 2A individual capital guidance and the combined buffer requirement, Pillar 2A capital should sit below the CRD IV buffers and that capital used to meet the Pillar 2A requirement cannot be counted towards meeting the buffers. In addition, Policy Statement PS7/13 confirmed that if an institution’s Basel I Floor capital requirement is higher than the sum of its Pillar 1 requirement plus any Pillar 2A individual capital requirement imposed on that institution by the PRA (subject to relevant adjustments), the firm’s additional capital buffers will sit on top of the Basel I Floor, and the institution may not meet its buffer requirements with any Common Equity Tier 1 capital maintained to meet the Basel I Floor. The Issuer does not currently disclose its Pillar 2A individual capital guidance or its Basel I Floor, and accordingly this method of ‘stacking’ CRD IV buffer capital may result in reduced transparency to investors as to the point at which the Issuer would cease to comply with its buffer capital requirement. Accordingly, investors in the Securities may not be able to assess or predict accurately the proximity of the risk of interest payments being prohibited from time to time as a result of the operation of Article 141 of CRD IV.

The PRA announced on 29 November 2013 that it had decided that firms can meet any future Pillar 2A requirement with a blend of regulatory capital, at least 56 per cent. of which must be Common Equity Tier 1 from 1 January 2015 onwards. For further information, see *“Risks Factors – Risks Related to Aldermore’s Business—Aldermore’s business is subject to substantial and changing prudential regulation – CRD IV.”* above.

The Securities may be traded with accrued interest, but (i) under certain circumstances described above, such interest will be cancelled and not paid on the relevant Interest Payment Date and (ii) the Issuer retains full discretion to cancel interest otherwise scheduled to be paid on the relevant Interest Payment Date.

The Securities may trade, and/or the prices for the Securities may appear, on GEM and in other trading systems with accrued interest. If this occurs, purchasers of Securities in the secondary market will pay a price that reflects such accrued interest upon purchase of the Securities. However, if a payment of interest on any Interest Payment Date is cancelled (in whole or in part) as described herein and thus is not due and payable, purchasers of such Securities will not be entitled to that interest payment (or, if the Issuer elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date.

Upon the occurrence of a Trigger Event, Securityholders will lose all or some of the value of their investment in the Securities.

The Securities are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as Additional Tier 1 Capital of the Issuer. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Conditions of the Securities. One of these relates to the ability of the Securities and the proceeds of their issue to be available to absorb any losses of the Issuer. Accordingly, if the Issuer Group's Common Equity Tier 1 Capital Ratio (calculated without applying the transitional measures set out in Part Ten of the CRD IV Regulation) falls below 7.00 per cent. (a "**Trigger Event**") at any time, the Issuer will: (a) cancel all accrued and unpaid interest up to (and including) the Conversion Date (whether or not such interest has become due for payment); and (b) issue to the Settlement Shares Depositary to be held for the Securityholders such number of Ordinary Shares as is equal to the aggregate principal amount of the Securities divided by the Conversion Price rounded down to the nearest whole number of Ordinary Shares. The delivery by the Issuer of Ordinary Shares to the Settlement Shares Depositary shall irrevocably discharge and satisfy the Issuer's obligations in respect of the Securities and a Securityholder shall, with effect on and from the Conversion Date, only have recourse to the Settlement Shares Depositary for the delivery to it of the relevant Ordinary Shares. The Initial Pre-IPO Conversion Price shall be £1.80 (subject to adjustment in the circumstances provided in Condition 9). See Condition 9 of the Securities.

Any such Conversion will be irrevocable and, following Conversion, Securityholders will not be entitled to any form of compensation in the event of the Issuer's potential recovery (other than any gain attributable to any increase over time in the value of the Ordinary Shares held by the Securityholder) or change in the Issuer Group's fully loaded Common Equity Tier 1 capital ratio ("**CET1 Ratio**"). In addition, on or after the occurrence of the Trigger Event if the Issuer does not deliver Ordinary Shares to the Settlement Shares Depositary, the only claims Securityholders will have against the Issuer will be for specific performance to have such Ordinary Shares issued and delivered to the Settlement Shares Depositary or in an insolvency, to participate in the liquidation proceeds of the Issuer as if the Ordinary Shares had been issued. Once the Ordinary Shares to be delivered on Conversion have been issued and delivered to the Settlement Shares Depositary, the only claims Securityholders will have will be against the Settlement Shares Depositary for delivery of Ordinary Shares.

As a result of Conversion, Securityholders could lose all or part of the value of their investment in the Securities, as, following Conversion, they will receive only the Ordinary Shares and the value of any Ordinary Shares received upon Conversion may be significantly below the principal amount of the Securities they hold. Although the value of the Ordinary Shares received could over time increase in value, at any time the Ordinary Shares are issued, the Conversion Price may not reflect the market price or fair value of the Ordinary Shares, which could be significantly lower than the Conversion Price. Furthermore, upon Conversion, Securityholders will no longer have a debt claim in relation to the

principal and any accrued but unpaid interest on the Securities shall be cancelled and shall not become due and payable at any time.

A Conversion shall be deemed effective with effect from the relevant Conversion Date stated in the Conversion Notice to be given by the Issuer and without the requirement for any further formality.

A Securityholder will not (i) receive, other than the relevant number of Ordinary Shares as is equal to the aggregate principal amount of that holder's Securities divided by the Conversion Price rounded down to the nearest whole number of Ordinary Shares, any shares or other participation rights in the Issuer or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or any other member of the Issuer Group or (ii) be entitled to any subsequent re-transfer or any other compensation in the event of any change in the Common Equity Tier 1 Capital Ratio of the Issuer Group.

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, which may be outside the control of the Issuer. Accordingly, investors may be unable to accurately predict if and when a Trigger Event may occur. See *"Risks Factors – Risks Related to the Securities – The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Issuer Group"* below.

Further, the Conditions provide that a Securityholder, and not the Issuer, shall be responsible for paying any taxes and capital, stamp, issue, registration and transfer taxes and duties arising to such Securityholder on Conversion as a consequence of any disposal or deemed disposal of their Securities (or any interest therein) and/or the issue or delivery to the Settlement Shares Depositary and to the Securityholder of any Ordinary Shares (or any interest therein) upon Conversion. Prior to an IPO Event occurring, Securityholders will also be required to deliver a Deed of Adherence (as provided in Condition 9(c)) and shall be responsible for any costs, in respect of the entry into such deed. See *"Failure to deliver a Deed of Adherence for Conversion at a time when there exists a Shareholders' Agreement."* and *"Upon the execution of a Deed of Adherence, a Securityholder will become bound by the provisions of the Shareholders' Agreement."* below.

In addition to Conversion of the Securities in accordance with Condition 9, the Securities may also be written off, written down, converted to Ordinary Shares or otherwise modified in a manner which is materially adverse to investors in circumstances where the Bank of England or other resolution authorities exercise powers under EU and UK recovery and resolution regimes. See *"Risks Factors – Risks Related to the Securities – The Council of the European Union has adopted a bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The implementation of the directive or the taking of any action under it could materially affect the value of any Securities."* and *"Risks Factors – Risks Related to the Securities – 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 Securities."* below.

Securityholders may lose all or some of the value of their investment as a result of a Conversion. The market price of the Securities is expected to be affected by fluctuations in the Issuer Group's Common Equity Tier 1 Capital Ratio. Any reduction in the Issuer Group's Common Equity Tier 1 Capital Ratio may have an adverse effect on the market price of the Securities, and such adverse effect may be particularly significant if there is any indication or expectation that the Issuer Group's Common Equity Tier 1 Capital Ratio is or may be trending towards 7.00 per cent.

The Issuer intends publicly to report on a quarterly basis (as at the period end) the Issuer Group's Common Equity Tier 1 Capital Ratio, calculated on a consolidated basis. In addition, during each such quarterly period, there will be no published updating of the Issuer Group's Common Equity Tier 1 Capital

Ratio and there may be no prior warning of adverse changes in the Issuer Group's Common Equity Tier 1 Capital Ratio. However, any indication that the Issuer Group's Common Equity Tier 1 Capital Ratio is moving towards the level of the Trigger Event may have an adverse effect on the market price of the Securities. A decline or perceived decline in the Issuer Group's Common Equity Tier 1 Capital Ratio may significantly affect the trading price of the Securities.

See "*Risks Factors – Risks Related to the Securities – If on or following an IPO Event a Relevant Event occurs, the Securities may be convertible into shares in an entity other than the Issuer or may be fully written down.*" below which details circumstances where the Securities may be convertible into shares in an entity other than the Issuer or may be fully written down.

The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Issuer Group.

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, which may be outside the control of the Issuer. Moreover, because the relevant authority may instruct the Issuer to calculate the Issuer Group's Common Equity Tier 1 Capital Ratio as at any date or the Issuer may otherwise determine to calculate such ratio as at any date, a Trigger Event could occur at any time, including if the Issuer is subject to recovery and resolution actions by the relevant United Kingdom resolution authority. Moreover, the relevant United Kingdom resolution authority is likely to allow a Trigger Event to occur rather than to resort to the use of public funds.

The Issuer Group's Common Equity Tier 1 Capital Ratio may fluctuate during each reporting period. The calculation of such ratio could be affected by one or more factors, including, among other things, changes in the mix of the Issuer Group's business, major events affecting its earnings, distributions payments by the Issuer, regulatory changes (including changes to definitions and calculations of the Common Equity Tier 1 Capital Ratio and its components, including Common Equity Tier 1 and Risk Weighted Assets, in each case on a consolidated basis) and the Issuer Group's ability to manage Risk Weighted Assets. For example, the Common Equity Tier 1 Capital Ratio of the Issuer Group may decline as the business of Aldermore develops. In particular, any growth in the risk weighted assets of the Issuer Group may result in a reduction in the Common Equity Tier 1 Capital Ratio of the Issuer Group if not matched by an increase in its common equity tier 1 capital at a corresponding rate.

The calculation of the Issuer Group's Common Equity Tier 1 Capital Ratio may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the PRA could require the Issuer to reflect such changes in any particular calculation of the Issuer Group's Common Equity Tier 1 Capital Ratio.

Accordingly, accounting changes or regulatory changes may have a material adverse impact on the Issuer Group's calculations of regulatory capital, including Common Equity Tier 1 and Risk Weighted Assets and the Issuer Group's Common Equity Tier 1 Capital Ratio.

It will be difficult to predict when, if at all, a Trigger Event and subsequent Conversion may occur. Accordingly, the trading behaviour of the Securities is not necessarily expected to follow the trading behaviour of other types of securities. Any indication that a Trigger Event and subsequent Conversion may occur can be expected to have a material adverse effect on the market price of the Securities.

Securityholders may be obliged to make a take-over bid following the Trigger Event if they take delivery of Ordinary Shares.

Upon the occurrence of a Trigger Event which occurs following an IPO Event, Securityholders receiving Ordinary Shares from the Settlement Shares Depositary may have to make a take-over bid addressed to

the shareholders of the Issuer pursuant to the rules of The City Code on Takeovers and Mergers implementing the Takeovers Directive (2004/25/EC) by means of Part 28 of the Companies Act if their aggregate holdings in the Issuer exceed 30 per cent. of the voting rights in the Issuer as a result of Conversion of the Securities into Ordinary Shares.

Securityholders will have to submit a Conversion Notice in order to receive delivery of the Ordinary Shares.

In order to obtain delivery of the Ordinary Shares following Conversion, a Securityholder must deliver a Conversion Notice (and the relevant Securities, if applicable) to the Settlement Shares Depositary. Securityholders should also read the risk factor entitled “*Risks Factors – Risks Related to the Securities – Failure to deliver a Deed of Adherence for Conversion at a time when there exists a Shareholders’ Agreement.*” below for an additional requirement that such Securityholders may need to satisfy in order to receive Ordinary Shares where prior to any IPO Event there is a Shareholders’ Agreement in place. Following an IPO Event, a Conversion Notice must also contain certain information, including the Securityholder’s CREST account details. Accordingly, Securityholders (or their nominee, custodian or other representative) will have to have an account with CREST in order to receive the Ordinary Shares following an IPO Event. If a Securityholder fails properly to complete and deliver a Conversion Notice, the Settlement Shares Depositary shall continue to hold the relevant Ordinary Shares until a Conversion Notice (and the relevant Securities, if applicable) is (or are) so validly delivered. However, the relevant Securities shall be cancelled on the Long-Stop Date and any Securityholder delivering a Conversion Notice after the Long-Stop Date will have to provide evidence of its entitlement to the relevant Ordinary Shares, satisfactory to the Settlement Shares Depositary in its sole and absolute discretion in order to receive delivery of such Ordinary Shares. Each of the Issuer and the Settlement Shares Depositary shall have no liability to any Securityholder for any loss resulting from such Securityholder not receiving any Ordinary Shares or from any delay in the receipt thereof, in each case as a result of such Securityholder failing to submit a valid Conversion Notice on a timely basis or at all.

Failure to deliver a Deed of Adherence for Conversion at a time when there exists a Shareholders’ Agreement.

If any Securityholder fails to deliver a duly completed Conversion Notice and, (if prior to an IPO Event and at the relevant Settlement Date there exists a Shareholders’ Agreement), a duly executed Deed of Adherence, such Securityholder will not be able to take delivery of the Ordinary Shares pursuant to Condition 9. Such Securityholder will not be able to claim those Ordinary Shares from the Settlement Shares Depositary if it is unable to complete both a Conversion Notice and a Deed of Adherence and shall likewise have no claim against or recourse to the Issuer for delivery to them of such Ordinary Shares. The Issuer and the Settlement Shares Depositary shall have no liability to any Securityholder for any loss resulting from such Securityholder not receiving any Ordinary Shares or from any delay in the receipt thereof, in each case as a result of such Securityholder failing to submit if required a valid Deed of Adherence on a timely basis or at all.

Upon Conversion, Securityholders will be entitled to receive Ordinary Shares in accordance with the Conditions and, in certain circumstances, conditional upon executing a Deed of Adherence; Securityholders should be aware of the risks associated with any holding of such Ordinary Shares.

Upon the execution of a Deed of Adherence, a Securityholder will become bound by the provisions of the Shareholders’ Agreement.

If, prior to an IPO Event, the Securities are Converted and at the relevant Settlement Date, there exists a Shareholders’ Agreement, the Securityholder will be entitled to receive its Ordinary Shares only if it delivers a duly executed Deed of Adherence and Conversion Notice and it will be bound by the provisions of the Shareholders’ Agreement. As at the date of this Information Memorandum, the

Shareholders' Agreement contains provisions relating to, amongst other things, (i) the initial subscription of Shares by the parties thereto (ii) the rights of such parties in respect of Board meetings and general meetings and the appointment of Directors and (iii) certain matters relating to the Issuer which require the prior written consent of the Investor Shareholders (as defined in "*Description of the Ordinary Shares and rights – Description of the Ordinary Shares – Share capital*"). The Shareholders' Agreement also provides for the conversion of some of the Class E Ordinary Shares to deferred shares in the circumstances described in "*Description of the Ordinary Shares and rights – Shareholders' Agreement*". The Shareholders' Agreement can be amended without the consent of the Securityholders and in a way which may be adverse to them and/or the Class E Shareholders.

Securityholders who receive Ordinary Shares upon Conversion will be subject to the Articles.

A Securityholder who receives Ordinary Shares upon Conversion will hold such Ordinary Shares subject to the Articles. "Ordinary Shares" means (i) prior to an IPO Event, the Class E Ordinary Shares, and (ii) on or following an IPO Event, ordinary voting shares in the capital of the Issuer (or, in the event of an Exempt Newco Scheme, the ordinary shares of the Newco) which form part of the same class of ordinary shares which is admitted to trading as described in the definition of IPO Event.

As at the date of this Information Memorandum, the Articles contain certain provisions relating to, amongst other things, the declaration and payment of dividends, voting rights and transfers in relation to the Class E Ordinary Shares. In particular, the declaration and payment of dividends is at the discretion of the Board and under the Articles, no dividends may be declared on the Class E Ordinary Shares without the prior written consent of the Investor Shareholders (see also "*Description of Aldermore's business – Dividend Policy*" and "*Description of the Ordinary Shares and rights – Description of the Ordinary Shares – Dividends*"). The Class E Ordinary Shares do not carry any right to receive notice of, to attend or to vote at general meetings of the Issuer. In addition, certain restrictions are imposed pursuant to the Articles on any transfer, mortgage or disposal of, or charge over, Class E Ordinary Shares. Prior to an IPO Event, Class E Ordinary Shares may only be transferred in certain circumstances, and may require the relevant holder of the Class E Ordinary Shares to obtain the prior written consent of the Investor Shareholders before a transfer of its Class E Ordinary Shares can take place. The rights attaching to the Class E Ordinary Shares may only be varied where the holders of such class consent to the variation in accordance with the Articles and the Companies Act. As Securityholders will only receive Class E Ordinary Shares following the occurrence of a Trigger Event in accordance with the Conditions, the rights attaching to Class E Ordinary Shares may be modified prior thereto without the consent of the Securityholders. Accordingly, on the Conversion Date, Securityholders may receive Class E Ordinary Shares the terms of which may differ from the terms described in this Information Memorandum. Further information on these provisions as well as a summary of the Articles and the rights attaching to the Class E Ordinary Shares is set out in "*Description of the Ordinary Shares and rights*" of this Information Memorandum.

The rights of the holders of Ordinary Shares will be deeply subordinated.

As described in "*Risks Factors – Risks Related to Aldermore's Business – The obligations of the Issuer in respect of the Securities are unsecured and deeply subordinated, and the rights of the holders of Ordinary Shares will be further subordinated.*" the claims of holders of Ordinary Shares in a liquidation of the Issuer are the most junior-ranking of all claims and are limited to a share of the surplus assets (if any) remaining following payment of all amounts due in respect of all of the liabilities of the Issuer. See also "*Risks Factors – Risks Related to the Securities – The Issuer is a holding Company.*" in relation to the structural subordination of the holders of Ordinary Shares to the creditors of the Issuer's subsidiaries.

The Ordinary Shares are not currently listed; if Ordinary Shares do become listed, the trading price of the Ordinary Shares may fluctuate; the Ordinary Shares delivered may have little or no value at the time of Conversion.

As at the date of this Information Memorandum, no Ordinary Shares are listed or admitted to trading on any stock exchange and there is no assurance given that the Ordinary Shares will be listed or admitted to trading in the future. There is no assurance that an active trading market in the Ordinary Shares will develop nor as to the liquidity of any trading market for the Ordinary Shares. If Conversion takes place prior to an IPO Event and a Securityholder receives Ordinary Shares at a time when such Ordinary Shares remain unlisted, Securityholders will not be able to compare the Conversion Price with any general market valuation for the Ordinary Shares. See also "Risks Factors – Risks Related to the Securities – Upon the occurrence of a Trigger Event, the Securityholders will lose all or some of the value of their investment in the Securities." If the Ordinary Shares do become listed, the trading price of the Ordinary Shares may fluctuate which could lead to holders of Ordinary Shares losing some or all of their investment. In addition, because a Trigger Event will only occur at a time when the CET1 Ratio has deteriorated significantly, any Ordinary Shares delivered upon Conversion may have little or no value at such time.

A holding in Ordinary Shares by a holder whose principal currency is not sterling may be affected by exchange rate fluctuations.

The Ordinary Shares are denominated, and any dividends in respect of the Ordinary Shares are expected to be paid, in sterling. A holding in Ordinary Shares by a holder whose principal currency is not sterling will expose the holder to foreign currency exchange rate risk. Any depreciation of sterling in relation to such foreign currency will reduce the value of the holding of the Ordinary Shares or any distribution in relation to such foreign currency.

Prior to the Conversion Date, Securityholders will not be entitled to any rights with respect to the Ordinary Shares, but will be subject to all changes made with respect to the Ordinary Shares.

The exercise of voting (post an IPO Event) and other rights related to any Ordinary Shares is only possible after registration of the relevant person entitled to the Ordinary Shares in the Issuer's share register in accordance with the provisions of, and subject to the limitations provided in, the Articles and the Shareholders' Agreement.

Receipt by the Settlement Shares Depositary of the Ordinary Shares shall irrevocably discharge and satisfy the Issuer's obligations in respect of the Securities.

Following the Trigger Event, the relevant Ordinary Shares will be issued and delivered by the Issuer to the Settlement Shares Depositary, which will hold the Ordinary Shares on behalf of the Securityholders. Receipt by the Settlement Shares Depositary of the Ordinary Shares shall irrevocably discharge and satisfy the Issuer's obligations in respect of the Securities and a Securityholder shall, with effect on and from the Conversion Date, only have recourse to the Settlement Shares Depositary for the delivery to it of the relevant Ordinary Shares. The Issuer shall not have any liability for the performance of the obligations of the Settlement Shares Depositary.

In addition, the Issuer has not yet appointed a Settlement Shares Depositary and the Issuer may not be able to appoint a Settlement Shares Depositary if Conversion occurs. In such a scenario, the Issuer would inform Securityholders via Euroclear, Clearstream, Luxembourg or the Trustee or otherwise, as practicable, of any alternative arrangements in connection with the issuance and/or delivery of the Ordinary Shares and such arrangements may be disadvantageous to, and more restrictive on, the Securityholders. For example, such arrangements may involve Securityholders having to wait longer to receive their Ordinary Shares than would be the case under the arrangements expected to be entered into with a Settlement Shares Depositary. Under these circumstances, the Issuer's issuance of the Ordinary Shares to the relevant recipient in accordance with these alternative arrangements shall constitute a complete and irrevocable release of all of the Issuer's obligations in respect of the Securities.

The Securities do not contain events of default and the remedies available to Securityholders under the Securities are limited.

The terms of the Securities do not provide for any events of default. Securityholders may not at any time demand repayment or redemption of their Securities, although in a winding-up or administration prior to the Trigger Event, the Securityholders will have a claim for an amount equal to the principal amount of the Securities plus any accrued interest that has not otherwise been cancelled. There is no right of acceleration in the case of non-payment of principal or interest on the Securities or of the Issuer's failure to perform any of its obligations under or in respect of the Securities.

The sole remedy in the event of any non-payment of principal under the Securities, subject to certain conditions as described under Condition 12, is that the Trustee, on behalf of the Securityholders 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 Securities 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 Securities in any winding-up or other insolvency proceedings in respect of such non-payment.

Prior to the occurrence of any winding-up or administration, the Securities will remain subject to Conversion upon the Trigger Event. The Issuer is entitled to cancel any interest payment as described under Condition 6 of the Conditions and such cancellation or deemed cancellation (in each case, in whole or in part) will not constitute an event of default.

The remedies under the Securities 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 Securityholders, see Condition 12.

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

There is no restriction on the amount of securities or other liabilities that the Issuer may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Securities. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Securityholders during a winding-up or administration or resolution of the Issuer and may limit the Issuer's ability to meet its obligations under the Securities. In addition, the Securities do not contain any restriction on the Issuer's ability to issue securities that may have rights similar but preferential to those of the Securities including securities having more favourable or no Trigger Event provisions.

Following Conversion, the Securities will remain in existence until the applicable Settlement Date or Long-Stop Date for the sole purpose of evidencing the holder's right to receive Ordinary Shares from the Settlement Shares Depositary and the rights of the Securityholders will be limited accordingly.

Following Conversion, the Securities will remain in existence until the applicable Settlement Date or Long-Stop Date for the sole purpose of evidencing the Securityholder's right to receive Ordinary Shares. All obligations of the Issuer under the Securities shall be irrevocably released in consideration of the Issuer's issuance and delivery of the Ordinary Shares to the Settlement Shares Depositary on the Conversion Date, and under no circumstances shall such released obligations be reinstated. The Securities shall be cancelled on the applicable Settlement Date or Long-Stop Date.

For the purposes of the Trigger Event, the CET1 Ratio will be calculated on a "fully loaded" basis. This will result in a lower calculated CET1 Ratio than one using CRD IV transitional provisions, increasing the potential for Conversion in the short term. Changes to the calculation of common equity tier one capital ("CET1 Capital") and/or risk weighted assets may negatively affect the Issuer Group's CET1 Ratio, thereby increasing the risk of the

Trigger Event which will lead to Conversion, as a result of which the Securities will automatically be converted into Ordinary Shares.

The CRD IV legislation sets out a minimum pace of introduction of enhanced capital requirements (the “**Transitional Provisions**”). The Transitional Provisions are designed to implement certain CRD IV requirements in stages over a prescribed period; however, each of the EU Member States has the discretion to accelerate that minimum pace of transition in certain respects. In the United Kingdom, the PRA has confirmed that it will accelerate the introduction of certain of the enhanced capital requirements under CRD IV. In accordance with the PRA’s rules and supervisory statements published on 19 December 2013, the PRA will require the Issuer Group to meet certain capital targets within certain prescribed timeframes, without having regard to any Transitional Provisions in that respect. Therefore, for the purposes of the Securities, the Issuer will calculate the Issuer Group’s CET1 Ratio without applying the Transitional Provisions and will instead calculate its CET1 Ratio on a so-called “fully loaded” basis, which is a more stringent basis than under the CRD IV regime and will lead to the CET1 Ratio as defined for purposes of the Securities being lower than it would be were Aldermore to calculate the CET1 Ratio applying the Transitional Provisions.

As at 30 June 2014, Aldermore’s CET1 Ratio, giving full effect to CRD IV on a fully loaded basis, based on Aldermore’s interpretation of the current rules and assuming such rules were applied as of 30 June 2014, was 10.9 per cent.

The Common Equity Tier 1 Capital Ratio of the Issuer Group will be affected by the Issuer Group’s business decisions and, in making such decisions, the Issuer Group’s interests may not be aligned with those of the holders of the Securities.

As discussed in “*Risks Factors – Risks Related to the Securities – The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Issuer Group.*” above, the Issuer Group’s Common Equity Tier 1 Capital Ratio could be affected by a number of factors. The Issuer Group’s Common Equity Tier 1 Capital Ratio will also depend on the Issuer Group’s decisions relating to its businesses and operations, as well as the management of its capital position. In making such decisions, the Issuer Group may have regard to the interests of a range of stakeholders, which may include holders of debt instruments issued by the Issuer. However, the Issuer Group has no obligation to consider the interests of the holders of the Securities specifically in connection with any of its strategic decisions, including in respect of its capital management. Holders of the Securities will not have any claim against the Issuer or any other member of the Issuer Group relating to decisions that affect the business and operations of the Issuer Group, including the Issuer Group’s capital position, regardless of whether they result in the occurrence of a Trigger Event. Such decisions could cause holders of the Securities to lose all or part of the value of their investment in the Securities.

The Pre-IPO Conversion Price is fixed and the Post-IPO Conversion Price will be fixed on the occurrence of an IPO Event and each are subject to adjustment in only very limited circumstances; Securityholders have limited anti-dilution protection.

The Current Price of an Ordinary Share will be relevant to certain of the Conversion Price adjustment provisions set out in the Conditions, either in determining whether an adjustment event is triggered or in calculating the amount of the adjustment required.

Prior to an IPO Event there is no market value of the Ordinary Shares by reference to which the Current Price is objectively measurable. Instead, the Current Price prior to an IPO Event will be determined by the Issuer acting in good faith and not by an independent adviser. Accordingly, in the absence of an objective measure, determinations by the Issuer may have a significant effect on the value to investors of the limited anti-dilution protections afforded under the Conditions.

The number of Ordinary Shares to be issued and delivered on Conversion in respect of each Security will be the principal amount of the Securities outstanding immediately prior to the Conversion on the Conversion Date divided by the prevailing Conversion Price, rounded down to the nearest whole number of Ordinary Shares.

As at the date of this Information Memorandum, no Ordinary Shares are listed or admitted to trading on any stock exchange and there is no assurance given that the Ordinary Shares will be listed or admitted to trading in the future. As no primary or secondary market price for the Ordinary Shares exists at the time of investment in the Securities, prior to an IPO Event (if any) investors in the Securities will therefore not be able to compare the Conversion Price with any market valuation for the Ordinary Shares. Upon an IPO Event, the Conversion Price is subject to adjustment as set out in Condition 9. It will be reset as the higher of (i) the prevailing Pre-IPO Conversion Price (including, if applicable, any adjustment applicable by reason of Condition 9(d)(v)) or (ii) 66 per cent. of the final price per share at which the relevant Ordinary Shares are offered in connection with the IPO Event. Securityholders should note that the Post-IPO Conversion Price will only (as a result of this adjustment) remain the same as, or be increased above, the Pre-IPO Conversion Price, the latter of which would reduce the number of the Ordinary Shares a Securityholder would receive on Conversion against the Pre-IPO Conversion Price. The IPO Event (if any) will not, of itself, result in a reduction of the Conversion Price.

These factors may adversely affect how the market perceives and values the Securities.

The circumstances (described in Condition 9(d)) in which adjustments will be made to the Conversion Price are limited. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares and the adjustment events that are included are less extensive than those often included in the terms of convertible securities. For example, the issue of Ordinary Shares pursuant to the terms of the Warrants will not result in any adjustment to the Conversion Price notwithstanding the dilutive effect of any such issue (see “*Description of the Ordinary Shares and rights – Warrants*”).

Prior to an IPO Event, upon a Conversion, the Issuer shall issue Class E Ordinary Shares to the Settlement Shares Depositary. Such Class E Ordinary Shares are one of, as at the date of this Information Memorandum, five classes of ordinary shares in the Issuer. Each class of shares confers different rights upon the holders thereof as set out in “*Description of the Ordinary Shares and rights*” of this Information Memorandum. Holders of Class E Ordinary Shares have the right to receive dividends (although no dividends may be declared without the prior written consent of the Investor Shareholders as described further under “*Description of the Ordinary Shares and rights*”). However, holders of Class E Ordinary Shares do not have the right to receive notice of, to attend or to vote at general meetings of the Issuer. Only holders of Class A Ordinary Shares have the right to receive notice of, to attend or to vote at general meetings of the Issuer. Although Class E Ordinary Shares do share in any dividend declared by the Issuer on a *pro rata* basis with Class A Ordinary Shares and Class D Ordinary Shares, any declaration of such dividend is subject to the consent of the Investor Shareholders. The Conversion Price adjustment provisions intended to afford some anti-dilution protections to Securityholders are, prior to an IPO Event, effectively even more limited than after an IPO Event as a result of there being multiple classes of ordinary shares in issue as at the date of this Information Memorandum. The Issuer may issue further shares (of an existing or new class) which have preferential rights to the Class E Ordinary Shares only if (i) the Issuer has first offered such shares to all holders of the Class A Ordinary Shares, Class B Ordinary Shares, Class D Ordinary Shares and Class E Ordinary Shares on the same terms and at the same price on a *pari passu* and *pro rata* basis or (ii) such issue is a “Permitted Share Issue” under the Articles (which will require the prior approval of the holders of the Class A Ordinary Shares and Class E Ordinary Shares) (see “*Description of the Ordinary Shares and rights – Description of Shares – Pre-emption rights*”). However, the holders of Securities do not have a right or power to prevent the Issuer

from issuing further shares (of an existing or new class) which may have preferential rights to the Class E Ordinary Shares.

Furthermore, the Conditions do not provide for certain undertakings from the Issuer which are sometimes included in convertible securities to protect investors in situations where the relevant conversion price adjustment provisions do not operate to compensate for the dilutive effect of certain corporate events or actions on the economic value of the Conversion Price. For example, the Conditions contain neither an undertaking restricting the modification of rights attaching to the Ordinary Shares nor an undertaking restricting issues of new capital with preferential rights relative to the Ordinary Shares.

Accordingly, corporate events or actions in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the Ordinary Shares and therefore the Securities.

In order to comply with increasing regulatory capital requirements imposed by applicable regulations or otherwise, the Issuer may need to raise additional capital. Further capital raisings by the Issuer could result in the dilution of the interests of the Securityholders, subject only to the limited anti-dilution protections referred to above.

If on or following an IPO Event a Relevant Event occurs, the Securities may be convertible into shares in an entity other than the Issuer or may be fully written down.

If on or following an IPO Event a Qualifying Relevant Event occurs, then, following any Conversion, the Securities shall become convertible into the share capital of the Acquiror (as more fully described in Condition 9(e)) at the New Conversion Price. There can be no assurance as to the nature of any such Acquiror, or of the risks associated with becoming an actual or potential shareholder in such Acquiror and accordingly a Qualifying Relevant Event may have an adverse effect on the value of the Securities.

In addition, a Qualifying Relevant Event requires the New Conversion Condition to be satisfied. For the New Conversion Condition to be satisfied, the Issuer and the Acquiror must, not later than seven days following the occurrence of a Relevant Event, enter into arrangements to the satisfaction of the Issuer for delivery of the Relevant Shares upon a Conversion of the Securities. If the Issuer and the Acquiror are unable to enter into such arrangements within this timeframe, the New Conversion Condition would not be satisfied.

In the case of a Non-Qualifying Relevant Event, the Securities will not be subject to Conversion unless the Conversion Date occurs prior to the occurrence of the Relevant Event. If the Conversion Date occurs following the Non-Qualifying Relevant Event, the outstanding principal amount of each Security will be automatically written down to zero and the Securities will be cancelled in their entirety. Securityholders will be deemed to have irrevocably waived their right to receive repayment of the aggregate principal amount of the Securities so written down and all accrued and unpaid interest and any other amounts payable on the Securities will be cancelled, as more fully described under Condition 9(e)(iv). There can be no assurance that a Relevant Event will not be a Non-Qualifying Relevant Event, in which case investors would, in the event of a Trigger Event subsequently occurring, lose their entire investment in the Securities.

Prior to an IPO Event there are more limited protections for holders of the Securities in the event of a change of control of the Issuer and in such situation the Securities may remain convertible into Ordinary Shares of the Issuer following the occurrence of a Trigger Event.

The Issuer will undertake that it shall (if and to the extent permitted by the Regulatory Capital Requirements from time to time and only to the extent that such covenant would not cause a Capital Disqualification Event to occur) in the event of a Newco Scheme, save with the approval of an Extraordinary Resolution, take (or shall procure that there is taken) all necessary action to ensure that the Newco Scheme is an Exempt Newco Scheme and that immediately after completion of the Scheme of Arrangement such amendments are made to the Conditions and the Trust Deed as are necessary to

ensure that the Securities may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to the Conditions.

In the event of a change of control that is not effected through a Newco Scheme, either implemented by the Issuer or as a result of an action of a third party acquiror, then the Securities shall remain convertible into the Ordinary Shares of the Issuer on the occurrence of the Trigger Event.

The Council of the European Union has adopted a bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The implementation of the directive or the taking of any action under it could materially affect the value of any Securities.

The BRRD contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) an institution is considered as failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest:

- **sale of business** – which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms;
- **bridge institution** – which enables resolution authorities to transfer all or part of the business of the firm to a “bridge institution” (an entity created for this purpose that is wholly or partially in public control);
- **asset separation** – which enables resolution authorities to transfer impaired or problem assets to one or more publicly-owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and
- **bail-in** – which gives resolution authorities the power to expropriate shares or significantly dilute shareholders, and write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims (including subordinated notes such as the Securities) to equity (the “**general bail-in tool**”), which equity could also be subject to any future application of the general bail-in tool.

The BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

An institution will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; when its assets are, or are likely in the near future to be, less than its liabilities; when it is, or is likely in the near future to be, unable to pay its debts as they fall due; or when it requires extraordinary public financial support (except in limited circumstances).

In addition to the general bail-in tool, the BRRD provides for resolution authorities to have the further power to permanently write-down, or convert into equity, Additional Tier 1 capital instruments (such as the Securities) and Tier 2 capital instruments at the point of non-viability of the bank and before any other resolution is taken or concurrently with other resolution measures (“**non-viability loss absorption**”). Any shares issued to holders of Additional Tier 1 capital instruments or Tier 2 capital instruments may also be subject to any future application of the general bail-in tool.

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution meets the

conditions for resolution (but no resolution action has yet been taken) or that the institution will no longer be viable unless the relevant capital instruments (such as the Securities) are written-down or converted or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution would no longer be viable.

The powers set out in the BRRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Once the BRRD is implemented, holders of Securities may be subject to write-down or conversion into equity on any application of the general bail-in tool or non-viability loss absorption, which may result in such holders losing some or all of their investment. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of Securityholders, the price or value of their investment in the Securities and/or the ability of the Issuer to satisfy its obligations under the Securities. For additional information on the BRRD, see *“Risk Factors – Risks Related to Aldermore’s Business – Regulatory Risks – Aldermore’s business is subject to the potential impacts of UK and European banking reform initiatives”*.

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 Securities.

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 a UK bank or building society (each a **“relevant entity”**) in circumstances in which the Authorities consider its failure has become highly likely and a threat is posed to the public interest. The SRR consists of three stabilisation options and two insolvency and administration procedures applicable to UK banks which may be commenced by the Authorities. The stabilisation options provide for: (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; and (iii) temporary public ownership (nationalisation) of the relevant entity. 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. Pursuant to amendments made to the Banking Act, these powers may be used in respect of a wider range of UK entities, including a UK incorporated company which meets certain conditions and is in the same group as a relevant entity (a **“UK banking group company”**). In addition, further amendments to the Banking Act, which have not yet come into force but are expected to do so with effect from 1 January 2015, have introduced a new stabilisation option in the form of a bail-in tool which will permit the Bank of England to (i) cancel, modify or convert the form of a liability owed by a relevant entity or UK banking group company or provide that a contract under which a relevant entity or UK banking group company has a liability is to have effect as if a specified right had been exercised under it or (ii) transfer securities issued by a relevant entity or UK banking group company to a bail-in administrator. When in force, the amendments and/or the taking of any action under any new tools adopted under the Banking Act could adversely affect Securityholders.

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 (a) the relevant Authority is satisfied that a relevant entity (such as the Issuer) is failing, or is likely to fail, to satisfy the threshold conditions specified in FSMA, (b) following consultation with the other Authorities, the relevant Authority

determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those conditions and (c) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors). 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. Additional conditions will apply where the Authorities seek to exercise their powers in relation to UK banking group companies.

Various actions may be taken in relation to the Securities without the consent of the Securityholders.

If the Issuer were made subject to the SRR, 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 subject to certain protections in respect of the Issuer. Exercise of these powers could involve taking various actions in relation to any securities issued by the Issuer (including the Securities) without the consent of the Securityholders, including (among other things):

- transferring the Securities out of the hands of the holders;
- delisting the Securities;
- converting the Securities into another form or class (the scope of this power is unclear, although it may include, for example, conversion of the Securities into equity securities); and/or
- modifying or disapplying certain terms of the Securities.

As described in “*Risk Factors – Risks Related to the Securities – 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 Securities.*”, further amendments to the Banking Act, which have not yet come into force but are expected to do so with effect from 1 January 2015, will introduce a new stabilisation option granting certain bail-in and capital write down powers to the Bank of England.

The taking of any such actions could adversely affect the rights of Securityholders, the price or value of their investment in the Securities and/or the ability of the Issuer to satisfy its obligations under the Securities. In such circumstances, Securityholders 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 Securityholders would thereby recover compensation promptly or equal to any loss actually incurred.

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 Securities) 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 Securities and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Securityholders 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 Securityholders would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Information Memorandum, 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 Securityholders will not be adversely affected by any such order or instrument if made.

The Securities 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 Securities 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.

The rights of Securityholders will be limited following the occurrence of a Trigger Event.

Although the Issuer currently expects that beneficial interests in the Securities will be transferable between the occurrence of a Trigger Event and the Conversion Date, there is no guarantee that an active trading market will exist for the Securities following the occurrence of a Trigger Event. Accordingly, the price received for the sale of any beneficial interest under a Security during this period may not reflect the market price of such Security or the Ordinary Shares.

There is no scheduled redemption date for the Securities and Securityholders have no right to require redemption.

The Securities are undated securities in respect of which there is no fixed redemption or maturity date. The Issuer is under no obligation to redeem the Securities at any time and the Securityholders have no right to require the Issuer or any member of the Issuer Group to redeem or purchase any Securities at any time. Any redemption of the Securities and any purchase of any Securities by the Issuer or any of its subsidiaries will be subject always to the prior approval of the Supervisory Authority and to compliance with prevailing prudential requirements, and the Securityholders may not be able to sell their Securities in the secondary market (if at all) at a price equal to or higher than the price at which they purchase their Securities. Accordingly, investors in the Securities should be prepared to hold their Securities for a significant period of time.

The Securities are subject to early redemption upon the occurrence of certain tax and regulatory events.

Subject to the prior approval of the Supervisory Authority and to compliance with prevailing prudential requirements, the Issuer may, at its option, redeem all (but not some only) of the Securities at any time at their principal amount plus interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the redemption date, upon the occurrence of a Tax Event or a Capital Disqualification Event.

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

If the Issuer redeems the Securities in any of the circumstances mentioned above, there is a risk that the Securities may be redeemed at times when the redemption proceeds are less than the current market value of the Securities or when prevailing interest rates may be relatively low, in which latter case Securityholders 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 Securities, and if so whether or not the Issuer will satisfy the conditions, or elect, to redeem the Securities. The Issuer may be more likely to exercise its option to redeem the Securities on or after the First Reset Date if the Issuer's funding costs would be lower than the prevailing interest rate payable in respect of the Securities. If the Securities are so redeemed, there can be no assurance that Securityholders 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 Securities.

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

The Securities will initially accrue interest at a fixed rate of interest to, but excluding, the First Reset Date. From, and including, the First Reset Date, however, and every Reset Date thereafter, the interest rate will be reset to the Reset Interest Rate (as described in Condition 6(d)). This reset rate could be less than the Initial Interest Rate and/or the Interest Rate that applies immediately prior to such Reset Date, which could affect the amount of any interest payments under the Securities and so the market value of an investment in the Securities.

The Issuer is a holding company.

The Securities are obligations of the Issuer only. The Issuer is a holding company and conducts substantially all of its operations through its subsidiaries, and accordingly the claims of the Securityholders under the Securities will be structurally subordinated to the creditors of the Issuer's subsidiaries. The Issuer plans to fund interest payments under the Securities using cash received from certain Group companies through intra-Group liquidity arrangements. The Issuer's subsidiaries are separate and distinct legal entities, and have no obligation to pay any amounts due under the Securities or to provide the Issuer with funds to meet any of the Issuer's payment obligations under the Securities. The Issuer's rights to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors and any preference shareholders, except in the limited circumstance where the Issuer is a creditor with claims that are recognised to be ranked ahead of or *pari passu* with such claims. Accordingly, if one of the Issuer's subsidiaries were to be wound up, liquidated or dissolved, (i) the Securityholders would have no right to proceed against the assets of such subsidiary, and (ii) the Issuer would only recover any amounts (directly, or indirectly through its holdings of other subsidiaries) in the liquidation of that subsidiary, other than its claims (if any) as a creditor as aforesaid, if and to the extent that any surplus assets remain following payment in full of the claims of the creditors and preference shareholders (if any) of that subsidiary.

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

At any time, the Trustee may (subject to the approval of the Supervisory Authority) agree to the substitution in place of the Issuer as the principal debtor under the Securities of (i) Newco, in the event of a Newco Scheme or (ii) the Issuer's Successor in business, in each case subject to the Trustee being satisfied that such substitution is not materially prejudicial to the interests of the Securityholders and to certain other conditions set out in the Trust Deed being complied with.

The Securities are novel and complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors.

The Securities are novel and complex financial instruments that involve a high degree of risk. As a result, an investment in the Securities and the Ordinary Shares issuable upon Conversion will involve certain increased risks. Each potential investor of the Securities must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this Information Memorandum;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where such potential investor's financial activities are principally denominated in a currency other than pounds sterling, and the possibility that the entire principal amount of the Securities could be lost, including following the exercise of any bail-in power by the UK resolution authorities;
- (iv) understand thoroughly (i) the terms of the Securities, such as the provisions governing Conversion (including, in particular, calculation of the Issuer Group's Common Equity Tier 1 Capital Ratio, as well as under what circumstances the Trigger Event will occur and the circumstances in which interest payments must be cancelled), (ii) the Ordinary Shares, (iii) the relationship between the Issuer and the different classes of Ordinary Shares in place as at the date of this Information Memorandum and (iv) the Shareholders' Agreement, and be familiar with the behaviour of any relevant indices and financial markets, including the possibility that the Securities may become subject to write down or conversion if the Issuer should become non-viable; and
- (v) be able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless they have the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the likelihood of cancellation of interest and/or Conversion into Ordinary Shares and the value of the Securities, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Information Memorandum.

Because the Securities 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 Securities 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 depositary for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Securities 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 Securities are in global form, the payment obligations of the Issuer under the Securities 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 depositary. 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 Securities. 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.

Meetings of Securityholders and modification.

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

In addition, the Trustee may agree (other than in respect of a Reserved Matter, as defined in the Trust Deed), without the consent of the Securityholders, 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 is not materially prejudicial to the interests of the Securityholders; or (ii) (irrespective of whether the same constitutes a Reserved Matter) 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 Securityholders.

Securityholders may be subject to disclosure obligations and/or may need approval by the Supervisory Authority.

As the Securities are mandatorily convertible into Ordinary Shares following the Trigger Event, an investment in the Securities may result in Securityholders, following such Conversion, having to comply with certain disclosure and/or approval requirements pursuant to laws and regulations applicable in the United Kingdom. For example, if a Trigger Event occurs following an IPO Event, pursuant to Chapter 5 of the Disclosure Rules and Transparency Rules Sourcebook of the FCA Handbook, the Issuer (and the FCA) must be notified by a person when the percentage of voting rights in the Issuer controlled by that person (together with its concert parties), by virtue of direct or indirect holdings of shares aggregated with direct or indirect holdings of certain financial instruments, reaches or crosses 3 per cent. and every percentage point thereafter.

Furthermore, as the Ordinary Shares are of a parent undertaking of Aldermore Bank PLC (being a regulated entity) under the laws of the United Kingdom, ownership of an interest in the Ordinary Shares to be delivered following Conversion above a certain level may require the Securityholder to obtain regulatory approval or subject the Securityholder to additional regulation.

Non-compliance with such disclosure and/or approval requirements may lead to the incurrence by Securityholders of substantial fines and/or suspension of voting rights associated with the Ordinary Shares. Each potential investor should consult its legal advisers as to the terms of the Securities and the level of holding it would have if it receives Ordinary Shares following the Trigger Event.

Change of law.

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

Legality of purchase.

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Securities by a prospective investor in the Securities, 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. The Manager is also required to comply with the TMR Rules and as a result of this compliance, prospective investors will be required to give the representations, warranties, agreements and undertakings as set out on pages 3 to 4 of this Information Memorandum.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to

determine whether and to what extent (i) Securities are legal investments for it, (ii) Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

Taxation.

Potential purchasers and sellers of the Securities should be aware that they may be required to pay taxes or documentary charges or duties in accordance with the laws and practices of the country where the Securities are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available in relation to the tax treatment of financial instruments such as the Securities. Potential investors are advised not to rely upon the tax summary contained in this Information Memorandum but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Securities. This investment consideration has to be read in connection with the taxation sections of this Information Memorandum.

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 for the benefit of an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria and Luxembourg 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. Luxembourg will elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

The Council of the European Union has adopted a Directive (the "**Amending Directive**") which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (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 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.

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 26-27 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 Security as a result of the imposition of such withholding tax. Furthermore, once the Amending 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 Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive 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 Securities 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 should consult their professional advisers.

Foreign Account Tax Compliance Act Withholding.

Certain provisions of U.S. law, commonly known as “**FATCA**” impose a new 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 new 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 Securities 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, 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. The Issuer’s obligations under the Securities are discharged once it has made payment to, or to the order of, the common depository for the ICSDs (as registered holder of the Securities), and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Prospective investors should refer to the section “*Taxation - Foreign Account Tax Compliance Act*”.

A Securityholder’s actual yield on the Securities may be reduced from the stated yield by transaction costs.

When Securities 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 Securities. 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, Securityholders 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 securities (direct costs), Securityholders 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 Securities before investing in the Securities.

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 Securities represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Securities 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 Securities.

If a market for the Securities does develop, the trading price of the Securities 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 Securities. Publicly traded securities 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 Securities does develop, it may become severely restricted, or may disappear, if the financial condition and/or the Common Equity Tier 1 Capital Ratio of the Issuer Group deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable, or electing to direct the Issuer not, to pay interest on the Securities in full, or of the Securities being Converted or otherwise subject to loss absorption under the Conditions or an applicable statutory loss absorption regime. In addition, the market price of the Securities may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control, including:

- variations in operating results in the Group's reporting periods;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Group's strategy is or may be less effective than previously assumed or that the Group is not effectively implementing any significant projects;
- changes in financial estimates by securities analysts;
- changes in market valuations of similar entities;
- announcements by the Group of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, including changes in regulatory regulations, PRA or FCA requirements;
- additions or departures of key personnel; and
- future issues or sales of Securities or other securities.

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

The issue price of the Securities 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 Securities 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 regulatory approval and compliance with prevailing prudential requirements) purchase Securities at any time, they have no obligation to do so. Purchases made by the Issuer or any member of the Group could affect the liquidity

of the secondary market of the Securities and thus the price and the conditions under which investors can negotiate these Securities on the secondary market.

In addition, Securityholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Information Memorandum), whereby there is a general lack of liquidity in the secondary market which may result in investors suffering losses on the Securities in secondary resales even if there is no decline in the performance of the Securities 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 Securities and instruments similar to the Securities at that time.

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

Exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Securities 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 Securities, (ii) the Investor's Currency-equivalent value of the principal payable on the Securities and (iii) the Investor's Currency-equivalent market value of the Securities.

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

TERMS AND CONDITIONS OF THE SECURITIES

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

The £75,000,000 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the “**Securities**”, which expression shall in these Conditions, unless the context otherwise requires, include any further Securities issued pursuant to Condition 18 which are consolidated and form a single series with the Securities) of Aldermore Group PLC (the “**Issuer**”) are constituted by a trust deed dated 9 December 2014 (as amended and/or restated and/or supplemented from time to time, the “**Trust Deed**”) made between the Issuer and Deutsche Trustee Company Limited (the “**Trustee**”, which expression shall include all persons from time to time being trustee or trustees appointed under the Trust Deed) as trustee for the Securityholders.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the agency agreement dated 9 December 2014 (as amended and/or restated and/or supplemented from time to time, the “**Agency Agreement**”) made between the Issuer, the Registrar and other Agents and the Trustee are available for inspection during normal business hours by prior arrangement by the Securityholders at the registered office for the time being of the Trustee, being at the date of issue of the Securities at 1 Great Winchester Street, London EC2N 2DB, United Kingdom. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

1 Form, Denomination and Title

The Securities are issued in registered form in specified denominations of £200,000 and integral multiples of £1,000 in excess thereof.

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

Title to the Securities shall pass by registration in the register of the Securityholders 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 Security 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 any interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the Holder.

2 Transfer of Securities

(a) *Transfer of Securities*

One or more Securities may, subject to Condition 2(d), be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Securities to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. A new Certificate shall be issued to the transferee in respect of the Securities the subject of the relevant transfer and, in the case of a transfer of part only of a holding of Securities represented by one

Certificate, a new Certificate in respect of the balance of the Securities not transferred shall be issued to the transferor. In the case of a transfer of Securities to a person who is already a Holder of Securities, a new Certificate representing the enlarged holding may be issued but only against surrender of the Certificate representing the existing holding of such person. All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning transfers of Securities 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 Securityholder upon request.

(b) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within five business days of receipt of the form of transfer and surrender of the relevant Certificate. Delivery of 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 and surrender of such form of transfer and Certificate or, as the case may be, surrender of such Certificate, shall have been made or, at the option of the relevant Holder 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 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 Register (as the case may be).

(c) *Transfers Free of Charge*

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

(d) *Closed Periods*

No Securityholder may require the transfer of a Security to be registered (i) during the period of 15 days ending on the due date for redemption of the Securities pursuant to Condition 8, (ii) at any time after the second London business day following the giving of a Trigger Event Notice by the Issuer or (iii) during the period of seven days ending on (and including) any Record Date.

3 STATUS

The Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu*, without any preference among themselves.

4 SUBORDINATION

(a) *Solvency Condition*

Except in a Winding-Up of the Issuer, all payments in respect of or arising from (including any damages awarded for breach of any obligation under) the Securities are, in addition to the right or obligation of the Issuer to cancel payments under Condition 6(a) and Condition 9(a)(i), conditional upon the Issuer being solvent at the time of payment by the Issuer and no payments shall be due and payable in respect of or arising from the Securities except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the “**Solvency Condition**”).

In these Conditions, the Issuer shall be considered to be solvent at a particular time if (x) the Issuer is able to pay its debts to its Senior Creditors as they fall due and (y) the Issuer's Assets exceed its Liabilities.

A certificate as to the solvency of the Issuer signed by two Authorised Signatories shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee and the Securityholders as correct and sufficient evidence thereof.

Any payment of interest not due by reason of this Condition 4(a) shall be cancelled as provided in Condition 6(a).

As used herein:

"Assets" means the unconsolidated gross assets of the Issuer, as shown in its latest published audited balance sheet, but adjusted for subsequent events in such manner as the Directors of the Issuer may determine.

"Liabilities" means the unconsolidated gross liabilities of the Issuer, as shown in its latest published audited balance sheet, but adjusted for contingent and prospective liabilities and for subsequent events in such manner as the Directors of the Issuer may determine.

(b) *No set-off*

Subject to applicable law, no Securityholder may exercise or 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 Securities and each Securityholder will, by virtue of their holding of any Security, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Securityholder by the Issuer in respect of, or arising under or in connection with the Securities is discharged by set-off, such Securityholder 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, 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) and accordingly any such discharge shall be deemed not to have taken place.

As stated in further detail in Condition 17(e), the provisions of this Condition 4 apply only to the principal and interest and any other amounts payable in respect of the Securities and nothing in this Condition 4 or in Condition 5, 7 or 12 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

5 WINDING-UP

(a) *Winding-Up prior to a Trigger Event*

If a Winding-Up occurs prior to the occurrence of a Trigger Event, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment by the Issuer, but subject as provided in this Condition 5(a)), such amount, if any, as would have been payable to the Securityholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Securityholder were the holder of one of a class of preference shares in the capital of the Issuer (**"Notional Preference Shares"**) ranking *pari passu* as to a return of assets on a Winding-Up with Parity Obligations and that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the Winding-Up over, and so rank ahead of, all other classes of issued shares for the time being in the

capital of the Issuer, but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Securityholder was entitled to receive in respect of each Notional Preference Share on a return of assets in such Winding-Up was an amount equal to the principal amount of the relevant Security and any accrued but unpaid interest thereon (to the extent not cancelled in accordance with these Conditions) and any damages awarded for breach of any obligations.

(b) *Winding-Up on or after the occurrence of a Trigger Event*

If a Winding-Up occurs concurrently with or after the occurrence of a Trigger Event, and where Conversion has not yet been effected, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment or any issue or delivery of Ordinary Shares by the Issuer), such amount, if any, as would have been payable to the Securityholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Securityholder were the holder of such number of Ordinary Shares as that Securityholder would have been entitled to receive upon Conversion in accordance with Condition 9.

6 INTEREST

(a) *Cancellation of interest*

Mandatory cancellation of interest- insufficient Distributable Items

To the extent required to do so under then prevailing Regulatory Capital Requirements, the Issuer will cancel any Interest Amount otherwise scheduled to be paid on an Interest Payment Date to the extent that such Interest Amount, when aggregated together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current financial year on all other own funds items of the Issuer (excluding any such interest payments or distributions paid or made on Tier 2 Capital items or which have already been provided for, by way of deduction, in calculating the amount of Distributable Items), exceeds the amount of the Distributable Items of the Issuer as at such Interest Payment Date.

As used herein: “**Distributable Items**” means, subject as otherwise defined in the Regulatory Capital Requirements, in relation to interest otherwise scheduled to be paid on an Interest Payment Date, the amount of the profits of the Issuer as at the end of the financial year immediately preceding such Interest Payment Date plus:

- (i) any profits brought forward and reserves available for that purpose before distributions to holders of other own funds items of the Issuer; less
- (ii) any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the Issuer’s articles of association and sums placed to non-distributable reserves in accordance with the Companies Act 2006 or the articles of association of the Issuer,

those profits, losses and reserves being determined on the basis of the individual accounts of the Issuer and not on the basis of its consolidated accounts.

Mandatory cancellation of interest – Maximum Distributable Amount

In addition, the Issuer will also be required to cancel any Interest Amount otherwise scheduled to be paid on an Interest Payment Date if and to the extent that payment of such Interest Amount would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Issuer Group to be exceeded.

“Maximum Distributable Amount” means any applicable maximum distributable amount relating to the Issuer Group required to be calculated in accordance with Article 141 of the CRD IV Directive (or, as the case may be, any provision of applicable law transposing or implementing the CRD IV Directive, as amended or replaced).

The Issuer shall be responsible for determining compliance with the restrictions above and neither the Trustee nor any Agent shall be required to monitor such compliance or to perform any calculations in connection therewith.

Discretionary cancellation of interest

In addition to and subject to the mandatory non-payment of interest pursuant to Condition 4(a), the foregoing provisions of this Condition 6(a) and Condition 9(a)(i), the Issuer may elect at its full discretion, subject to Conditions 4(a), 6(a), and 9(a)(i) to cancel (in whole or in part) the Interest Amount otherwise scheduled to be paid on an Interest Payment Date.

Non-payment of interest sufficient evidence of cancellation

If the Issuer does not pay an Interest Amount or part thereof on the relevant Interest Payment Date, such non-payment shall evidence either the non-payment and cancellation of such Interest Amount (or relevant part thereof) by reason of it not being due in accordance with Condition 4(a), the cancellation of such Interest Amount (or relevant part thereof) in accordance with this Condition 6(a) or with 9(a)(i) or, as appropriate, the Issuer's exercise of its discretion to cancel such Interest Payment (or relevant part thereof) in accordance with this Condition 6(a), and accordingly such interest shall not in any such case be due and payable.

Notice of cancellation of interest

Notice of any cancellation of payment of a scheduled Interest Amount shall be given to Securityholders (in accordance with Condition 14), the Trustee, the Agents and (if and for so long as the Securities are listed on the Global Exchange Market of the Irish Stock Exchange) on the Daily Official List of the Irish Stock Exchange (so long as its rules require) as soon as possible prior to the relevant Interest Payment Date (provided that any failure to give such notice shall not affect the cancellation of any Interest Amount in whole or in part by the Issuer and shall not constitute a default for any purpose).

Interest non-cumulative

The cancellation of any Interest Amount (or any part thereof) in accordance with Condition 4(a), this Condition 6(a) or Condition 9(a)(i) shall not constitute a default for any purpose on the part of the Issuer. For the avoidance of doubt, interest payments are non-cumulative and the Securityholders shall have no right to any cancelled Interest Amount, whether under the Securities or the Trust Deed, on a Winding-Up or otherwise.

(b) Interest Rate and Interest Payment Dates

The Securities bear interest on their outstanding principal amount:

- (i) from and including the Issue Date to but excluding 30 April 2020 (the **“First Reset Date”**), at the rate of 11.875 per cent. per annum (the **“Initial Interest Rate”**); and
- (ii) thereafter, at the relevant Reset Interest Rate,

in each case, payable, subject to Conditions 4(a), 6(a) and 9(a)(i), annually in arrear on 30 April of each year, commencing on 30 April 2015 (each an **“Interest Payment Date”**) provided that the interest payable (subject as aforesaid) on the first Interest Payment Date shall be in respect of the period from (and including) the Issue Date to (but excluding) 30 April 2015. 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 is called an **“Interest Period”**.

(c) *Calculation of interest*

When interest is required to be calculated in respect of any period, the relevant day-count fraction (the **“Day-Count Fraction”**) shall be calculated on the basis of (i) the actual number of days in the period from and including the date from which interest begins to accrue (the **“Accrual Date”**) to but excluding the date on which it falls due divided by (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

Interest in respect of any Security shall be calculated per Calculation Amount. The amount of interest payable (subject to Conditions 4(a), 6(a) and 9(a)(i)) in respect of a Security for a relevant period shall be calculated by (i) determining the product of the Calculation Amount, the relevant Interest Rate and the Day-Count Fraction for the relevant period, (ii) rounding the resultant figure to the nearest penny (half a penny being rounded upwards) and (iii) multiplying that rounded figure by a fraction the numerator of which is the principal amount of such Security and the denominator of which is the Calculation Amount.

Subject to Conditions 4(a), 6(a) and 9(a)(i), the Interest Amount payable on the first Interest Payment Date will (if paid in full) amount to £46.20 per Calculation Amount and thereafter the annual Interest Amount payable for each Interest Period commencing prior to the First Reset Date will (if paid in full) amount to £118.75 per Calculation Amount.

(d) *Reset Interest Rate*

- (i) The **“Reset Interest Rate”** in respect of any Reset Period will be the sum of the 5-year Mid-Swap Rate in relation to that Reset Period and the Margin, converted from a semi-annual to an annual basis in a commercially reasonable manner, all as determined by the Agent Bank at approximately 11.00 a.m. (London time) on the Reset Determination Date (rounded to three decimal places with 0.0005 rounded down).
- (ii) In these Conditions (except where otherwise defined), the expression:
- (iii) **“5-year Mid-Swap Rate”** means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period:
 - (A) the semi-annual mid-swap rate with a term of five years which appears on the Screen Page as at 11:00 a.m. (London time) on such Reset Determination Date; or
 - (B) if such rate does not appear on the Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate on such Reset Determination Date;
- (iv) **“5-year Mid-Swap Rate Quotations”** means the arithmetic mean of the bid and ask rates for the semi-annual fixed leg (calculated on an Actual/365 (Fixed) day count basis) of a fixed-for-floating Sterling interest rate swap which:
 - (A) has a term of five years commencing on the relevant Reset Date;
 - (B) 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 swap market; and
 - (C) has a floating leg based on 6-month LIBOR rate (calculated on an Actual/365 (Fixed) day count basis);

- (v) **“Business Day”** means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;
- (vi) **“Margin”** means 9.98 per cent. per annum;
- (vii) **“Reset Determination Date”** means, in relation to a Reset Period, the day falling two Business Days prior to the Reset Date on which such Reset Period commences;
- (viii) **“Reset Reference Bank Rate”** means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Agent Bank at approximately 12:00 p.m. (London time) on such Reset Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the relevant Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, an amount equal to the Initial Interest Rate less the Margin;
- (ix) **“Reset Reference Banks”** means six leading swap dealers in the interbank market selected by the Agent Bank (excluding the Agent Bank or any of its affiliates) in its discretion after consultation with the Issuer; and
- (x) **“Screen Page”** means Bloomberg page “ICAB 1 <GO>” or such other page as may replace it on Bloomberg or, as the case may be, on such other information service that may replace Bloomberg, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate.

(e) *Publication of Reset Interest Rate*

The Issuer shall cause the Agent Bank to give notice of the relevant Reset Interest Rate to the Issuer, the Agents, the Trustee and to any stock exchange or other relevant authority on which the Securities are at the relevant time listed (by no later than the relevant Reset Determination Date) and to be notified to Securityholders in accordance with Condition 14 as soon as possible after their determination, but in no event later than the fourth London business day thereafter. The Reset Interest Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of manifest error.

(f) *Determination by the Trustee*

The Trustee (or an agent appointed by the Trustee at the expense of the Issuer) shall be entitled but shall not be obliged, if the Agent Bank defaults at any time in its obligation to determine the Reset Interest Rate in accordance with the above provisions, to determine the Reset Interest Rate, at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the determination shall be deemed to be a determination by the Agent Bank.

(g) *Notifications, etc. to be final*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6, whether by the Reset Reference Banks (or any of them) or the Agent Bank or the Trustee or any agent appointed by the Trustee, will (in the absence of manifest error) be binding on the Issuer, the Trustee, the Agent Bank and all Securityholders and (in the absence of wilful default and bad faith) no liability to the Issuer or the Securityholders shall attach to the Reset Reference Banks (or any of them), the Agent Bank or, if applicable, the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

(h) *Agent Bank*

The Issuer shall procure that, from the First Reset Date and for so long as any of the Securities remains outstanding, there is at all times an Agent Bank for the purposes of the Securities and the Issuer may, subject to the prior written approval of the Trustee, terminate the appointment of the Agent Bank and replace it with another Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Reset Interest Rate for any Reset Period, the Issuer shall, subject to the prior written approval of the Trustee, appoint another Agent Bank. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

(i) *Interest accrual*

Without prejudice to Conditions 4(a), 6 and 9, each Security will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue as provided in the Trust Deed.

7 PAYMENTS

(a) *Payments in respect of Securities*

Payments of principal and interest in respect of each Security will be by transfer to the registered account of the Securityholder. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender (in the case of payments of principal) or presentation (in respect of payments of interest) of the relevant Certificate at the specified office of any Agent. Interest on Securities due on an Interest Payment Date will be paid to the holder shown on the register of Securityholders at the close of business on the date (the “**Record Date**”) being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition 7(a), a Securityholder’s “**registered account**” means the sterling account maintained by or on behalf of it with a bank that processes payments in sterling, details of which appear on the register of Securityholders at the close of business, in the case of principal, on the second Business Day before the due date for payment and, in the case of interest, on the relevant Record Date, and a Securityholder’s registered address means its address appearing on the register of Securityholders at that time.

(b) *Payments subject to applicable laws*

Payments in respect of principal and interest on the Securities are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any

regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 10) any law implementing an intergovernmental approach thereto and the Issuer will not be liable to Holders for any taxes or duties of whatever nature imposed or levied by such laws, agreements or regulations.

(c) *No commissions*

No commissions or expenses shall be charged to the Securityholders in respect of any payments made in accordance with this Condition 7.

(d) *Payment on Business Days*

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated.

Securityholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Securityholder is late in surrendering or presenting its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

(e) *Agents*

The names of the initial Agents and their initial specified offices are set out in the Agency Agreement. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (i) there will at all times be a Principal Paying Agent and Conversion Agent;
- (ii) there will at all times be a Paying Agent having a specified office in a European city;
- (iii) the Issuer undertakes that it will ensure that it maintains an Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (iv) there will at all times be a Transfer Agent; and
- (v) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices will be given to the Securityholders promptly by the Issuer in accordance with Condition 14.

8 REDEMPTION AND PURCHASE

(a) *No fixed redemption date*

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem or purchase them in accordance with the following provisions of this Condition 8.

(b) *Redemption at the option of the Issuer*

The Issuer may, in its sole discretion but subject to Condition 8(f), having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14, the Trustee and the Agents (which notice shall, subject to Condition 8(f), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities on the First Reset Date

or on any Interest Payment Date thereafter at their principal amount together with any Accrued Interest.

(c) Redemption for regulatory reasons

If at any time a Capital Disqualification Event has occurred and is continuing, the Issuer may, in its sole discretion but subject to Condition 8(f), having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14, the Trustee and the Agents (which notice shall, subject to Condition 8(f), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities at their principal amount together with any Accrued Interest.

A "**Capital Disqualification Event**" shall occur if there is a change in the regulatory classification of the Securities which becomes effective on or after the Issue Date that results, or would be likely to result, in the entire principal amount of the Securities being fully excluded from the Issuer Group's Tier 1 Capital under the Regulatory Capital Requirements, subject, in the case of a redemption occurring prior to the First Reset Date, to the Issuer demonstrating to the satisfaction of the Supervisory Authority that such exclusion was not reasonably foreseeable as at the Issue Date.

Prior to the publication of any notice of redemption pursuant to this Condition 8(c), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions precedent for redeeming the Securities pursuant to this Condition 8(c) have been met and the Trustee shall accept the certificate without further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

(d) Redemption for tax reasons

If at any time a Tax Event has occurred and is continuing, the Issuer may, in its sole discretion but subject to Condition 8(f), having given not less than 30 nor more than 60 days' notice to Securityholders in accordance with Condition 14, the Trustee and the Agents (which notice shall, subject to Condition 8(f), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities at their principal amount together with any Accrued Interest.

A "**Tax Event**" shall occur if, as a result of any change in the laws, regulations or government policies of the United Kingdom or any political subdivision or authority thereof or therein, or any change in the interpretation by any competent court or tribunal or in the official application or generally published interpretation of any such laws, regulations or government policies having effect after the Issue Date (a "**Tax Law Change**") and in the case of a redemption occurring prior to the First Reset Date, the Issuer demonstrates to the satisfaction of the Supervisory Authority that such Tax Law Change is material and was not reasonably foreseeable as at the Issue Date:

- (i) the Issuer has paid, or will or would on the next Interest Payment Date be required to pay, Additional Amounts in respect of the Securities;
- (ii) the Issuer is or would not be entitled to claim a deduction in computing its taxable profits and losses in respect of interest payable on the Securities, or such a deduction is or would be reduced or deferred;
- (iii) the Issuer is not or would not be able to treat the Securities as loan relationships for the purposes of Part 5 of the Corporation Tax Act 2009;
- (iv) the Issuer treats or would be required to treat any part of the Securities as an embedded derivative for tax purposes, or the Issuer otherwise is or would be required to take changes

in or re-estimates of the value of the Securities or any part of the Securities, or of the present value of the cashflows arising in respect of the Securities or any part of the Securities, into account in computing its taxable profits and losses;

- (v) the Issuer would be required to bring into account any amount of income, profit or gain or other tax credit or taxable item for tax purposes, or any other liability to tax would arise, in respect of the write-down of the Securities, the conversion of the Securities into Ordinary Shares or both; or
- (vi) the Securities are not or would not be treated as 'normal commercial loans' for the purposes of Chapter 6 of Part 5 of the Corporation Tax Act 2010, or the Securities otherwise are or would be required to be taken into account for the purposes of determining any group for tax purposes, such that there is or would be a change in the membership of any group for tax purposes.

Prior to the publication of any notice of redemption pursuant to this Condition 8(d), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions precedent for redeeming the Securities pursuant to this Condition 8(d) have been met and the Trustee shall accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

(e) *Purchases*

The Issuer or any of its Subsidiaries may, at its option but subject to the Solvency Condition and Regulatory Approval, purchase or otherwise acquire any of the outstanding Securities at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements. All Securities purchased by or on behalf of the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, cancelled.

(f) *Conditions to redemption*

Any redemption under Conditions 8(b), 8(c) or 8(d) is subject to obtaining Regulatory Approval and compliance with the Regulatory Preconditions. In addition, if the Issuer has elected to redeem the Securities and:

- (i) the Solvency Condition is not satisfied in respect of the relevant payment on the date scheduled for redemption; or
- (ii) prior to the redemption a Trigger Event occurs,

the relevant redemption notice shall be automatically rescinded and shall be of no force and effect and the Issuer shall give notice thereof to the Securityholders (in accordance with Condition 14), the Trustee and the Agents as soon as practicable.

(g) *Cancellation*

All Securities which are redeemed by the Issuer pursuant to this Condition 8 will be cancelled.

(h) *Notices final*

Upon the expiry of any notice as is referred to in Condition 8(b), 8(c) or 8(d), the Issuer shall be bound (subject in all circumstances only to Condition 8(f)) to redeem the Securities to which the notice refers in accordance with the terms of such paragraph.

(i) *Trustee not obliged to monitor*

The Trustee shall not be under any duty to investigate whether any condition precedent to redemption under this Condition 8 has occurred and (i) shall not be responsible to Securityholders for any loss arising from any failure by it to do so and (ii) shall be entitled to assume, unless it has actual knowledge to the contrary, that no such condition precedent to redemption has occurred and that all Regulatory Approvals and/or Regulatory Preconditions have been satisfied. The Trustee shall rely without further investigation and without liability as aforesaid on any certificate delivered to it in connection with this Condition 8.

9 CONVERSION

(a) *Conversion on a Trigger Event*

If a Trigger Event occurs at any time, the Issuer shall immediately notify the Supervisory Authority of the occurrence of the Trigger Event and, without delay and by no later than one month (or such shorter period as the Supervisory Authority may then require) from the occurrence of the relevant Trigger Event, the Issuer shall:

- (i) cancel any interest which is accrued and unpaid up to (and including) the Conversion Date (whether or not such interest has become due for payment);
- (ii) issue, by way of conversion of the Securities (as more fully described in Condition 9(b)), on the Conversion Date to the Settlement Shares Depository to be held for the Securityholders such number of Ordinary Shares as is equal to the aggregate principal amount of the Securities divided by the Conversion Price rounded down to the nearest whole number of Ordinary Shares, and each Security shall, subject to and as provided in this Condition 9, thereby be irrevocably discharged and satisfied.

As used herein:

“Conversion” means the conversion of the Securities into Ordinary Shares pursuant to this Condition 9 and **“convert”** and **“converted”** shall be construed accordingly;

“Conversion Price” means:

- (1) prior to an IPO Event, the prevailing Pre-IPO Conversion Price; and
- (2) on and from an IPO Event, the prevailing Post-IPO Conversion Price.

“Initial Post-IPO Conversion Price” means, as at the time of the IPO Event (i) the Pre-IPO Conversion Price prevailing at such time (including, for the avoidance of doubt, any adjustment applicable by reason of Condition 9(d)(vi)) or, if higher (ii) 66 per cent. of the final price per share at which the relevant Ordinary Shares are offered in connection with the IPO Event;

“Initial Pre-IPO Conversion Price” means £1.80;

“Post-IPO Conversion Price” means, at any time, the Initial Post-IPO Conversion Price as most recently adjusted (if at all) pursuant to Condition 9(d); and

“Pre-IPO Conversion Price” means, at any time, the Initial Pre-IPO Conversion Price as most recently adjusted (if at all) pursuant to Condition 9(d).

The Issuer shall, as soon as reasonably practicable following its determination that a Trigger Event has occurred, and in any event not more than 5 days following such determination (provided that later notice shall not constitute a default under the Securities for any purpose or affect the Conversion of the Securities on the Conversion Date), give notice (which notice shall be irrevocable) to the Securityholders in accordance with Condition 14, the Trustee and the Agents

(the “**Trigger Event Notice**”) stating: (i) that the Trigger Event has occurred; (ii) the Conversion Date and details of the Settlement Shares Depositary; (iii) the prevailing Conversion Price (which Conversion Price shall remain subject to any subsequent adjustment pursuant to Condition 9(d) up to the Conversion Date); and (iv) the procedures Securityholders will need to follow to receive Ordinary Shares from the Settlement Shares Depositary pursuant to Condition 9(c).

Fractions of Ordinary Shares will not be delivered in connection with any Conversion and no cash payment or other adjustment will be made in lieu thereof, whether on a Winding-Up or otherwise.

The Issuer will maintain all corporate authorities necessary to issue and allot a sufficient number of Ordinary Shares, free from pre-emption rights and all other encumbrances, pursuant to this Condition 9(a).

The Securities are not convertible into Ordinary Shares at the option of the Securityholders at any time.

(b) Consequences of a Conversion

- (i) If the Trigger Event occurs, the Securities will be converted in whole and not in part on the Conversion Date as provided in this Condition 9, at which point all of the Issuer’s obligations under the Securities shall be irrevocably discharged and satisfied by the Issuer’s issuance and delivery of the relevant Ordinary Shares to the Settlement Shares Depositary on the Conversion Date.

In the circumstances where these Conditions contemplate the appointment of a Settlement Shares Depositary, the Issuer shall use all reasonable endeavours promptly to appoint such Settlement Shares Depositary. If, however, the Issuer has been unable to appoint a Settlement Shares Depositary, it shall make such other arrangements for the issuance and delivery of the Ordinary Shares to be issued and delivered upon Conversion to the Securityholders as it shall consider reasonable in the circumstances, which may include issuing and delivering the Ordinary Shares to another independent nominee to be held for the Securityholders or to the Securityholders directly, which issuance and delivery shall irrevocably discharge and satisfy all of the Issuer’s obligations under the Securities as if the relevant Ordinary Shares had been issued and delivered to the Settlement Shares Depositary and, in which case, where the context so admits, references in these Conditions to the issue and delivery of Ordinary Shares to the Settlement Shares Depositary shall be construed accordingly and apply *mutatis mutandis*.

- (ii) Provided that the Issuer issues and delivers the relevant Ordinary Shares to the Settlement Shares Depositary in accordance with these Conditions, with effect from the Conversion Date no Securityholder will have any rights against the Issuer with respect to the repayment of the principal amount of the Securities or the payment of interest or any other amount on or in respect of such Securities and the principal amount of the Securities shall be reduced to, and at all times thereafter equal, zero until the Securities are cancelled as provided herein.
- (iii) Prior to giving the Trigger Event Notice, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Trigger Event has occurred and the Trustee shall accept such certificate without any further enquiry as sufficient evidence of such matters, in which event such certificate will be conclusive and binding on the Trustee and the Securityholders.
- (iv) The Ordinary Shares to be issued and delivered on Conversion shall (except where the Issuer has been unable to appoint a Settlement Shares Depositary as contemplated in Condition 9(b)(i)) initially be registered in the name of the Settlement Shares Depositary,

which shall hold such Ordinary Shares for the Securityholders. By virtue of its holding of any Security, each Securityholder shall be deemed to have irrevocably directed the Issuer to issue and deliver such Ordinary Shares to the Settlement Shares Depositary.

Provided that the Issuer so issues and delivers the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depositary as aforesaid, with effect on and from the Conversion Date, Holders of the Securities shall have recourse only to the Settlement Shares Depositary for the delivery to them of such Ordinary Shares to which they are entitled. Subject to Condition 9(b)(i), if the Issuer fails to issue and deliver the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depositary on the Conversion Date, a Holder's only right under the Securities against the Issuer for any such failure will be to claim to have such Ordinary Shares so issued and delivered.

Following the issuance and delivery of the Ordinary Shares to be delivered on Conversion to the Settlement Shares Depositary on the Conversion Date as aforesaid, the Securities shall remain in existence until the applicable Settlement Date (or, if earlier, the Long-Stop Date) for the purpose only of evidencing the Securityholders' right as aforesaid to receive such Ordinary Shares to be delivered by the Settlement Shares Depositary.

- (v) Subject to and as provided in Condition 9(b)(iv), the Settlement Shares Depositary shall hold the Ordinary Shares to be issued and delivered on Conversion for the Securityholders. Such holders shall, for so long as such Ordinary Shares are held by the Settlement Shares Depositary, be entitled to receive any ordinary dividends paid on such Ordinary Shares but shall not otherwise be entitled to direct the Settlement Shares Depositary to exercise on their behalf any rights of an ordinary shareholder (including voting rights) unless and until such time as the relevant Ordinary Shares have been delivered to Holders in accordance with Condition 9(h).

(c) *Conversion Settlement*

- (i) Upon Conversion, the Issuer shall redeem the Securities at a price equal to their principal amount and the Securityholders shall be deemed irrevocably to have directed and authorised the Issuer to apply such sum on their behalf in paying up the relevant Ordinary Shares to be issued and delivered to the Settlement Shares Depositary on Conversion of their Securities.
- (ii) In order to obtain delivery from the Settlement Shares Depositary of Ordinary Shares following a Conversion, Securityholders will be required to deliver to the Settlement Shares Depositary (or an agent designated for the purpose in the Trigger Event Notice) (1) a Conversion Notice and the relevant Certificate representing the relevant Security in accordance with Condition 9(h) and (2) if at the relevant Settlement Date there exists a Shareholders' Agreement, a Deed of Adherence duly completed and executed by the relevant Holder claiming such Ordinary Shares.

Subject as otherwise provided herein, the relevant Ordinary Shares will be delivered by or on behalf of the Settlement Shares Depositary in accordance with the instructions given in the relevant Conversion Notice.

- (iii) If not previously cancelled on the relevant Settlement Date, the relevant Securities shall be cancelled on the Long-Stop Date and any Holder seeking to obtain Ordinary Shares thereafter shall be required to provide such evidence as to entitlement to such Ordinary Shares as the Settlement Shares Depositary may reasonably require in its sole discretion.

- (iv) Any determination as to whether any Conversion Notice or Deed of Adherence has been properly completed and delivered together with the relevant Certificate(s) as provided in these Conditions shall be made by the Settlement Shares Depositary in its sole discretion and shall be conclusive and binding on the relevant Securityholder(s).

(d) Adjustments to the Conversion Price

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, subdivision, reclassification or redesignation in relation to the Ordinary Share which alters the number of Ordinary Shares in issue (other than in the circumstances set out in Condition 9(d)(vi) below) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately prior to such consolidation, subdivision, reclassification or redesignation, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, subdivision, reclassification or redesignation, as the case may be.

Such adjustment shall become effective on the date such consolidation, subdivision, reclassification or redesignation takes effect.

- (ii) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid up to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than where:

(A) any such Ordinary Shares are issued instead of the whole or part of a Cash Distribution which the Shareholders would or could otherwise have received; or

(B) the Shareholders may elect to receive a Cash Distribution in lieu of such Ordinary Shares; or

(C) any such Ordinary Shares are or are expressed to be issued in lieu of a dividend (whether or not a Cash Distribution equivalent or amount is announced or would otherwise be payable to the Shareholders, whether at their election or otherwise),

the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately prior to such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date on which any such newly issued Ordinary Shares are issued.

- (iii) If and whenever the Issuer shall pay any Extraordinary Distribution to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Extraordinary Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A means the Current Price of one Ordinary Share on the Specified Date (as defined below); and

B means the portion of the aggregate Extraordinary Distribution attributable to one Ordinary Share, with such portion being determined by dividing the aggregate Extraordinary Distribution by the number of Ordinary Shares entitled to receive the Extraordinary Distribution.

Such adjustment shall become effective on:

- (A) if the Ordinary Shares are then listed, on the first date on which the Ordinary Shares are traded ex- the Extraordinary Distribution on the primary stock exchange on which the Ordinary Shares are listed; or
- (B) otherwise, on the date on which the Extraordinary Distribution is paid,
- (the relevant such date, the “**Specified Date**”).

- (iv) If and whenever the Issuer shall issue Relevant Ordinary Shares of any Class (for the purposes of this Condition 9(d)(iv) the Relevant Ordinary Shares of such Class being referred to as the “**Specified Relevant Ordinary Shares**”) to any holders of any Relevant Ordinary Shares as a class by way of rights, or the Issuer or (at the direction or request of, or pursuant to any arrangements with, the Issuer) any other company, person or entity shall issue or grant such holders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any such Specified Relevant Ordinary Shares, or any securities (including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any such Specified Relevant Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Specified Relevant Ordinary Share which is less than 95 per cent. of the Current Price per Specified Relevant Ordinary Share of that class on:

- (A) if the Specified Relevant Ordinary Shares are then listed, the first date on which the Specified Relevant Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the primary stock exchange on which the Specified Relevant Ordinary Shares are listed; or
- (B) otherwise, the day following the expiry of the relevant options, warrants or rights,
- (the relevant such date, the “**Ex- Date**”),

then, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Ex-Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the total number of Relevant Ordinary Shares other than Class C Ordinary Shares, in issue on the Ex-Date;

B is the number of Specified Relevant Ordinary Shares which the aggregate consideration (if any) receivable for the Specified Relevant Ordinary Shares issued by way of rights, or for the securities (including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer) issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of Specified Relevant Ordinary Shares deliverable on the exercise thereof in each case as determined by the Issuer in good faith, would purchase at such Current Price per Specified Relevant Ordinary Share on the Ex-Date; and

C is the number of Specified Relevant Ordinary Shares to be issued or, as the case may be, the maximum number of Specified Relevant Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if the Specified Relevant Ordinary Shares are then listed and if at the Ex-Date such number of Specified Relevant Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 9(d)(iv), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Ex- Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Ex- Date.

Such adjustment shall become effective on the Ex- Date.

- (v) Prior to an IPO Event, if and whenever the Issuer shall issue for cash or other or no consideration Relevant Ordinary Shares of any Class (for the purposes of this Condition 9(d)(v) the Relevant Ordinary Shares of such Class being referred to as the "**Specified Relevant Ordinary Shares**") to any Existing Relevant Ordinary Shareholder(s) (otherwise than as mentioned in Condition 9(d)(ii) or (iv) and subject to the proviso below) at a price per Specified Relevant Ordinary Share which is less than 95 per cent. of the Current Price per Specified Relevant Ordinary Share on the date of issue of such Specified Relevant Ordinary Shares (the "**Effective Date**"), then the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the total number of Relevant Ordinary Shares other than Class C Ordinary Shares, in issue immediately before the issue of such Specified Relevant Ordinary Shares;

B is the number of Specified Relevant Ordinary Shares which the aggregate consideration (if any) receivable as determined by the Issuer in good faith for the issue of such Specified Relevant Ordinary Shares, would purchase at such Current Price per Specified Relevant Ordinary Share on the Effective Date; and

C is the number of Specified Relevant Ordinary Shares issued pursuant to such issue of Specified Relevant Ordinary Shares;

provided that (1) no adjustment will be made to the Conversion Price pursuant to this paragraph (v) in respect of (a) any issue of Ordinary Shares upon exercise of any warrants or options if such warrants or options were issued on terms (including as to price) which (had they been issued or granted by way of rights in the circumstances contemplated in paragraph (iv) above) would not have given rise to an adjustment or (b) upon exercise of any warrants or options if such warrants or options were issued prior to the Issue Date; and (2) in circumstances where an adjustment will be made in respect of any issue of Ordinary Shares upon exercise of any warrants or options, the Conversion Price shall be adjusted *mutatis mutandis* as provided in paragraph (iv) above and not as provided above in this paragraph (v).

Such adjustment shall become effective on the Effective Date.

Any amendment to the rights attaching to any Relevant Ordinary Shares (or to any options, warrants or other rights in respect thereof) which would, upon an IPO Event, result in the holder of such Relevant Ordinary Shares receiving more Ordinary Shares per existing Relevant Ordinary Share than prior to such amendment (other than in the circumstances described in paragraph (vi) below), shall be deemed to be an issue of Relevant Ordinary Shares for the purposes of this paragraph (v) and the Conversion Price shall be adjusted *mutatis mutandis* as provided in this paragraph (v) with such adjustments as the Issuer acting in good faith determines are appropriate to reflect that the adjustment arises from an amendment to the rights attaching to Relevant Ordinary Shares (or to any options, warrants or other rights in respect thereof).

As used herein, “**Existing Relevant Ordinary Shareholder**” means, in respect of any issue of Specified Relevant Ordinary Shares, a person who, at any point during the period of three months ending immediately prior to such new issue of Specified Relevant Ordinary Shares, was a holder of any Relevant Ordinary Shares (as shown on the Issuer’s register of shareholders) or of any beneficial interest in any Relevant Ordinary Shares or (in either case) any entity which is an affiliate of such person.

- (vi) If, in connection with an IPO Event, the Class E Ordinary Shares shall be converted into, or otherwise reclassified or redesignated as another class of ordinary voting shares (the “**Resulting Ordinary Shares**”) in the capital of the Issuer, the conversion price shall be adjusted by multiplying the Conversion Price in force immediately prior to such conversion, reclassification or redesignation by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Class E Ordinary Shares in issue immediately prior to such conversion reclassification or redesignation; and

B is the aggregate number of Resulting Ordinary Shares in issue immediately following and as a result of such conversion, reclassification or redesignation of the Class E Ordinary Shares.

Such adjustment shall become effective on the date on which the Class E Ordinary Shares are so converted reclassified or redesignated.

(vii) Notwithstanding paragraphs (i) to (vi) above, and (viii) below, no adjustment to the Conversion Price will be made:

- (A) as a result of (1) the creation of any new class of share in the Issuer, save as provided in (iv) and (v) above, or (2) the occurrence of any of the events referred to in paragraphs (i) to (vi) above in respect of any Class of share which is not the subject of the relevant paragraph;
- (B) as a result of the payment of any Cash Distribution (other than an Extraordinary Distribution);
- (C) to the extent Ordinary Shares, Class B Ordinary Shares, Class C Ordinary Shares or other securities (including rights, warrants or options in relation to Ordinary Shares and other securities) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, directors or employees or former directors or employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its subsidiaries or any associated company or to a trustee or trustees to be held for the benefit of any such person in any such case pursuant to any employee share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme;
- (D) where any of the events set out in paragraphs (i) to (vi) above occur in relation to Class C Ordinary Shares;
- (E) if an increase in the Conversion Price would result from such adjustment, except in the case of a consolidation of Ordinary Shares; or
- (F) to such extent as would result in the Conversion Price being reduced below the par value of an Ordinary Share (and, for the avoidance of doubt, in circumstances where this paragraph (F) prevents an adjustment being made in full, the Conversion Price will be adjusted so as to equal the par value of an Ordinary Share),

and provided further that: (A) where the events or circumstances giving rise to any adjustment pursuant to this Condition 9(d) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall, subject to compliance with the then prevailing Regulatory Capital Requirements, be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result; and (B) such modification shall, subject to compliance with the prevailing Regulatory Capital Requirements, be made to the operation of these Conditions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once.

(viii) If any doubt shall arise as to whether an adjustment is required to be made to the Conversion Price under (i) to (vi) above or as to the appropriate adjustment to the Conversion Price (including, without limitation, as to the determination of any effective date),

and following consultation between the Issuer and an Independent Adviser, a written determination of such Independent Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

- (ix) On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.001, shall be rounded down to the nearest integral multiple of £0.001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion Price then in effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made. Notice of any adjustments to the Conversion Price shall be given by the Issuer to Securityholders in accordance with Condition 14 promptly after the determination thereof.
- (x) The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists or may happen or exist and which requires or may require an adjustment to be made to the Conversion Price and will not be responsible or liable to any person for any loss arising from any failure by it to do so, nor shall the Trustee be responsible or liable to any person for any determination of whether or not an adjustment to the Conversion Price is required or should be made nor as to the determination or calculation of any such adjustment.
- (xi) All determinations by an Independent Adviser pursuant to, or in respect of, these Conditions shall be deemed to be determinations made by an expert and not by a trustee or fiduciary for the Holders or any other person. No Independent Adviser shall be liable to the Issuer, the Trustee, the Holders or any other person in respect of any such determination made by it except in the case of the wilful default or fraud of the Independent Adviser.
- (xii) In any circumstances where these Conditions require a determination to be made by an Independent Adviser, the Issuer shall use all reasonable efforts to appoint such Independent Adviser for such purpose. If, however, the Issuer demonstrates to the satisfaction of the Trustee that, notwithstanding such reasonable efforts, the Issuer has been unable to appoint an Independent Adviser at that time, the relevant determination shall instead be made by the Issuer acting in good faith. The Trustee shall be entitled to rely on any such determinations made by the Issuer as if such determinations had been made by an Independent Adviser and the Trustee shall suffer no liability for doing so.

(e) *Qualifying Relevant Event*

- (i) If, on or following an IPO Event, a Qualifying Relevant Event shall occur, the Securities shall, where the Conversion Date (if any) falls on or after the New Conversion Condition Effective Date, be converted on such Conversion Date into Relevant Shares of the Approved Entity (save as provided below in this Condition 9(e) *mutatis mutandis* as provided in this Condition 9) at a Conversion Price that shall be the New Conversion Price. Such conversion shall be effected by the delivery by the Issuer of such number of Ordinary Shares as is determined in accordance with Condition 9(a) to, or to the order of, the Approved Entity. Such delivery shall irrevocably discharge and satisfy all of the Issuer's obligations under the Securities (but shall be without prejudice to the rights of the Trustee and (in the circumstances described in Condition 12(d)) the Securityholders against the Approved Entity in connection with its undertaking to deliver Relevant Shares as provided in the definition of 'New Conversion Condition' in Condition 9(e)(vi)(D) below) and, for the

avoidance of doubt, shall not discharge any liabilities owed to the Trustee or any provisions of the Trust Deed that are specified as surviving the termination of the Trust Deed. Such delivery shall be in consideration of the Approved Entity irrevocably undertaking, for the benefit of the Securityholders, to deliver the Relevant Shares to or to the order of the Securityholders as aforesaid.

- (ii) The New Conversion Price shall be subject to adjustment in the circumstances provided in Condition 9(d) (with such modifications and amendments as an Independent Adviser acting in good faith shall determine to be appropriate) and the Issuer shall give notice to the Securityholders (in accordance with Condition 14), the Trustee and the Agents of the New Conversion Price and of any such modifications and amendments.
- (iii) In the case of a Relevant Event where the Acquirer is an Approved Entity:
 - (A) the Issuer shall enter into such agreements and arrangements, which may include deeds supplemental to the Trust Deed, and such amendments to the Trust Deed and these Conditions shall be made to ensure that, with effect from the New Conversion Condition Effective Date, the Securities shall (following the occurrence of a Trigger Event) be convertible into, or exchangeable for, the Relevant Shares of the Approved Entity, *mutatis mutandis* in accordance with and subject to, this Condition 9 (as may be so supplemented, amended or modified) at the New Conversion Price; and
 - (B) the Issuer shall, where the Conversion Date falls on or after the New Conversion Condition Effective Date, procure the issue and/or delivery of the relevant number of Relevant Shares in the manner provided in this Condition 9, as may be supplemented, amended or modified as provided above.

The Trustee shall (at the expense of the Issuer and provided that the Trustee is satisfied that the effect of such amendments will be only that the Securities shall be convertible into, or exchangeable for, the Relevant Shares of the Approved Entity as provided in Condition 9(e)(iii)(A) above) be bound to concur with the Issuer in making any such amendments to the Trust Deed and these Conditions, and execute any such deeds supplemental to the Trust Deed, provided further that the Trustee shall not be bound to do so if any such amendments, modifications or deeds would, in the opinion of the Trustee, have the effect of (i) exposing the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) changing, increasing or adding to the obligations or duties of the Trustee or (iii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the Securities.

- (iv) In the case of a Non-Qualifying Relevant Event, with effect from the occurrence of the Relevant Event and unless a Conversion Date shall have occurred prior to the date of such Relevant Event, outstanding Securities shall not be subject to Conversion at any time notwithstanding that a Trigger Event may occur subsequently but instead, upon the occurrence of a subsequent Trigger Event (if any) the full principal amount of each Security will automatically be written down to zero, each Security will be cancelled, all accrued but unpaid interest and any other amounts payable on each Security will be cancelled (irrespective of whether such amounts have become due and payable prior to the occurrence of the Trigger Event) and the Securityholders will be automatically deemed to have irrevocably waived their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the Securities or to any interest or other amount so cancelled.

- (v) Within 10 days following the occurrence of a Relevant Event, the Issuer shall give notice thereof to the Securityholders (a **“Relevant Event Notice”**) in accordance with Condition 14. The Relevant Event Notice shall specify:
 - (A) the identity of the Acquiror;
 - (B) whether the Relevant Event is a Qualifying Relevant Event or a Non-Qualifying Relevant Event;
 - (C) in the case of a Qualifying Relevant Event, the New Conversion Price.
- (vi) As used in these Conditions:
 - (A) **“Acquiror”** means the person which, following a Relevant Event, controls the Issuer;
 - (B) **“Approved Entity”** means a body corporate that is incorporated or established under the laws of an OECD member state and which, on the occurrence of the Relevant Event, has in issue Relevant Shares;
 - (C) **“EEA Regulated Market”** means a market as defined by Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets on financial instruments;
 - (D) the **“New Conversion Condition”** shall be satisfied if by not later than seven days following the occurrence of a Relevant Event where the Acquiror is an Approved Entity, the Issuer shall have entered into arrangements to its satisfaction with the Approved Entity pursuant to which the Approved Entity irrevocably undertakes to the Trustee, for the benefit of the Securityholders, to deliver the Relevant Shares to the Settlement Share Depositary for the Securityholders upon a Conversion of the Securities, all as contemplated in Condition 9(e)(i);
 - (E) **“New Conversion Condition Effective Date”** means the date with effect from which the New Conversion Condition shall have been satisfied;
 - (F) **“New Conversion Price”** means the higher of (A) NCP determined by the Issuer in accordance with the following formula and (B) the nominal amount of one Relevant Share:

$$\text{NCP} = \text{ECP} \times (\text{VWAPRS}/\text{VWAPOS})$$

where:

ECP is the Conversion Price in effect on the dealing day immediately prior to the New Conversion Condition Effective Date;

VWAPRS means the average of the VWAP of the Relevant Shares (translated, if necessary, into pounds sterling at the Prevailing Rate on the relevant Trading Day) on each of the 10 Trading Days ending on the Trading Day prior to the date the Relevant Event shall have occurred (and where references in the definitions of “VWAP” and “Trading Day” to “Ordinary Shares” shall be construed as a reference to the Relevant Shares); and

VWAPOS is the average of the VWAP of the Ordinary Shares (translated, if necessary into pounds sterling at the Prevailing Rate on the relevant Trading Day) on each of the 10 Trading Days ending on the Trading Day prior to the date the Relevant Event shall have occurred;

- (G) **“Non-Qualifying Relevant Event”** means a Relevant Event that is not a Qualifying Relevant Event;
- (H) **“Qualifying Relevant Event”** means a Relevant Event where: (A) the Acquiror is an Approved Entity; and (B) the New Conversion Condition is satisfied;
- (I) **“Regulated Market”** means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state;
- (J) a **“Relevant Event”** shall occur if any person or persons acting in concert (as defined in the Takeover Code of the United Kingdom Panel on Takeovers and Mergers) acquires control of the Issuer (other than as a result of a Newco Scheme). For the purposes of this definition of Relevant Event, **“control”** means, directly or indirectly:
 - (x) the acquisition or holding of legal or beneficial ownership of more than 50 per cent. of the issued Ordinary Shares of the Issuer; or
 - (y) the right to appoint and/or remove all or the majority of the members of the board of directors of the Issuer, whether obtained directly or indirectly and whether obtained by ownership of share capital, contract or otherwise,
 and **“controlled”** shall be construed accordingly; and
- (K) **“Relevant Shares”** means ordinary share capital of the Approved Entity that constitutes equity share capital or the equivalent (or depositary or other receipts representing the same) which is listed and admitted to trading on a Regulated Market.

(f) *Covenants*

Whilst any Security remains outstanding, the Issuer shall (if and to the extent permitted by the Regulatory Capital Requirements from time to time and only to the extent that such covenant would not cause a Capital Disqualification Event to occur) in the event of a Newco Scheme, save with the approval of an Extraordinary Resolution, take (or shall procure that there is taken) all necessary action to ensure that the Newco Scheme is an Exempt Newco Scheme and that immediately after completion of the Scheme of Arrangement such amendments are made to these Conditions and the Trust Deed as are necessary to ensure that the Securities may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed. The Trustee shall (at the expense of the Issuer and provided that the Trustee is satisfied that the effect of such amendments will be only that the Securities may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions) be bound to concur in effecting such amendments, provided that the Trustee shall not be bound to concur if to do so would (i) expose the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) change, increase or add to the obligations or duties of the Trustee or (iii) remove or amend any protection or indemnity afforded to, or any other provisions in favour of, the Trustee under the Trust Deed, the Conditions and/or the Securities.

(g) *Taxes etc.*

The Issuer shall not be liable for any taxes or capital, stamp, issue, registration or transfer taxes or duties arising on Conversion or that may arise or be paid as a consequence of the issue and delivery of Ordinary Shares upon Conversion. A Securityholder must pay all (if any) taxes and

capital, stamp, issue, registration and transfer taxes and duties arising for it on Conversion in connection with the issue and delivery of Ordinary Shares to the Settlement Shares Depositary on behalf of such Securityholder and all (if any) taxes or capital, stamp, issue, registration and transfer taxes and duties arising for it as a consequence of any disposal or deemed disposal of its Securities (or any interest therein) and/or the issue or delivery to it of any Ordinary Shares (or any interest therein).

(h) *Delivery*

The Ordinary Shares to be delivered on Conversion will be issued and delivered to the Settlement Shares Depositary (or as otherwise provided in these Conditions) for the Holders on the Conversion Date.

Such Ordinary Shares will be delivered:

- (i) prior to an IPO Event, in certificated form; and
- (ii) on or following an IPO Event, in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST, in which case Ordinary Shares will be delivered in certificated form.

Where any Ordinary Shares are to be delivered to Holders by the Settlement Shares Depositary through CREST, they will be delivered to the account specified by the relevant Securityholder in the relevant Conversion Notice, on the relevant Settlement Date. Where any Ordinary Shares are to be delivered to Holders in certificated form, a certificate in respect thereof will be dispatched by mail free of charge to the relevant Securityholder or as it may direct in the relevant Conversion Notice (in each case uninsured and at the risk of the relevant recipient) within 28 days following delivery of the relevant Conversion Notice.

The Ordinary Shares will not be available for issue or delivery (i) to, or to a nominee for, Euroclear or Clearstream, Luxembourg or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the “abolition day” as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom or (iii) to the CREST account of such a person described in (i) or (ii).

(i) *Ordinary Shares*

The Ordinary Shares issued and delivered on Conversion will be fully paid and non-assessable, will be subject to the terms of the Shareholders’ Agreement (if any) and will in all respects rank *pari passu* with the relevant fully paid Ordinary Shares in issue on the Conversion Date, except in any such case as provided in Condition 9(b)(v) and for any right excluded by mandatory provisions of applicable law, and except that any Ordinary Shares so issued and delivered will not rank for (or, as the case may be, the relevant Holder shall not be entitled to receive) any rights, distribution or payments the record date or other due date for the establishment of entitlement for which falls prior to the Conversion Date.

10 TAXATION

(a) *Payment without withholding*

All payments by or on behalf of the Issuer in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied, collected,

withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Issuer will pay such additional amounts (“**Additional Amounts**”) as may be necessary in order that the net amounts received by the Securityholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Securities in the absence of any withholding or deduction, except that no Additional Amounts shall be payable in relation to any payment in respect of any Security:

- (i) held by or on behalf of a Securityholder who is liable to such Taxes in respect of such Security by reason of it having some connection with the United Kingdom other than the mere holding of the Security;
- (ii) where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the Securityholder would have been entitled to such Additional Amounts on surrendering such Certificate for payment on the last day of such period of 30 days;
- (iii) 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;
- (iv) held by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant Certificate to another paying agent in a member state of the European Union provided that such alternative paying agent has been appointed at such time; or
- (v) where the Securityholder is able to avoid such withholding or deduction by complying, or procuring that a third party complies with, any applicable statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority.

(b) Additional Amounts

Any reference in these Conditions to any amounts payable in respect of the Securities shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 10 or under any undertakings given in addition to, or in substitution for, this Condition 10 pursuant to the Trust Deed.

11 PRESCRIPTION

Securities will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Securities, subject to the provisions of Condition 6.

12 NON-PAYMENT WHEN DUE AND WINDING-UP

The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.

(a) *Proceedings for Winding-Up*

In the event of a Winding-Up, or if the Issuer has not made payment of any amount in respect of the Securities for a period of seven days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Securities and, unless proceedings for a Winding-Up have already commenced, the Trustee may institute proceedings for a Winding-Up. The Trustee may prove in a Winding-Up (whether or not instituted by the Trustee) such claim being that set out in Condition 5(a) or 5(b), as applicable.

(b) *Enforcement*

Without prejudice to Condition 12(a), the Trustee may, at its discretion, and without notice, institute such 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 (including, without limitation, proceedings, actions or steps to enforce obligations of the Issuer in connection with a Conversion) under the Trust Deed (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or interest in respect of the Securities, including any damages awarded for breach of any obligations) provided that in no event shall the Issuer, by virtue of the institution of any such 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 or the Trust Deed.

Nothing in this Condition 12(b) shall, however, prevent the Trustee instituting proceedings for the Winding-Up, proving in any Winding-Up or exercising rights under Condition 5(a) or, as applicable, Condition 5(b) in respect of any payment obligations of the Issuer arising from or in respect of the Securities or the Trust Deed (including any damages awarded for breach of any obligations) in the circumstances provided in Condition 12(a).

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Condition 12(a) or 12(b) against the Issuer to enforce the terms of the Securities or the Trust Deed or any other action under or pursuant to the Trust Deed unless (i) it shall have been so requested by an Extraordinary Resolution of the Securityholders or in writing by the holders of at least one-quarter in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) *Right of Securityholders*

No Securityholder shall be entitled to proceed directly against the Issuer or to institute proceedings for a Winding-Up or to prove in 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, in which case the Securityholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 12.

(e) *Extent of Securityholder's remedy*

No remedy against the Issuer, other than as referred to in this Condition 12, shall be available to the Trustee or the Securityholders, whether for the recovery of amounts owing in respect of the Securities 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 Securities or the Trust Deed.

13 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any Agent, subject to all applicable laws and stock exchange requirements, upon

payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer and/or the Registrar may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 NOTICES

All notices regarding the Securities shall be valid if sent by post to the Securityholders at their respective addresses in the Register and, if and for so long as the Securities are listed on the Global Exchange Market of the Irish 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 Global Exchange Market of the Irish Stock Exchange will also be published on the Daily Official List of the Irish Stock Exchange for so long as its rules so require. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

15 MEETINGS OF SECURITYHOLDERS, MODIFICATION AND WAIVERS

(a) *Meetings of Securityholders*

The Trust Deed contains provisions for convening meetings of Securityholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting of Securityholders for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the Securities for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Securities held or represented by him or them, except that at any meeting the business of which includes Reserved Matters, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the aggregate principal amount of the Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Securityholders will be binding on all Securityholders, whether or not they are present at the meeting and whether or not they voted on the resolution.

In addition, a resolution in writing signed by or on behalf of the holders of at least 75 per cent. in aggregate principal amount of the outstanding Securities who for the time being are entitled to receive notice of a meeting of Securityholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a 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 Securityholders.

(b) *Modification, authorisation, waiver*

Except where the Trustee is bound pursuant to Conditions 9(e)(iii) and 9(f) to give effect to the amendments described therein, the Trustee may agree (other than in respect of a Reserved Matter), without the consent of the Securityholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Securityholders) or may agree, without any such consent as aforesaid and irrespective of whether the same constitutes a Reserved Matter, to any modification which, in its opinion, is of a formal, minor or technical nature or is to correct a manifest error.

(c) *Trustee to have regard to interests of Securityholders as a class*

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee

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

(d) Notification to the Securityholders

Any modification, abrogation, waiver, authorisation or substitution referred to in this Condition 15 or in Condition 16 shall be binding on the Securityholders and, unless the Trustee agrees otherwise, notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 14.

(e) Newco Scheme

In the event of a Newco Scheme, the Issuer may, subject as provided in Condition 16 and the Trust Deed, without the consent of Securityholders, at its option, procure that Newco is substituted under such Securities as the Issuer.

At the request of the Issuer, the Trustee shall, at the expense of the Issuer, without the requirement for any consent or approval of the Securityholders, be bound to concur with the Issuer in the substitution in place of the Issuer (or any previous substituted company) as principal debtor under the Trust Deed and the Securities of Newco, subject to the provisions set out in Condition 9(f) and Condition 16.

16 SUBSTITUTION OF THE ISSUER

The Trust Deed contains provisions (in the case of (i) below) requiring the Trustee and (in the case of (ii) below) permitting the Trustee (subject to Regulatory Approval), to agree, without the consent of the Securityholders, to:

- (i) any substitution as provided in and for the purposes of Condition 15(e); or
- (ii) the substitution of the Issuer's Successor in business (as defined in Condition 21) in place of the Issuer, or of any previously substituted company, as principal debtor under the Trust Deed and the Securities,

subject to:

- (a) (in the case of (ii) only) the Trustee being of the opinion that such substitution is not materially prejudicial to the interests of the Securityholders; and
- (b) (in the case of (i) and (ii)) certain other conditions set out in the Trust Deed being complied with.

In the case of such a substitution, the Trustee may agree, without the consent of the Securityholders, to a change of the law governing the Securities and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Securityholders.

17 RIGHTS OF THE TRUSTEE

(a) Indemnification and protection of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer and the Securityholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Securityholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

(b) Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Securityholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

(c) Reliance by Trustee on reports, confirmations, certificates and advice

The Trustee may rely without liability to Securityholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institutions 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. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice in which event such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Securityholders.

(d) Mandatory modifications

When implementing any modification pursuant to Condition 9(e)(iii)(A) or 9(f), the Trustee shall not consider the interests of the Securityholders or any other person. The Trustee shall not be liable to the Securityholders or any other person for so acting or for any losses incurred by any person by reason thereof, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person and/or is or may be a Reserved Matter.

(e) Trustee's remuneration, liability etc

The provisions of Conditions 4 and 5 apply only to the principal and interest and any other amounts payable in respect of the Securities and nothing in Conditions 4, 5, 7 or 12 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall have no responsibility for, or liability or obligations in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment of interest or other

amounts by reason of Condition 4(a) or Condition 6(a), Conversion pursuant to Condition 9 or any cancellation of the Securities or write down of any claims in respect thereof following the occurrence of a Non-Qualifying Relevant Event pursuant to Condition 9(e)(iv). Furthermore, the Trustee shall not be responsible for any calculation or the verification of any calculation in connection with any of the foregoing.

18 FURTHER ISSUES

The Issuer may from time to time without the consent of the Securityholders create and issue further securities having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of interest, if any, on them and/or the issue price thereof) so that the same shall be consolidated and form a single series with the Securities. Any further securities which are to form a single series with the Securities constituted by the Trust Deed or any supplemental deed shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Securityholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

19 GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing law*

The Trust Deed and the Securities and any non-contractual obligations arising out of or in connection with them are governed by, and will be construed in accordance with, English law.

(b) *Jurisdiction of English courts*

The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Securityholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) and accordingly has submitted to the exclusive jurisdiction of the English courts.

The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee and the Securityholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed or the Securities respectively (including any suit, action or proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) (together referred to as “**Proceedings**”) against the Issuer or the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

20 RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Security, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21 DEFINITIONS

In these Conditions:

“**5-year Mid-Swap Rate**” has the meaning given to it in Condition 6(d)(iii).

“**5-year Mid-Swap Rate Quotations**” has the meaning given to it in Condition 6(d)(iv).

“**Accrual Date**” has the meaning given to it in Condition 6(c).

“**Accrued Interest**” means, with respect to a scheduled redemption date, any interest accrued on the Securities from (and including) the Interest Payment Date most recently preceding such redemption date

to (but excluding) such redemption date and which is unpaid, but excluding any interest which has been cancelled in accordance with Condition 4(a), Condition 6(a), or Condition 9(a)(i);

“Acquiror” has the meaning given to it in Condition 9(e)(vi).

“Additional Amounts” has the meaning given to it in Condition 10(a).

“Additional Tier 1 Capital” has the meaning given to it (or any successor term) from time to time in the Regulatory Capital Requirements.

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

“Agent” means the Registrar and each of the other agents appointed pursuant to the Agency Agreement.

“Agent Bank” means an independent investment bank or financial institution to be appointed by the Issuer to perform the functions expressed to be performed by the Agent Bank under these Conditions.

“Approved Entity” has the meaning given to it in Condition 9(e)(vi).

“Authorised Signatory” has the meaning given to it in the Trust Deed.

“Business Day” has the meaning given to it Condition 6(d)(v).

“Calculation Amount” means £1,000 in principal amount of Securities.

“Capital Disqualification Event” has the meaning given to it in Condition 8(c).

“Cash Distribution” means any dividend or distribution in respect of the Ordinary Shares which is to be paid or made to Shareholders as a class in cash (whatever the currency) and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital.

“Certificate” has the meaning given to it in Condition 1.

“Class” means any class of shares in the Issuer, including (i) Class A Ordinary Shares, (ii) Class B Ordinary Shares, (iii) Class C Ordinary Shares, (iv) Class D Ordinary Shares or (v) Class E Ordinary Shares.

“Class A Ordinary Shares” means the Class ‘A’ 1 Ordinary Shares and the Class ‘A’ 2 Ordinary Shares and the same shall together constitute the Class A Ordinary Shares.

“Class ‘A’ 1 Ordinary Shares” means the Class ‘A’ 1 ordinary shares of £0.10 each in the share capital of the Issuer.

“Class ‘A’ 2 Ordinary Shares” means the Class ‘A’ 2 ordinary shares of £0.10 each in the share capital of the Issuer.

“Class B Ordinary Shares” means the Class B ordinary shares of £0.10 each in the share capital of the Issuer.

“Class C Ordinary Shares” means the Class C ordinary shares of £0.0001 each in the share capital of the Issuer.

“Class D Ordinary Shares” means the Class D ordinary shares of £0.10 each in the share capital of the Issuer.

“Class E Ordinary Shares” means Class E non-voting ordinary shares in the share capital of the Issuer which, as at the Issue Date, have a nominal value of £0.10 per share.

“Code” has the meaning given to it in Condition 7(b).

“Common Equity Tier 1” means, as at any date, the sum, expressed in pounds sterling, of all amounts that constitute common equity tier 1 capital (as that term is used in the CRD IV Regulation) of the Issuer Group as at such date, less any deductions from common equity tier 1 capital of the Issuer Group required to be made as at such date, in each case as calculated by the Issuer on a consolidated basis, in accordance with the then prevailing Regulatory Capital Requirements but without applying the transitional provisions set out in Part Ten of the CRD IV Regulation.

“Common Equity Tier 1 Capital Ratio” means, as at any date, the ratio of Common Equity Tier 1 of the Issuer Group as at such date to the Risk Weighted Assets of the Issuer Group as at the same date, expressed as a percentage and on the basis that all measures used in such calculation shall be calculated without applying the transitional provisions set out in Part Ten of the CRD IV Regulation.

“Conditions” means these terms and conditions of the Securities, as amended from time to time.

“Conversion” has the meaning given to it in Condition 9(a).

“Conversion Date” means the date specified as such in the Conversion Notice and, in accordance with Condition 9(a), in any event no later than one month (or such shorter period as the Supervisory Authority may then require) from the occurrence of the relevant Trigger Event.

“Conversion Notice” means a notice in the form for the time being currently available from the specified office of any Agent and which is required to be delivered to the Settlement Shares Depositary (or its agent(s) designated for the purpose in the Trigger Event Notice) in connection with a Conversion of the Securities and which may contain a representation that the relevant Holder is entitled to take delivery of the Ordinary Shares in the manner contemplated in such Condition and has obtained all (if any) consents needed in order to do so.

“converted” has the meaning given to it in Condition 9(a).

“CRD IV Directive” means Directive (2013/36/EU) of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time.

“CRD IV Regulation” means Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time.

“Current Price” means, in respect of a Relevant Ordinary Share as at any date:

- (i) in the case of Relevant Ordinary Shares which are listed, the average daily VWAP of such a Relevant Ordinary Share on each of the 5 consecutive dealing days ending on the dealing day immediately preceding such date; and
- (ii) otherwise, the fair value of the Relevant Ordinary Share at close of business on the Business Day immediately preceding such date (assuming, in the case of a Relevant Ordinary Share of a class that is not in issue on such date, that such Relevant Ordinary Share was in issue on such date), as determined by the Issuer, acting in good faith.

“Day-Count Fraction” has the meaning given to it in Condition 6(c).

“Deed of Adherence” means in respect of a Conversion, a deed in the form for the time being currently available from the specified office of any Agent and which is required to be delivered to the Settlement Shares Depositary (or its agent(s) designated for the purpose in the Trigger Event Notice) to be duly entered into by the relevant Securityholder in accordance with Condition 9(c) agreeing (in favour of the

other parties thereto) to be bound by the terms of any Shareholders' Agreement in existence as at the relevant Settlement Date.

"Distributable Items" has the meaning given to it in Condition 6(a).

"EEA Regulated Market" has the meaning given to it in Condition 9(e)(vi)(c).

"Ex- Date" has the meaning given to it in Condition 9(d)(iv).

"Exempt Newco Scheme" means a Newco Scheme where:

- (i) in respect of a Newco Scheme undertaken on or following an IPO Event, immediately after completion of the relevant Scheme of Arrangement; or
- (ii) in respect of a Newco Scheme undertaken prior to an IPO Event, within the three months following completion of the relevant Scheme of Arrangement,

the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (i) admitted to trading on a Recognised Stock Exchange or (ii) admitted to listing on such other regulated market as the Issuer or Newco may determine.

"Extraordinary Distribution" means any Cash Distribution that is expressly declared by the Issuer to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders as a class or any analogous or similar term, in which case the Extraordinary Distribution shall be such Cash Distribution.

"Extraordinary Resolution" has the meaning given to it in the Trust Deed.

"First Reset Date" means 30 April 2020.

"Independent Adviser" means any independent investment bank of international standing, the identity of which has been approved by the Trustee, appointed by the Issuer at its own expense from time to time for the purposes of carrying out the duties described in one or more of these Conditions and in performing such role such entity shall have regard to the interests of the Issuer and the Securityholders alike.

"Initial Interest Rate" has the meaning given to it in Condition 6(b)(i).

"Interest Amount" means the amount due on each Security on an Interest Payment Date.

"Interest Payment Date" has the meaning given to it in Condition 6(b).

"Interest Period" has the meaning given to it in Condition 6(b).

"Interest Rate" means the Initial Interest Rate and/or the applicable Reset Interest Rate, as the case may be.

"IPO Event" means the first admission to trading and listing of the Ordinary Shares on any Recognised Stock Exchange. The IPO Event shall be treated as occurring on the day on which trading in such Ordinary Shares begins on an unconditional basis.

"Issue Date" means 9 December 2014.

"Issuer" has the meaning given to it in the preamble to these Conditions.

"Issuer Group" means the Issuer and each entity which is part of the UK prudential consolidation group (as that term, or its successor, is used in the Regulatory Capital Requirements) of which the Issuer is part from time to time.

“Long-Stop Date” means the date on which any Securities in relation to which no duly completed Conversion Notice has been received by the Settlement Shares Depositary (or its designated agent(s)) shall be cancelled, which date is expected to be no more than 60 London business days following the date of the Conversion Notice and which will be notified to Holders in the Conversion Trigger Notice.

“Margin” has the meaning given to it in Condition 6(d)(vi).

“New Conversion Condition” has the meaning given to it in Condition 9(e)(i).

“New Conversion Condition Effective Date” has the meaning given to it in Condition 9(e)(vi)(E).

“New Conversion Price” has the meaning given to it in Condition 9(e)(vi)(F).

“Newco Scheme” means a scheme of arrangement or analogous proceeding (**“Scheme of Arrangement”**) which effects the interposition of a limited liability company (**“Newco”**) between the Shareholders of the Issuer immediately prior to the Scheme of Arrangement (the **“Existing Shareholders”**) and the Issuer; provided that: (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement.

“Notional Preference Share” has the meaning given to it in Condition 5(a).

“Ordinary Shares” means (i) prior to an IPO Event, the Class E Ordinary Shares, and (ii) on or following an IPO Event, ordinary voting shares in the capital of the Issuer (or, in the event of an Exempt Newco Scheme, the ordinary shares of the Newco) which form part of the same class of ordinary shares which is admitted to trading as described in the definition of IPO Event.

“Parity Obligations” means any obligations of the Issuer (including guarantee or other support obligations) which rank, or are expressed to rank, *pari passu* with the Issuer’s obligations in respect of the Securities on a winding-up of the Issuer prior to a Trigger Event (and, for the avoidance of doubt, shall include any other Additional Tier 1 Capital securities of the Issuer (if any) from time to time outstanding).

“Paying Agent” means each entity appointed as a paying agent from time to time pursuant to the Agency Agreement.

“Prevailing Rate” means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the relevant page on Bloomberg (or such other information service provider that displays the relevant information) or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the relevant page on Bloomberg (or such other information service provider that displays the relevant information), the rate determined in such other manner as an Independent Adviser shall in good faith prescribe.

“Proceedings” has the meaning given to it in Condition 19(b).

“Qualifying Relevant Event” has the meaning given to it in Condition 9(e)(vi)(H).

“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).

“Register” has the meaning given to it in Condition 1.

“Registrar” means Deutsche Bank Luxembourg S.A. or such other registrar appointed by the Issuer from time to time in respect of the Securities in accordance with these Conditions.

“Regulated Market” has the meaning given to it in Condition 9(e)(vi)(I).

“Regulatory Approval” means such supervisory permission required within prescribed periods from, the Supervisory Authority, or such waiver of the then prevailing Regulatory Capital Requirements from the Supervisory Authority, as is required under the then prevailing Regulatory Capital Requirements.

“Regulatory Capital Requirements” means any requirements contained in the regulations, requirements, guidelines and policies of the Supervisory Authority, or of the European Parliament and Council, then in effect in the United Kingdom relating to capital adequacy and applicable to the Issuer and/or the Issuer Group.

“Regulatory Preconditions” means, in relation to any redemption of the Securities, to the extent required by prevailing Regulatory Capital Requirements:

- (i) the Issuer Group having replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer Group; or
- (ii) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer Group would, following such redemption, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; or
- (iii) if, at the time of such redemption, the prevailing Regulatory Capital Requirements permit the redemption after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i) and (ii) of this definition, the Issuer having complied with such other pre-condition.

“Relevant Date” means whichever is the later of: (1) the date on which the payment in question first becomes due; and (2) if the full amount payable has not been received by the Registrar or another Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Securityholders.

“Relevant Event” has the meaning given to it in Condition 9(e)(vi)(J).

“Relevant Event Notice” has the meaning given to it in Condition 9(e)(v).

“Relevant Ordinary Shares” means (i) prior to an IPO Event, shares of any Class and (ii) on or following an IPO Event, ordinary voting shares in the capital of the Issuer (or, in the event of an Exempt Newco Scheme, the ordinary shares of the Newco) which form part of the same class of ordinary shares which are admitted to trading as described in the definition of IPO Event.

“Relevant Shares” has the meaning given to it in Condition 9(e)(vi)(K).

“Reserved Matter” has the meaning given to it in the Trust Deed.

“Reset Date” means the First Reset Date and each date that falls five, or a multiple of five, years following the First Reset Date.

“Reset Determination Date” has the meaning given to it Condition 6(d)(vii).

“Reset Interest Rate” has the meaning given to it in Condition 6(d)(i).

“Reset Period” means the period from and including the First Reset Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

“Reset Reference Bank Rate” has the meaning given to it in Condition 6(d)(viii).

“Reset Reference Banks” has the meaning given to it in Condition 6(d)(ix).

“Risk Weighted Assets” means, as at any date, the aggregate amount, expressed in pounds sterling, of the risk weighted assets of the Issuer Group as at such date, as calculated by the Issuer on a consolidated basis, in accordance with the then prevailing Regulatory Capital Requirements.

“Scheme of Arrangement” has the meaning given to it in the definition of Newco Scheme.

“Screen Page” has the meaning given to it in Condition 6(d)(x).

“Securities” has the meaning given to it in the preamble to these Conditions.

“Securityholder” or “Holder” means the person in whose name a Security is registered;

“Senior Creditors” means creditors of the Issuer: (a) who are unsubordinated creditors of the Issuer; (b) whose claims are, or are expressed to be, subordinated (whether only in the event of a Winding-Up or otherwise) to the claims of unsubordinated creditors of the Issuer but not further or otherwise; or (c) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Securityholders in a Winding-Up occurring prior to the Trigger Event (and, for the avoidance of doubt, Senior Creditors shall include holders of Tier 2 Capital instruments).

“Settlement Date” means, with respect to a Holder seeking to obtain Ordinary Shares from the Settlement Shares Depositary (or its agent), the second London business day after the day on which such Holder delivers the relevant Conversion Notice to the Settlement Shares Depositary (or its agent).

“Settlement Shares Depositary” means a reputable financial institution, trust company or similar entity (which in each such case is wholly independent of the Issuer) to be appointed by the Issuer on or prior to any date when a function ascribed to the Settlement Shares Depositary in these Conditions is required to be performed to perform such functions and that will hold the Ordinary Shares on trust for the Holders of the Securities in one or more segregated account and otherwise on terms consistent with these Conditions.

“Shareholders” means the holders of Ordinary Shares.

“Shareholders’ Agreement” means, in respect of any Settlement Date, the agreement (if any) to which all of the holders of Ordinary Shares as at such date (in their capacity as such) and the Issuer are a party (and which, as at the Issue Date, is an agreement dated 13 September 2011).

“Solvency Condition” has the meaning given to it in Condition 4(a).

“Subsidiary” means each subsidiary undertaking (as defined under section 1159 of the Companies Act) for the time being of the Issuer.

“Successor in business” has the meaning given to it in the Trust Deed.

“Supervisory Authority” means the United Kingdom Prudential Regulation Authority and any successor or replacement thereto or such other authority having primary responsibility for the prudential oversight and supervision of the Issuer and/or the Issuer Group.

“Tax Event” has the meaning given to it in Condition 7(d).

“Taxes” has the meaning given to it in Condition 10(a).

“Tier 1 Capital” has the meaning given to it (or any successor term) from time to time in the Regulatory Capital Requirements.

“Tier 2 Capital” has the meaning given to it (or any successor term) from time to time in the Regulatory Capital Requirements.

“Trading Day” means any day (other than a Saturday or a Sunday) on which the primary stock exchange on which the Ordinary Shares are listed is open for business and the Ordinary Shares may be traded.

“Transfer Agent” means Deutsche Bank Luxembourg S.A..

“Trigger Event” means the Common Equity Tier 1 Capital Ratio of the Issuer Group falls below 7.00 per cent.

“Trigger Event Notice” has the meaning given to it in Condition 9(a).

“Trustee” means Deutsche Trustee Company Limited or such other trustee appointed by the Issuer from time to time in respect of the Securities in accordance with the Conditions and the Trust Deed.

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

“VWAP” in relation to an Ordinary Share on any Trading Day means the order book volume weighted average price of such Ordinary Share on such Trading Day (rounded to the nearest second decimal place) published by or derived from the relevant Bloomberg page or, if there is no such relevant page, such other source as shall be determined by an Independent Adviser to be appropriate on such Trading Day, provided that if on any such Trading Day such price is not available or cannot otherwise be determined as provided above, the VWAP of an Ordinary Share in respect of such Trading Day shall be the VWAP, determined as provided above, on the immediately preceding Trading Day on which the same can be so determined.

“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 Securities 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 (a) or (b) 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 SECURITIES 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 Securities are represented by the Global Certificate:

Initial Issue of Certificates

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

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 Securities 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 on the Security for so long as the Securities 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 Securities held in Euroclear or Clearstream, Luxembourg or any Alternative Clearing System. These provisions will not prevent the trading of interests in the Securities within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Securities may be withdrawn from the relevant clearing system.

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

- (i) if the Securities 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 Securities 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 Securities 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 Securities 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 Securities 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 Securities represented by the Global Certificate, and not per Calculation Amount as provided in Condition 6(c).

Payments

All payments in respect of Securities 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(a)) 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 Securities 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 Securityholders 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 Securities are listed on the Global Exchange Market of the Irish 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 Global Exchange Market of the Irish Stock Exchange will also be published on the Daily Official List of the Irish 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.

Conversion Notices

Notwithstanding the provisions of Condition 9(c), if the Securities are represented by the Global Certificate and held through Euroclear or Clearstream, Luxembourg, a Securityholder shall give a notice to the Settlement Shares Depositary in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time with such details as may be required by such clearing systems.

Prescription

Claims against the Issuer in respect of any amounts payable in respect of the Securities 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 Securityholders, the holder of the Securities 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 Securities.

Written Resolution and Electronic Consent

For so long as the Securities 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 Securityholder 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 Securities 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 accountholders in the clearing system(s) with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Securityholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “**commercially reasonable evidence**” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Securities. 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 Securities 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 Securities by the Trustee and the Registrar.

USE OF PROCEEDS

The Securities are being issued to strengthen the quality of the Issuer Group's capital and the Issuer intends to apply the net proceeds from the issue of the Securities to support the medium-term growth of its business.

DESCRIPTION OF ALDERMORE'S BUSINESS

1 Overview

The Issuer is the holding company of the Group and has one principal subsidiary, Aldermore Bank PLC, which is registered in England and Wales. Aldermore Bank PLC is a UK deposit taking institution, which is authorised by the PRA and regulated by the PRA and the FCA.

The registered address of the Issuer is Apex Plaza, 4th Floor Block D, Forbury Road, Reading, Berkshire RG1 1AX, United Kingdom and its telephone number is 0118 955 6600.

Aldermore is a British bank which focuses on secured and bespoke lending to the SME market and residential mortgages for retail customers.

Aldermore is a "legacy free" bank. It employs a modern digital platform to support its distribution and customer service proposition and provide a scalable, efficient operating model. Aldermore has a strong and diversified online deposit franchise and the Directors believe that its target lending segments provide a significant and sustainable organic growth opportunity.

Aldermore was founded in May 2009 following the acquisition of Ruffler Bank Plc and Base Commercial Mortgages Limited by funds managed and advised by the private equity firm AnaCap Financial Partners LLP. At the time of the acquisitions, Aldermore had customer lending in the region of £76 million and approximately 50 employees. Since then Aldermore has developed into a multi product asset based lender and through its focus on organic loan origination has grown significantly, having £4.8 billion of assets, approximately 160,000 customers and over 800 employees and contractors as at 30 June 2014. Between 1 January 2011 and 30 June 2014, 98 per cent. of loan origination was generated organically.

Aldermore focuses on specialist lending to SMEs and homeowners across four targeted lending segments which the Directors have identified as being underserved by incumbent banks and where they believe there are significant, sustainable and profitable growth opportunities. Aldermore's lending activity is supported by its deposit franchise and other sources of funding:

- **Asset Finance:** Aldermore offers Asset Finance loans on single transactions of predominantly between £5,000 and £1 million primarily to fund SME capital investment in certain key assets including plant and machinery, commercial vehicles, cars, IT equipment and business equipment. As at 30 June 2014, Aldermore's Asset Finance business had net loans of £871.1 million, and an estimated 2.9 per cent. of the total UK Asset Finance market¹;
- **Invoice Finance:** Aldermore provides working capital for SMEs by lending against outstanding invoices issued by a borrower to its customers. Borrower limits are set on a borrower specific basis and they typically operate with an advance rate of up to 85 per cent. of the value of the approved invoices. As at 30 June 2014, Aldermore's Invoice Finance business had net loans of £203.7 million, which constituted an estimated 1.1 per cent. of the total UK Invoice Finance market¹;
- **SME Commercial Mortgages:** Aldermore offers SME Commercial Mortgages of up to a maximum of £2 million on a single property, rising to £5 million over multiple properties, primarily to SMEs and professional property investors, secured on commercial property (including retail premises, offices, industrial units and warehouses) and professionally managed residential buy to

¹ (a) Market size: Market size used for calculating Aldermore's market share based on annualised total market for H1 2014, except Invoice Finance which represents a stock figure as at period end H1 2014. Data from: Finance & Leasing Association (Asset Finance); Asset Based Finance Association (Invoice Finance) and CML (Residential Mortgages).
(b) Market share: Aldermore's market share is based on H1 2014 origination for Asset Finance, SME Commercial Mortgages and Residential Mortgages. Market share for Invoice Finance based on H1 2014 period end balance.

let portfolios. As at 30 June 2014, Aldermore's SME Commercial Mortgages business had net loans of £894.9 million, and an estimated 1.1 per cent. of the total UK SME Commercial Mortgage market¹; and

- **Residential Mortgages:** Aldermore offers Residential Mortgages of up to £1 million in the form of residential lending (owner occupied mortgages) or buy to let mortgages. As at 30 June 2014, Aldermore's Residential Mortgages business had net loans of £2.0 billion, and an estimated 0.5 per cent. of the total UK Residential Mortgage market¹.
- **Funding:** Aldermore is funded predominantly through online retail and SME deposits and as at 30 June 2014, had a loan to deposit ratio of 104 per cent. Additional funding is provided by Aldermore's £333 million RMBS issued in April 2014 (its first securitisation transaction), participation in the Funding for Lending Scheme (as at 30 June 2014, Aldermore had drawn £485 million of UK Treasury Bills under the scheme of which £189 million was on balance sheet funding) and £40 million Subordinated Notes. This increasingly diversified mix of funding has resulted in declining funding costs. For the six months ended 30 June 2014, Aldermore's average cost of funds was 2.3 per cent. compared to 2.8 per cent., 3.9 per cent. and 3.7 per cent. for the financial years ended 31 December 2013, 2012 and 2011 respectively.

Aldermore has clearly defined control and risk functions in place and employs a modern IT infrastructure to support its operations and customer service proposition. This scalable digital platform has no "legacy" issues and can support Aldermore's planned organic growth.

Aldermore does not have a traditional branch network and as such does not have any costs associated with running such a branch network. Lending originations are conducted primarily through intermediaries with increasing direct distribution online, by phone and in person through Aldermore's regional offices across Great Britain which also provide product expertise, customer services and operational support services. Deposit accounts and savings products are directly originated and in the six months ended 30 June 2014 almost all SME deposits and approximately 76 per cent. of retail deposits were originated online.

Aldermore has successfully grown in both scale and profitability. Profit before tax increased from a loss of £(0.7) million for the year ended 31 December 2011 to a profit of £25.7 million for the financial year ended 31 December 2013 and £18.6 million for the six months ended 30 June 2014. Return on equity for the six months ended 30 June 2014 was 11.7 per cent. (excluding IPO Costs) compared with 5.5 per cent. for the six months ended 30 June 2013 and 11.6 per cent. for the financial year ended 31 December 2013.

As at 30 June 2014, Aldermore's fully loaded CRD IV CET1 Ratio was 10.9 per cent., its Total Capital Ratio was 12.7 per cent. and its Leverage Ratio was 5.0 per cent.

2 History and development of Aldermore

Aldermore was founded in May 2009 following the acquisition of Ruffler Bank Plc and Base Commercial Mortgages Limited by funds managed and advised by the private equity firm AnaCap Financial Partners LLP. Throughout 2009 and 2010 Aldermore purposefully established capabilities in its chosen segments of the lending market, recognising not only customer demand but also the consistently good risk adjusted returns and strong collateral characteristics of those segments.

Selected key milestones in Aldermore's history:

May 2009	Founded by CEO Phillip Monks with backing from funds advised and managed by AnaCap Financial Partners LLP through the acquisition of Ruffler Bank plc and Base Commercial Mortgages Limited
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July 2009	Launched multi channel retail savings
October 2009	Launched its Asset Finance business
November 2009	Acquired Absolute Invoice Finance
April 2010	Launched its Residential Mortgage business
September 2011	Raised £62 million in common equity from a consortium of leading global investors
May 2012	Raised £36 million from the issuance of Subordinated Notes with a nominal value of £40 million
June 2012	Launched SME business savings accounts
October 2012	SME lending reached £1 billion, customer deposits passed £2 billion
February 2013	Became first UK bank offering full interactive customer service allowing customers to rate and review service online
February 2013	Residential Mortgage lending passed £1 billion
May 2013	Announced its first year of profitability (£0.3 million profit before tax for the year ended 31 December 2012) in its third full year of operations
September 2013	Customer deposits exceeded £3 billion
December 2013	Raised £40 million in common equity from a partner of and funds managed by Toscafund Asset Management LLP and Lansdowne Global Financials Master Fund Limited to fuel its retail and SME lending growth
April 2014	Raised £333 million of funding from its inaugural RMBS Announced second year of profitability, with profits before tax rising to £25.7 million for the year ended 31 December 2013

In the second half of 2014, the Issuer considered conducting an initial public offering of its Ordinary Shares on the London Stock Exchange (the “**Proposed IPO**”). However, due to the recent deterioration of global equity markets, the Board and the Issuer’s shareholders elected not to proceed at this time with the transaction.

On 10 November 2014, Aldermore made the following announcement in relation to its third quarter management results:

“Q3 2014: Strong Growth and Rapidly Accelerating Profitability

Further strong organic growth in lending

- Organic loan origination at record levels of £1.7 billion up by 63 per cent. on the first half (H1 2014: £1.0 billion)
- Total lending to customers up by 10 per cent. in Q3 to £4.4 billion (30 June 2014: £4.0 billion) and by 30 per cent. YTD
- Resulting in net new lending on balance sheet of £1.0 billion year to date, an increase of £0.4 billion in Q3 and in line with management expectations

Record lending performance matched by dynamic online deposit franchise

- Customer deposits up by 8 per cent. in the quarter to £4.2 billion (30 June 2014: £3.9 billion) and by 20 per cent. YTD
- Deposits from SMEs continued to increase strongly and were up by 15 per cent. in Q3 to £0.9 billion (30 June 2014: £0.8 billion) and by 74 per cent. year to date

Driving rapidly accelerating profitability

- Profit before tax for nine months increased strongly to almost double that delivered in the first six months of the year
- Return on equity for the third quarter in isolation approaching 20 per cent. (H1 2014: 11.7 per cent.) demonstrating a strong trajectory towards the medium term objective of c20 per cent. by the end of 2017
- Cost to income ratio for year to date of around 60 per cent. (H1 2014: 64 per cent.) and on track to achieve the objective of c.40 per cent. by the end of 2017
- Improved cost of risk reflects robust and consistent credit performance in line with expectations

Notes:

1. Financial data is prepared on a management basis under IFRS and is unaudited

2. Return on equity is calculated as profit after tax (excluding post tax IPO related costs) as a percentage of average shareholders' funds"

3 Selected Financial Information

The following tables present selected financial and other information of Aldermore as at the dates and for the periods indicated. Investors should read the whole of this Information Memorandum and not rely on the selected information in this section.

The selected financial information in the tables below headed "Income Statement Data" and "Financial Position Data" has been extracted without material adjustment from the historical financial information as at and for the year ended 31 December 2013, the year ended 31 December 2012, the year ended 31 December 2011 and the six month period ended 30 June 2014 and the unaudited consolidated financial information for the six month period ended 30 June 2013 included in "*Historical Financial Information*" of this Information Memorandum.

Certain of the key performance indicators presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in accordance with, applicable banking regulation, but that regulation often provides Aldermore with certain discretion in making its calculations. Because of the discretion that Aldermore and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks.

Income Statement Data

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Interest income.....	103,769	66,792	156,441	99,277	53,418
Interest expense.....	(42,587)	(36,051)	(75,799)	(63,283)	(29,717)
Net fees and other income	12,674	12,390	27,703	21,921	19,445
Total operating income.....	73,856	43,131	108,345	57,915	43,146
Administrative expenses	(47,535)	(31,418)	(67,363)	(49,907)	(40,437)
Depreciation and amortisation	(1,789)	(1,722)	(3,822)	(2,319)	(1,405)
Impairment losses on loans and advances	(5,924)	(4,661)	(11,468)	(5,416)	(2,041)
Profit/(loss) before taxation	18,608	5,330	25,692	273	(737)
Taxation	(4,364)	(371)	14	941	7
Profit/(loss) after taxation.....	14,244	4,959	25,706	1,214	(730)

Certain key performance indicators

	30 June	31 December		
	2014	2013	2012	2011
	(percentage)			
Gross interest margin ⁽¹⁾	5.6	5.8	6.2	6.6
Gross revenue margin ⁽²⁾	6.3	6.8	7.5	9.0
Cost of funding ⁽³⁾	2.3	2.8	3.9	3.7
Net interest margin ⁽⁴⁾	3.3	3.0	2.2	2.9
Net revenue margin ⁽⁵⁾	4.0	4.0	3.6	5.3
Cost/income ratio (excl. Offer costs) ⁽⁶⁾⁽¹⁰⁾	63.8	65.7	90.2	97.0
Cost of risk ⁽⁷⁾	0.32	0.42	0.34	0.25
Return on assets (pre-tax) (excl. Offer costs) ⁽⁸⁾⁽¹⁰⁾	0.9	0.8	0.0	(0.1)
Return on assets (post-tax) (excl. Offer costs) ⁽⁹⁾⁽¹⁰⁾	0.7	0.8	0.1	(0.1)

Notes:

- (1) Gross interest margin is calculated as interest income as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two. Gross interest margin is presented on an annualised basis.

- (2) Gross revenue margin is calculated as interest income plus net fees and other income as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two. Gross revenue margin is presented on an annualised basis.
- (3) Cost of funding is calculated as interest expense as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two. Cost of funding is presented on an annualised basis.
- (4) Net interest margin is calculated as interest income less interest expense as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two. Net interest margin is presented on an annualised basis.
- (5) Net revenue margin is calculated as operating income as a percentage of average net loans.
Operating income is calculated as net interest income plus net fees and other income. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two. Net revenue margin is presented on an annualised basis.
- (6) Cost/income ratio is calculated as administrative expenses, depreciation and amortisation, as a percentage of operating income. Operating income is calculated as net interest income plus net fees and other income.
- (7) Cost of risk is calculated as impairment losses as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two. Cost of risk is presented on an annualised basis.
- (8) Return on assets (pre-tax) is calculated as profit before tax (excluding pre-tax costs associated with the Proposed IPO) as a percentage of average assets. Average assets is calculated as total assets at the start of period plus total assets at the end of the period divided by two. Return on assets (pre-tax) is presented on an annualised basis.
- (9) Return on assets (post-tax) is calculated as profit after tax (excluding post-tax costs associated with the Proposed IPO) as a percentage of average assets. Average assets is calculated as total assets at the start of period plus total assets at the end of the period divided by two. Return on assets (post tax) is presented on an annualised basis.
- (10) Operating expenses for the six months ended 30 June 2014 include pre-tax costs associated with the Proposed IPO of £2.2 million.

Financial Position Data

	30 June	31 December		
	2014	2013	2012	2011
	(£'000)			
Gross loans.....	4,034,007	3,394,872	2,069,009	1,168,919
Provisions.....	(25,087)	(21,028)	(12,449)	(12,321)
Net loans	4,008,920	3,373,844	2,056,560	1,156,598
Other assets.....	752,235	829,148	487,065	414,356
Customers' accounts.....	(3,858,533)	(3,464,018)	(2,161,649)	(1,358,855)
Other liabilities.....	(622,239)	(473,617)	(203,086)	(40,318)
Shareholders funds	280,383	265,357	178,890	171,781
Gross loan analysis				
Neither past due nor individually impaired	3,985,623	3,336,431	2,024,042	1,130,986

Past due but not individually impaired.....	16,956	33,676	26,802	16,980
Individually impaired.....	31,428	24,765	18,165	20,953
Gross loans	4,034,007	3,394,872	2,069,009	1,168,919

Certain key performance indicators

	30 June	31 December		
	2014	2013	2012	2011
	(percentage)			
Loan to deposits ratio ⁽¹⁾	104	97	95	85
ROE (post tax) (excl. Proposed IPO Costs) ⁽²⁾	11.7	11.6	0.7	(0.5)
Tangible equity ⁽³⁾ (£'000)	257,685	242,700	156,463	152,980
Return on tangible equity (excl. Proposed IPO Costs) ⁽⁴⁾	12.8	12.9	0.8	(0.5)
Tangible equity / assets	5.4	5.8	6.2	9.7
Basel II Risk Weighted Assets (£'000)	N/A	2,147,160	1,427,297	882,240
Basel II Core tier 1 ratio	N/A	11.3	10.7	17.4
Basel II Total Capital Ratio.....	N/A	13.2	13.4	17.6
Fully loaded CRD IV Risk Weighted Assets (£'000)	2,359,503	1,993,024	N/A	N/A
Fully loaded CRD IV CET1 ratio ⁽⁵⁾	10.9	12.1	N/A	N/A
Basel III Total Capital Ratio.....	12.7	14.2	N/A	N/A
Return on RWAs (post tax) (excl. Proposed IPO Costs) ⁽⁶⁾	1.5	1.4	0.1	N/A
Leverage ratio	5.0	5.3	N/A	N/A
Net liquid assets / deposits (Liquidity ratio)	18	23	21	28

Notes:

- (1) Loan to deposits ratio is calculated as net customer loans as a percentage of customer deposits. Net customer loans are gross loans net of allowance for impairment losses.
- (2) ROE (post tax) is calculated as profit after tax (excluding post tax costs associated with the Proposed IPO) as a percentage of average shareholders funds. Average shareholders funds are calculated as shareholders funds at the start of period plus shareholders funds at the end of period divided by two. ROE (post tax) is presented on an annualised basis.
- (3) Tangible equity is calculated as shareholders' funds less intangible assets.
- (4) Return on tangible equity is calculated as profit after tax (excluding post tax costs associated with the Proposed IPO) as a percentage of average tangible equity. Average tangible equity is calculated as tangible equity at the start of period plus tangible equity at the end of period divided by two. Return on tangible equity is presented on an annualised basis.

- (5) The Common Equity Tier 1 Capital Ratio of the Issuer Group may decline as the business of Aldermore develops, and in particular, where any growth in the risk weighted assets of the Issuer Group is not matched by an increase in common equity tier 1 capital of the Issuer Group at a corresponding rate.
- (6) Return on RWAs is calculated as profit after tax (excluding post tax costs associated with the Proposed IPO) as a percentage of average RWAs. Average RWAs are calculated as RWAs at the start of period plus RWAs at the end of the period divided by two. Return on RWAs is presented on an annualised basis.

4 Key strengths

The Directors believe that Aldermore's key strengths are:

4.1 Aldermore is a “legacy free” British bank and is not exposed to costs and uncertainty faced by some other banks

Aldermore is a “legacy free” bank with a proven track record of delivery. Since its establishment and launch in 2009 it has demonstrated a strong record of execution. Examples include the launch of the Residential Mortgages business in 2010, integration of the Invoice Finance business following its acquisition, the development of an SME deposits business in 2012 and more recently its inaugural RMBS issuance in order to further diversify funding. Since its establishment:

- its net loan portfolio has grown from £1.2 billion as at 31 December 2011 to £3.4 billion as at 31 December 2013 and £4.0 billion as at 30 June 2014 and between 1 January 2011 and 30 June 2014 98 per cent. of loan origination has been generated organically;
- its retail and SME deposits have increased from £1.4 billion as at 31 December 2011 to £3.5 billion as at 31 December 2013 and £3.9 billion as at 30 June 2014;
- its profit before tax has increased from a loss of £(0.7) million for the year ended 31 December 2011 to a profit of £25.7 million for the financial year ended 31 December 2013 and £18.6 million for the six months ended 30 June 2014, an increase of 249 per cent. compared to profit before tax of £5.3 million for the six months ended 30 June 2013; and
- its return on equity has increased from (0.5) per cent. for the financial year ended 31 December 2011 to 11.6 per cent. for the financial year ended 31 December 2013 and 11.7 per cent. (excluding Proposed IPO Costs) for the six months ended 30 June 2014.

As it was only established in 2009 Aldermore is not exposed to the costs and uncertainty faced by some other banks. Legacy conduct issues, for example PPI redress, may continue to have a significant impact on the profitability of certain participants in the UK banking market. The aggregate costs and provisions taken by Lloyds Banking Group, The Royal Bank of Scotland, HSBC, Barclays and Standard Chartered in relation to PPI and interest rate hedging product mis-selling were approximately £6 billion, £10 billion and £7 billion in 2011, 2012 and 2013 respectively. Historic conduct issues present an acute challenge to a number of banks, exposing them to uncertainty and potentially high remediation costs and require significant attention from management. Aldermore has not experienced any significant legacy or systemic conduct issues.

The Directors believe that this track record stands them in good stead to take advantage of further opportunities that may arise in the future and to deliver on their plans.

4.2 Modern digital platform and strong distribution base supports superior customer service and flexible products

Aldermore employs a modern digital platform to support its distribution and customer service proposition and provide a scalable, efficient operating model. Aldermore's digital distribution model is at the heart of its service proposition. It supports approximately 14,000 intermediaries in

addition to direct customers, enables responsive customer service (including prompt, effective and consistent credit decision making and savings accounts that can be opened and funded in 15 minutes) and facilitates the growth of the business (for example, through the expansion of its intermediaries distribution network).

Aldermore's digital distribution model is supported by regional offices in Great Britain. With the exception of retail deposits, all central, back office and operational functions (other than IT support), including loan servicing, are performed in house by Aldermore. Aldermore does not have a traditional branch network and as such does not have significant costs associated with running such a branch network.

Aldermore has established strong distribution channels for each of its targeted lending segments and has been recognised for providing expertise, superior customer service and flexible, straightforward products:

- Aldermore has approximately 400 broker and 200 vendor or dealer relationships within the Asset Finance division. To support these intermediaries, Aldermore has implemented an online "portal" which enables brokers to track applications. In addition a personal computer, smartphone and tablet application has been launched allowing introducers to price transactions and submit applications within 60 seconds. These tools enable intermediaries to automatically calculate repayment plans and commission, provide fast credit decisions and give full visibility on the progress of the proposal. It has recently opened up its in house Asset Finance training programme to brokers in order to help them develop the next generation of commercial finance brokers. Additionally, Aldermore has established a number of programmes with equipment vendors, dealers and manufacturers to provide financing to their customers in the UK. Origination from vendors, dealers and manufacturers and from direct distribution accounted for 23 per cent. of Aldermore's Asset Finance origination in 2013 and 21 per cent. in the six months ended 30 June 2014. Aldermore's Asset Finance proposition was recognised by Credit Today in 2013 as the Asset Finance Firm of the Year.
- Aldermore has approximately 600 intermediary relationships within the Invoice Finance division. Whilst Invoice Finance distribution is predominately through commercial finance brokers, Aldermore's direct to customer proposition has grown strongly, with direct sales accounting for 23 per cent. of Invoice Finance origination during the course of 2013 and 36 per cent. in the six months ended 30 June 2014. Additionally, Aldermore has developed tailored products for customers in the recruitment, logistics and construction sectors.
- Within Residential Mortgages, Aldermore has approximately 12,000 registered and FCA authorised brokers many of whom operate through 8 key Mortgage Clubs and Networks. Brokers are able to submit an application within 15 minutes and obtain an initial credit decision within 90 seconds through the online intermediary portal, can manage their cases online and upload relevant documents to the case management system. They can also have access to underwriters where necessary in order to discuss individual cases. Aldermore has been recognised for the superior service it offers as evidenced by being one of only four banks/building societies to receive the "Financial Times Financial Adviser 5* Service Award in 2013" for Mortgages, a rating that it has achieved for the past three years. In 2014, it was awarded "Best Buy to Let Mortgage Provider" at the Online Personal Wealth Awards. In 2013, Aldermore launched a Direct to Consumer proposition and has built this up to 9 per cent. of origination during the course of 2013 and 13 per cent. in the six months ended 30 June 2014.

- The same technology used by the Residential Mortgages division has been utilised within the SME Commercial Mortgages division to enable intermediaries to obtain a “decision in principle” online. Aldermore has expanded its distribution base to over 800 brokers as at the end of 2013. In addition, Aldermore has established a trading relationship with Mortgages for Business Ltd (a leading buy to let mortgage broker) utilising the “Keystone Mortgages” brand to offer a range of fixed and variable rate buy to let mortgages for mainstream, houses of multiple occupancy (“HMOs”) and multi unit properties available to both individual and limited company borrowers. Aldermore was awarded “Buy to Let Lender of the Year” and “Most Supportive Lender of the Year” by the National Association of Commercial Finance Brokers in 2013, and “Property Development Lender of the Year” at the Bridging and Commercial Awards in 2014. Direct distribution accounted for 9 per cent. of SME Commercial Mortgage origination in 2013 and 8 per cent. in the six months ended 30 June 2014.

4.3 Aldermore’s target lending segments provide a significant, sustainable and profitable growth opportunity

Aldermore focuses on specialist lending to SMEs and homeowners across four targeted lending segments which the Directors believe offer attractive risk adjusted returns and growth opportunities. These include sectors and customers which the Directors have identified as being underserved by incumbent banks, a situation exacerbated by the financial crisis in 2008, which led to certain banks deleveraging their balance sheets as part of a wider reduction in their overall lending activities or by exiting certain specialist lending segments. Importantly, these segments also constitute large markets, meaning that Aldermore does not need to compete on market share or take adverse risk or low margins.

The value of lending to businesses in the UK in 2013 was £163 billion of which lending to SMEs was £43 billion². As a consequence of SMEs’ reduced ability to access credit, the growth rate in the stock of lending to SMEs has been negative for the past four years, according to data from the British Bankers Association and Bank of England³. The Breedon Report⁴, which was commissioned by the UK Government Department for Business, Innovation & Skills to look specifically at the topic of financing UK SMEs, estimated the SME credit gap between supply and demand could rise to c.£26-£59 billion by 2016. Current market dynamics in respect of the wider macro economic recovery, increased business investment, home and property price rises, a strong demand for mortgages and a resurgence in business confidence further indicate the potential demand for finance in Aldermore’s target markets.

Against this background, Aldermore has quickly gained market share and achieved significant organic growth in each of the key market segments in which it operates. Since 1 January 2011, 98 per cent. of loan origination was generated organically.

² Bank of England—Trends in Lending April 2014

³ Bank of England—Trends in Lending April 2014

⁴ Boosting Finance Options for Business—Report of industry led working group on alternative debt markets, March 2012

Organic customer loan origination	For the six months ended 30 June 2014	For the financial year ended 31 December		
		2013	2012	2011
		(£ millions)		
Asset Finance.....	339	610	350	228
Invoice Finance	27	68	82	49
SME Commercial Mortgages	195	292	232	200
Residential Mortgages	480	740	537	351
Total.....	1,041	1,710	1,201	828

The Directors believe Aldermore is well placed to continue to achieve strong, sustainable growth and good returns based on its predominantly secured lending model.

4.4 Attractive margins underpinned by consistent, clearly defined credit risk management

Aldermore's attractive margins are underpinned by consistent credit risk management. The vast majority of Aldermore's balance sheet is secured against a high proportion of tangible asset collateral and across its four key lending segments, it has low levels of non performing loans. As at 30 June 2014:

- the average Asset Finance loan balance was approximately £33,000; 87 per cent. of agreements had tangible security; 0.33 per cent. of gross balances were three months or more in arrears; and loans had a weighted average maturity on a behavioural basis of 21 months;
- the average Invoice Finance facility balance was approximately £137,000; the average advance rate against eligible invoices was 71 per cent.; 4.4 per cent. of balances were in a collect out situation;
- SME Commercial Mortgages had an average indexed loan-to-value ("LTV") of 54.9 per cent.; average loan balance was approximately £322,000; 1.5 per cent. of SME Commercial Mortgage gross balances were three months or more in arrears; and the weighted average maturity on a behavioural basis was 49 months; and
- Residential Mortgages had an average indexed LTV of 65.7 per cent.; average loan balance was approximately £134,000; 0.27 per cent. of the Residential Mortgage gross balances were three months or more in arrears; and the weighted average maturity on a behavioural basis was 78 months.

Aldermore places considerable emphasis on its risk policies and governance and has processes in place to ensure that it carefully and prudently manages credit risks. Aldermore operates in markets where it has extensive industry and credit knowledge and focuses on products with asset security and strong risk adjusted returns. Using a clearly defined and consistent risk appetite, Aldermore makes its underwriting decisions using sector and product experts who are supported by modern, efficient, data driven risk management systems, allowing Aldermore to take a more pragmatic and holistic approach to its lending. Credit decisions and portfolio performance are subject to central monitoring, including the re grading of portfolios on a monthly basis to monitor for early signs of credit deterioration. Portfolio servicing and administration of loans, and when

necessary, arrears management and enforcement proceedings are all managed internally by Aldermore's in house operational team, based in the UK. The Directors believe that Aldermore's consistent approach to credit risk management is reflected in the high proportion of tangible asset collateral and low level of non performing loans. For further details on Aldermore's approach to credit risk and underwriting, see paragraph 7 of "*Description of Aldermore's Business — Credit risk management and the underwriting process*".

4.5 Strong online retail and SME deposits franchise, as recognised by customers and the industry

As at 30 June 2014, Aldermore had attracted approximately 114,000 deposit customers with a simple proposition of delivering "great returns effortlessly".

Aldermore offers a straightforward range of deposit products for retail customers including Easy Access, Notice, ISA and Fixed Rate Savings accounts, all of which can be opened and funded online as well as over the telephone or by post. Aldermore's retail deposit proposition has been recognised in the market, having received a number of awards including "Best Bank Savings Provider" from Moneyfacts in 2013 and 2014, and "Best Online Cash ISA Provider" by Your Money Awards in 2014 and it was voted as Consumer Moneyfacts "ISA Provider of the Year" for the fourth year running in 2014. Furthermore, in 2014, Aldermore received the award for "Best Business Savings Account Provider" at the Savings Champion Awards and Best Bank Savings Provider at Your Money Awards. In 2013, Aldermore also launched a 'ratings and reviews' capability enabling customers to leave feedback which Aldermore publishes unfiltered (other than reviews containing personal data or inappropriate language) and to score Aldermore's product offering. Since launch of the capability to 11 July 2014, the average rating for retail savings products was 4.5 out of 5 and the average rating for SME savings products was 4.6 out of 5. This feedback is then utilised to improve the service offered to customers.

Recognising that the SME deposit market was underserved in terms of service and proposition, Aldermore launched its small business savings accounts in 2012. Aldermore's "Know Your Business" online verification system enables SMEs to open and fund their savings accounts online within 15 minutes. The account opening process was recognised in the Business Moneyfacts Awards 2014 where Aldermore was a winner in the "Innovation in the SME Finance Sector" category. Aldermore has extended its offering through launching a Customised Fixed Rate Account that allows customers to quickly and flexibly select the exact maturity date to the day and rate combination to meet their needs, instead of picking the product of best fit from a shortlist of pre defined terms.

4.6 Leveraging scalable and efficient digital operating model

In order to support its operations, Aldermore employs a modern, onshore, IT infrastructure composed of industry standard systems that are configured to Aldermore's requirements. This digital enabling infrastructure is scalable such that it can expand to support predicted future growth with moderate ongoing investment and core IT applications are either unrestricted for future growth or structured in a manner that permits expansion through, for example additional licences. The modern nature of the IT infrastructure provides Aldermore with a flexible, reliable and secure platform that does not have any "legacy" issues.

Aldermore's modern IT infrastructure gives Aldermore a further competitive advantage and requires only moderate ongoing investment to maintain this advantage. Aldermore is therefore able to focus investment on enhancements to its IT architecture and on new initiatives that further support its customer service proposition.

The Directors believe that Aldermore's branch free distribution model is better suited to the digital era, with the regional offices representing the physical footprint that Aldermore requires to service

its SME customers. The absence of a large, under utilised branch network enables Aldermore to distribute products and service customers more cost effectively.

Furthermore, Aldermore's operations are entirely, and Aldermore's customers are almost entirely based in Great Britain. The Directors believe that this geographical simplicity is a significant strength against the backdrop of a market where many banks are undergoing costly exercises to refocus on domestic operations and core asset classes. In contrast, Aldermore has not been, and is not, exposed to legislative and regulatory regimes beyond the UK and EU, nor multiple tax regimes and has negligible exposure to foreign currencies.

Aldermore is successfully leveraging its operating model. Between 31 December 2011 and 30 June 2014, whilst Aldermore's loan book grew at a compound annual rate of 64 per cent. and its deposits by a compound annual rate of 52 per cent., the compound rate of increase in its cost base over the same period was only 31 per cent. This has driven the cost/income ratio down from 97 per cent. in 2011 to 66 per cent. in 2013, and 64 per cent. (excluding Proposed IPO Costs) in the six months to 30 June 2014. In addition, whilst Aldermore's net loan book grew at a compound annual rate of 64 per cent. between 31 December 2011 and 30 June 2014, the number of front line employees servicing customers has only increased annually by around 20 per cent. on average.

4.7 Declining funding costs driven by diversification of funding sources

Aldermore has a stable funding base which is predominantly funded by online retail and SME deposits. Further diversification of funding is provided by the RMBS issuance and Aldermore's participation in the Funding for Lending Scheme.

As at 30 June 2014, Aldermore had £3.9 billion of customer deposits with an average retention rate of 68 per cent. for the period from 1 January 2011 to 30 June 2014. Aldermore's inaugural RMBS issue was completed in April 2014, with notes priced at 67 basis points over LIBOR. As part of the Funding for Lending Scheme, which Aldermore first accessed in 2012, Aldermore has generated secured funding via sale and repurchase agreements of £189 million as at 30 June 2014, utilising securities drawn from the Funding for Lending Scheme. As at 30 June 2014, Aldermore had a loan to deposit ratio of 104 per cent.

The following table provides a breakdown of Aldermore's funding as at 30 June 2014 and as at 31 December 2013, 2012 and 2011.

	As at 30 June	As at 31 December		
	2014	2013	2012	2011
			(£'000)	
Retail deposits	3,073,990	2,945,019	2,060,694	1,358,855
SME deposits	784,543	518,999	100,995	-
RMBS	332,295	-	-	-
Funding for Lending Scheme	189,438	383,071	114,579	-
Subordinated Notes	36,095	35,571	34,600	-
Other Wholesale Funding	2,715	2,880	500	-
Total	4,419,076	3,885,540	2,311,329	1,358,855

Aldermore's average cost of funding has declined from 3.7 per cent. in 2011 to 2.8 per cent. in 2013 and to 2.3 per cent. for the six months ended 30 June 2014. This has been driven by

diversification to lower cost funding of SME deposits, the RMBS and Funding for Lending Scheme, and a decline in retail deposit costs (as Aldermore has attracted deposits at lower costs by tactically using 'Best Buy' tables and actively managed its back book and retention rates by offering more competitive rates at certain times). The Board views generation and maintenance of Aldermore's retail and SME deposit funding base as a key part of Aldermore's strategy, although Aldermore expects to undertake issuances of asset backed securities in the next couple of years to further diversify its funding mix.

The following table provides a breakdown of Aldermore's cost of funding for the six months ended 30 June 2014 and the financial years ended 31 December 2013, 2012 and 2011.

	For the six months ended 30 June 2014	For the financial year ended 31 December		
	2014	2013	2012	2011
			percentages	
Cost of funding ⁽¹⁾	2.3	2.8	3.9	3.7

Note:

- (1) Cost of funding is calculated as interest expense as a percentage of average net loans. Average net loans is calculated as net loans at the start of the period plus net loans at the end of the period divided by two. Cost of funding is presented on an annualised basis.

4.8 Strong capital base and liquidity

Aldermore has levels of capital which are in excess of the requirements set by the PRA. For the six months ended 30 June 2014, Aldermore had a fully loaded CRD IV CET1 Ratio of 10.9 per cent., a Total Capital Ratio of 12.7 per cent. and a Leverage Ratio of 5.0 per cent. Similarly, Aldermore maintains strong levels of liquidity.

The Board believes that these ratios demonstrate that Aldermore is well placed to meet the foreseeable new capital and liquidity requirements in the short to medium term from both Europe and the implementation of the recommendations of the ICB. The Board believes that Aldermore's capital base provides a platform to support continued growth. For further information on Aldermore's capital and liquidity resources, please see paragraph 12 of *"Description of Aldermore's Business — Capitalisation, liquidity and sources of funding"*.

4.9 Experienced management team leading a motivated employee base

Aldermore, led by Chief Executive Officer, Phillip Monks, has an experienced Senior Management team, which has a broad range of complementary experiences as set out in *"Directors, Senior Management and Corporate Governance"*. The Senior Management team has an entrepreneurial approach coupled with significant experience of bank operations and governance, which underpins Aldermore's future strategy.

The Board believes that, through its experienced management team and motivated employees, Aldermore is well placed to grow its business and compete effectively with its competitors.

5 Strategy

Aldermore intends to continue with its successful strategy of providing intermediaries and customers with a reliable, expert, dynamic and straightforward banking service across targeted segments. The Board

believes that by focusing on its existing model and the following strategic priorities, Aldermore can continue to take advantage of the significant growth opportunity available to it and deliver strong, sustainable risk adjusted returns:

5.1 Continuing organic growth whilst maintaining rigorous credit standards

There are positive market dynamics in Aldermore's target market segments with resurgent business confidence, strong demand for mortgages and unfulfilled demand for SME lending. Against this background, Aldermore aims to further grow its loan origination, expand its market share and seek value by utilising its expert manual underwriting (supported by efficient data driven risk management systems), and take advantage of lending opportunities whilst maintaining rigorous credit standards.

The Board believes that Aldermore can continue to grow its loan origination and achieve attractive risk adjusted returns. Aldermore expects nominal growth in net loans in line with current run rates. Furthermore, it aims to target a return on equity of around 20 per cent. by the end of 2017 and is targeting a cost/income ratio of around 40 per cent. by the end of 2017.

Aldermore will evaluate growth opportunities in its existing four key lending segments and seek to move into new specialist sub sectors as demonstrated by the recent expansion of its Residential Mortgages proposition into the short term property finance market with a range of bridging products.

5.2 Further enhancing its customer value proposition

Aldermore provides expertise in each of its chosen customer and lending segments. For example, within Asset Finance, Aldermore has specialist sales teams focused on materials handling, construction, agriculture and professional practices. Aldermore has developed a targeted proposition for the logistics industry, incorporating an invoice finance facility with a fuel card where customers can benefit from up to 14 days free credit on their fuel purchases and the ability to finance the purchase of new vehicles. More recently, Aldermore launched a proposition targeted at recruitment agencies providing an invoice finance facility and access to third party services such as back office support (e.g. payroll), industry body membership and credit risk management at preferential rates. Aldermore believes there is the opportunity to enhance further its proposition to provide a more holistic offering to customers based upon their needs in a number of other customer/industry segments, such as the private rental sector/landlords. By deepening and broadening customer relationships, Aldermore aims to increase its cross selling of products to customers.

5.3 Strengthening distribution channels including direct and existing relationships with intermediaries

Aldermore intends to strengthen further its distribution channels across each of its four key lending segments:

- **Asset Finance:** further developing its "vendor" proposition by developing existing relationships and forming new relationships with equipment vendors, dealers and manufacturers and SME businesses, strengthening its relationship with intermediaries in order to increase repeat business, investing further in IT to deliver improvements in processing by completing a straight through origination and servicing platform, improving service levels and response times and developing a more comprehensive tablet based self service intermediary portal, allowing complex transaction pricing, credit application backed by auto credit decisioning, on line documentation production and the potential for an e signature capability. In addition, introducers would be able to review their portfolio performance through interactive self service dashboards;

- **Invoice Finance:** leveraging strategic partnerships with national brokers to drive increased volumes and expanding its direct marketing activity by increasing its online and outbound call capability. Aldermore also plans to develop a direct sales portal for Invoice Finance to enable intermediaries to transact digitally and enable broker and direct portals to be available on tablet and mobile devices. Furthermore, Aldermore recently launched a targeted offering for accountancy practices acting as introducers and plans to develop distribution via referrals from accounting practices;
- **SME Commercial Mortgages:** expanding its broker panel and leveraging existing relationships to drive volume, further developing its direct proposition by growing its sales team to support origination growth and developing its broker portal technology where intermediaries can obtain a “decision in principle” online and to increase direct sales. Furthermore, Aldermore is seeking to leverage its integrated approach to customers in the private rental sector so that a single team at Aldermore is able to service a full spectrum of customers from amateur landlords to large corporate portfolios; and
- **Residential Mortgages:** continuing to develop intermediaries distribution to encourage repeat business and developing further its direct distribution channel by using the same portal technology that it uses to support its intermediaries network and improve retention rates through loyalty fixed rate products. Also providing a more holistic private rental sector offering through further enhanced broker access to its processes through the introduction of a single online point of entry irrespective of the type of property or portfolio.

Aldermore’s regional offices give good national coverage in Great Britain and the Directors do not see this number growing significantly in the near term. Historically, the regional office network supported the Invoice Finance segment. However, it will be increasingly used to cross sell into other business segments through its customer relationship managers.

5.4 Developing product franchise and continued product innovation

Aldermore has developed a strong suite of products in its chosen segments and believes there are opportunities to extend this further to other areas that offer strong risk adjusted returns. Each new product offering is supported by the relevant underwriting and sector expertise.

Asset Finance

Aldermore has recently launched finance for “soft assets” such as telephony and IT systems, a wider array of hard assets and started providing stocking finance for dealers and vendors in order to support Aldermore’s expansion within the vendor distribution channel. Going forward, Aldermore plans to continue with the expansion of its Asset Finance products range.

Invoice Finance

Aldermore intends to further expand its offering through providing trade finance and enhancing its “bad debt” protection products as well as the recently launched construction finance and recruitment finance propositions. Approximately 13 per cent. of invoice finance clients in the UK market currently use export or import financing and the construction sector represents approximately 5.0 per cent. of current invoice finance client numbers in the market⁵.

SME Commercial Mortgages

Aldermore intends to expand its product offering and explore cross selling opportunities into other business lines. Product development in the SME Commercial Mortgages division is predominately focused on the private rental sector proposition which is viewed as a developing sub sector.

⁵ Source: The Asset Based Finance Association data as at December 2013

Aldermore has created a centre of industry excellence which provides accessible financial solutions to support customers in the private rental sector.

Residential Mortgages

The Directors believe there is the opportunity to develop a more focused product set for self employed borrowers and professionals and to provide larger loans in the owner occupied sector. Aldermore has also recently entered into the short term property finance market with a range of bridging products designed to help customers bridge a financing gap to secure a property or development project.

Savings

Aldermore has recently extended its offering through the launch of a customised fixed rate savings account which allows SME customers to select quickly and flexibly the exact maturity date and rate combination to meet their needs, instead of picking the product of best fit from a shortlist of pre defined terms. The core benefit to customers is that the product enables them to maximise the return on their savings by leaving the funds in the account until the last date before withdrawal. Aldermore is exploring the potential of cross selling wealth management services and is developing additional routes to market including optimisation of cross sales to existing customers.

5.5 Leveraging Aldermore's digital capability

The Board believes that leveraging Aldermore's modern digital capability is key to its future strategy. As at 30 June 2014, approximately 114,000 saving accounts were accessed by online users. Aldermore has also developed a strong social media presence and has also launched an "Ask and Answer" service that is designed to encourage further engagement with SMEs. In the Residential Mortgages segment, Aldermore intends to further develop its direct distribution channel by using the same portal technology that it uses to support its intermediaries network.

Aldermore believes its digital capability can be further leveraged to (i) enable Aldermore to execute product innovation and proposition development in an efficient and cost effective manner, (ii) simplify the customer journey and "take the hassle" out of banking (further building customer advocacy and loyalty), (iii) identify more opportunities for cross selling through innovative use of data, (iv) enhance process efficiency and (v) deepen and extend credit understanding and insights.

Aldermore aims to leverage its scalable digital platform in order to continue growing the size of its loan book and deposits whilst managing costs associated with servicing. Aldermore has already demonstrated its capability in this regard.

6 Group structure and principal subsidiaries

The Issuer is the parent of the Group and has one principal subsidiary, Aldermore Bank PLC. Aldermore Bank PLC is a UK deposit taking institution, authorised by the PRA and regulated by the PRA and the FCA. As at the date of this Information Memorandum, the Issuer has 89.96 per cent. of its issued share capital (excluding Class C Ordinary Shares) held by funds advised by AnaCap.

7 Business and activities

7.1 Introduction

Aldermore offers a range of banking products and services to SMEs and individuals in the UK across four targeted lending segments: Asset Finance, Invoice Finance, SME Commercial Mortgages and Residential Mortgages. It also offers a range of savings and deposit accounts.

Aldermore's business focuses on organic loan origination. Between 1 January 2011 and 30 June 2014, 98 per cent. of loan origination was generated organically.

The following table sets out summary information relating to Aldermore's market segments for the six month period ended and as at 30 June 2014.

For the six months ended/as at 30 June 2014						
	Asset Finance	Invoice Finance	SME Commercial Mortgages	Residential mortgages	Central Function	Total
Net interest income	16,195	2,899	18,023	27,155	(3,090)	61,182
Total operating income/(expense)	17,701	11,714	18,420	28,662	(2,641)	73,856
Segmental result	11,284	1,789	12,144	24,460	(31,069)	18,608
Assets	871,119	203,693	894,877	2,039,231	752,235	4,761,155
Liabilities	-	-	-	-	(4,480,772)	(4,480,772)

The following table sets out summary information relating to Aldermore's market segments for the financial year ended and as at 31 December 2013.

For the year ended/as at 30 December 2013						
	Asset Finance	Invoice Finance	SME Commercial Mortgages	Residential mortgages	Central Function	Total
Net interest income	23,015	5,061	25,348	31,750	(4,532)	80,642
Total operating income/(expense)	25,007	22,922	25,437	34,625	354	108,345
Segmental result	12,921	3,272	18,680	26,420	(35,601)	25,692
Assets	720,198	211,962	761,998	1,679,686	829,148	4,202,992
Liabilities	-	-	-	-	(3,937,635)	(3,937,635)

7.2 Asset Finance

Aldermore offers Asset Finance to fund SME capital investment in certain assets including plant and machinery, commercial vehicles, cars, IT and telephony equipment, business equipment and receivables. Aldermore focuses on specific asset sectors such as logistics, manufacturing, construction and agriculture because they:

- exhibit a high propensity for use of Asset Finance;
- offer strong, risk adjusted returns;
- provide diverse end user risk exposure; and
- have established and liquid secondary asset markets.

The Directors believe that Aldermore differentiates itself in this segment through its combination of depth of industry expertise (including logistics, manufacturing, construction and agriculture), competitive pricing of simple, transparent products and focus on specific types of asset classes.

Furthermore, Aldermore has a strong intermediaries proposition consisting of approximately 400 broker and 300 vendor or dealer relationships. These intermediaries utilise an online broker portal and have access to Aldermore's underwriters, thereby allowing them to discuss individual loan applications directly with sector experts.

Aldermore's customers are geographically spread throughout the UK across a range of sectors. The following table sets out a breakdown of Aldermore's Asset Finance book by asset type as at 30 June 2014.

Asset Type	As at 30 June 2014
	(percentage)
Logistics	18
Manufacturing.....	13
Construction	10
Wholesale and retail trade.....	10
Real estate	8
Community activities	6
Financial intermediation	5
Agriculture	5
Utilities	2
Other ⁽¹⁾	23
Total	100

Note:

(1) "Other" includes education, health and mining.

Aldermore offers Asset Finance loans on single transactions of predominantly between £5,000 and £1 million with an average loan balance of approximately £33,000 as at 30 June 2014. 87 per cent. of Aldermore's Asset Finance portfolio is secured against tangible assets as at 30 June 2014. 0.33 per cent. of gross balances were three months or more in arrears as at 30 June 2014.

The majority of Aldermore's Asset Finance loans are secured against the underlying asset, predominantly business critical assets, that is being acquired using the loan on terms which allows for the repossession and sale of the asset if the borrower fails to comply with the terms of the loan.

As at 30 June 2014, Aldermore had approximately 26,000 Asset Finance customers with net lending of £871.1 million and with a market share of approximately 2.9 per cent. of the total UK Asset Finance market⁶. For the six months ended 30 June 2014 and for the year ended 31

⁶ (a) Market size: Market size used for calculating Aldermore's market share based on annualised total market for H1 2014. Data from: Finance & Leasing Association (Asset Finance).

(b) Market share: Aldermore's market share is based on H1 2014 origination for Asset Finance.

December 2013, Aldermore's net new lending amounted to £150.9 million and £341.9 million respectively. Aldermore currently offers both fixed term and variable rate asset financing.

Aldermore offers Asset Finance through hire purchase, leasing or loans. Hire purchase entails the borrower paying an initial deposit and VAT at the time of purchase followed by payment of the remaining balance and interest through regular instalments. The asset is purchased by Aldermore on behalf of the borrower and is owned by Aldermore until the borrower has made the final payment at which stage ownership is transferred to the borrower.

Asset Finance through leasing involves Aldermore buying and owning the asset. The borrower enters into an agreement with Aldermore whereby it hires the asset from Aldermore at an agreed rent over a set period. The borrower has the option of retaining use and possession of the asset when the lease contract expires, potentially at a price agreed at the start of the lease period. Alternatively, the borrower can sell the equipment for and on behalf of Aldermore and retain the vast majority of the sale proceeds as a rebate of rentals. As the asset owner, Aldermore claims and reflects any available writing down allowances on the asset purchase in lower monthly lease payments.

As an extension to Aldermore's Asset Finance offering for office equipment, it also provides unsecured loans to accountants and solicitors. Furthermore, some contracts are secured on assets and do not constitute lease or hire purchase agreements.

The following table sets out a breakdown of Aldermore's Asset Finance lending by product type as at 30 June 2014 and 31 December 2013.

Product Type	As at 30 June 2014	As at 31 December 2013
	(percentages)	
Hire purchase lending	64	62
Lease lending	24	25
Loans & Other ⁽¹⁾	12	13
Total	100	100

Note:

(1) "Other" includes transfers of contracts from other financial institutions.

In order to ensure that the borrower can meet its loan repayment obligations, Aldermore seeks to ensure, among other things, that the borrower is generating sufficient cash flow to repay the loan. It carries out checks on the borrower's financial background, current business performance and credit report.

During the financial year ended 31 December 2013, approximately 77 per cent. of Aldermore's Asset Finance loans were originated through brokers and approximately 79 per cent. during the six months ended 30 June 2014. Aldermore also works with equipment vendors, dealers and manufacturers to provide Asset Finance. This entails providing finance to a vendor's customer to enable them to acquire or lease the vendor's equipment. Aldermore takes security over the asset until the loan has been repaid. For information about Aldermore's strategy in the Asset Finance segment, please see paragraph 5.

7.3 Invoice Finance

Aldermore provides working capital for SMEs by lending against outstanding invoices issued by the borrower to its customer. The borrower will receive an advance of up to 85 per cent. of the value of approved invoices, although Aldermore's Invoice Finance loans are secured by way of security on the whole book of receivables.

The Directors believe that Aldermore differentiates itself in this segment through its industry expertise (including manufacturing, wholesale, construction, recruitment and logistics), simple and clearly priced products and responsive customer service through its sector specialist service teams and local relationship managers. In addition, Aldermore has a strong intermediaries proposition consisting of approximately 600 intermediaries.

Aldermore offers invoice financing in the form of factoring and invoice discounting. Factoring, which is typically offered to smaller businesses without a dedicated sales ledger management function, involves Aldermore advancing up to 85 per cent. of the value of approved invoices and its credit control team taking responsibility for the borrower's debt collection. The average advance rate against invoices was 71 per cent. as at 30 June 2014.

Invoice discounting, which is typically offered to larger businesses with an effective accounts function, entails advancing up to 85 per cent., of the borrower's outstanding sales ledger. The borrower continues to control its sales ledger and is responsible for collecting the debt from its customer.

Aldermore's invoice financing clients are typically owner managed SME businesses with a local or national sales focus in sectors such as manufacturing, wholesale, recruitment and logistics. The following table sets out a breakdown of Aldermore's Invoice Finance book by client sector as at 30 June 2014.

Client Sector	As at 30 June 2014
	(percentage)
Manufacturing.....	35
Wholesale.....	19
Recruitment	13
Other business activities	13
Logistics	12
Other ⁽¹⁾	8
Total	100

Note:

(1) "Other" includes construction, recycling and securities activities.

As at 30 June 2014, Aldermore had approximately 1,300 Invoice Finance customers with total net lending of £203.7 million representing approximately 1.1 per cent. of the total UK invoice finance

market⁷. During the six months ended 30 June 2014 and during the year ended 31 December 2013, Aldermore's net new lending amounted to £(8.3) million and £33.3 million respectively. As at 30 June 2014, 4.4 per cent. of balances were in a collect out situation.

The following table sets out a breakdown of Aldermore's Invoice Finance book by product type as at 30 June 2014 and 31 December 2013.

Product Type	As at 30 June 2014	As at 31 December 2013
	(percentages)	
Factoring	51	53
Invoice discounting	49	47
Total	100	100

During the financial year ended 31 December 2013, approximately 77 per cent. of Aldermore's Invoice Finance loan assets were originated through intermediaries and approximately 64 per cent. during the six months ended 30 June 2014. For information about Aldermore's strategy in the Invoice Finance segment, please see paragraph 5 of "*Description of Aldermore's Business — Strategy*".

7.4 SME Commercial Mortgages

Aldermore's SME Commercial Mortgages portfolio consists of mortgage loans to SMEs and professional property investors, secured on primarily professionally managed residential buy to let portfolios and commercial property (including retail premises, offices, industrial units and warehouses). In addition, Aldermore finances a modest amount of property development with a focus on residential development by established regional developers with a proven track record. It offers mortgages up to a maximum of £2 million on a single property, rising to £5 million over multiple properties.

Aldermore's SME Commercial Mortgage loans are fully secured by way of first ranking charge on the property, to ensure that Aldermore's claim to the property, in the event of default, is senior to those of other potential creditors. The terms of the mortgage loan allow for repossession and sale of the property if the borrower fails to comply with the terms and conditions of the loan.

As at 30 June 2014, Aldermore's SME Commercial Mortgages had an average indexed LTV of 54.9 per cent. with a maximum available LTV on commercial mortgages of 75 per cent. on commercial property and 80 per cent. on residential investment property. As at 30 June 2014, the average loan balance was approximately £322,000 and 1.5 per cent. of SME Commercial Mortgage gross balances were three months or more in arrears.

As at 30 June 2014, Aldermore had approximately 2,800 SME Commercial Mortgage customers with net loans of £894.9 million and had approximately 1.1 per cent. of the UK SME commercial

⁷ (a) Market size: Market size used for calculating Aldermore's market share for Invoice Finance represents a stock figure as at period end H1 2014. Data from: Asset Based Finance Association (Invoice Finance).
(b) Market share: Market share for Invoice Finance based on H1 2014 period end balance.

mortgage market⁸. During the six months ended 30 June 2014 and during the year ended 31 December 2013, Aldermore's net new lending amounted to £132.9 million and £216.2 million respectively. Aldermore's SME Commercial Mortgage loans are generally granted for a term between 5 and 20 years.

Aldermore offers commercial investment mortgages (where the borrower is seeking to purchase a property which will be rented by tenants), owner occupied business mortgages (where businesses trade from their own premises) and commercial buy to let mortgages.

The following table sets out a breakdown of Aldermore's SME Commercial Mortgages by product type as at 30 June 2014 and 31 December 2013.

Product Type	As at 30 June 2014	As at 31 December 2013
	(percentages)	
Professional buy to let mortgages	54	54
SME Commercial Mortgages	40	41
Property development	6	5
Total	100	100

The following table sets out the geographical distribution of Aldermore's SME Commercial Mortgage loans as at 30 June 2014.

Region	As at 30 June 2014
	(percentage)
East Anglia	7
East Midlands	5
Greater London	20
North East	3
North West	15
Scotland	6
South East	17
South West	10
Wales	3
West Midlands	7
Yorkshire & Humberside	6
Total	100

⁸ (a) Market size for SME Commercial Mortgages based on H1 2013 DMU study. H1 2013 market origination annualised to give market size.

(b) Market share: Aldermore's market share is based on H1 2014 origination for SME Commercial Mortgages.

Aldermore currently offers both fixed term and variable rate SME Commercial Mortgage loans. The fixed rate mortgage is fixed for an agreed period of time, usually 2, 3 or 5 years. At the end of the fixed rate period, most mortgages revert to LIBOR and a small number to Bank of England Base Rate.

The variable rate mortgage is mostly linked to LIBOR for the term of the mortgage.

In order to reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, Aldermore 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 or variable rate for the particular product.

The following table provides a breakdown of Aldermore's SME Commercial Mortgages, broken down by interest rate type, as at 30 June 2014 and 31 December 2013.

Interest rate type	As at 30 June 2014	As at 31 December 2013
	(percentages)	
Fixed rate	10	7
Variable rate	90	93
Total	100	100

Aldermore offers repayment and interest only SME Commercial Mortgages. Borrowers with repayment mortgages pay off both interest and capital, usually on a monthly 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.

The table below sets out Aldermore's SME Commercial Mortgage loans, broken down by repayment type as at 30 June 2014.

Mortgage by repayment type	As at 30 June 2014
	percentages
Repayment	45
Interest only	55
Total	100

Aldermore manages its credit portfolio by regularly monitoring the credit profile of each of its borrowers and credit exposure concentrations in particular industries or corporate groups. In the context of SME Commercial Mortgages, Aldermore has certain lending criteria which seek to ensure that the borrower has a clear credit history. Furthermore, Aldermore requires borrowers to supply detailed financial information or demonstrate a strong financial track record before mortgage loans are approved.

During the financial year ended 31 December 2013, approximately 91 per cent. of Aldermore's SME Commercial Mortgages were originated through intermediaries and approximately 92 per cent. during the six months ended 30 June 2014.

For information about Aldermore's strategy in the SME Commercial Mortgages segment, please see paragraph 5 of *"Description of Aldermore's Business — Strategy"*.

7.5 Residential Mortgages

As at 30 June 2014, Aldermore had approximately 15,000 Residential Mortgage customers and net lending of £2.0 billion. It is estimated that Aldermore had at 30 June 2014 0.5 per cent. of the UK residential mortgage market⁹. During the six months ended 30 June 2014 and during the year ended 31 December 2013, Aldermore's net new lending amounted to £359.5 million and £725.9 million respectively. Aldermore's Residential Mortgage loans are generally granted for a term of between 10 and 35 years although weighted average maturity on a behavioural basis (i.e. until the mortgage is expected to be refinanced by a new mortgage from another lender or otherwise repaid) is 78 months.

The Directors believe that Aldermore differentiates itself in the Residential Mortgages segment through its use of modern technology enabling it to provide a responsive customer service and by system driven credit rules enabling efficient use of manual underwriting to determine whether to lend to customers. In contrast to some large incumbent banks, Aldermore utilises personnel who possess extensive sector and product expertise to make underwriting decisions. This allows Aldermore to adopt a more pragmatic approach to its mortgage lending and enables it to lend to those customers who despite having a prime credit rating may fall outside the lending criteria of the automated decision processes used by some large incumbent banks, for example, people who are self employed, first time buyers or returning residents to the UK. Aldermore's credit risk management processes were established with the FCA's Mortgage Market Review in mind and as such required no significant adjustment to be compliant with the rules introduced following the FCA's Mortgage Market Review in April 2014.

Aldermore's lending portfolio consists of Residential Mortgage loans to borrowers in the form of either residential lending (where the borrower is the owner and occupier of the mortgaged property) or buy to let lending (where loans are advanced to borrowers who currently let or intend to let the mortgaged property).

The following table sets out a breakdown of Aldermore's Residential Mortgages by product type as at 30 June 2014 and 31 December 2013.

Product type	As at 30 June 2014	As at 31 December 2013
	(percentages)	
Buy-to-let lending	69	70
Residential lending (owner/occupier)	31	30
Total	100	100

⁹ (a) Market size: Market size used for calculating Aldermore's market share based on annualised total market for H1 2014. Data from: CML (Residential Mortgages).

(b) Market share: Aldermore's market share is based on H1 2014 origination for Residential Mortgages.

Aldermore's Residential Mortgage loans are secured on the UK residential property of the borrower on terms which allow for repossession and sale of the property if the borrower fails to comply with the terms and conditions of the loan. The security is taken by way of first ranking charge on the property to which the mortgage loan relates to ensure that Aldermore's claim to the property, in the event of default, is senior to those of other potential creditors.

Aldermore Residential Mortgages had an average indexed LTV of 65.7 per cent. as at 30 June 2014. The maximum available LTV for owner occupied mortgages without additional security is 85 per cent., increasing to 95 per cent. where backed by the Help to Buy Mortgage Guarantee scheme and up to 100 per cent. under the Family Guarantee product range (where a charge is also taken over the guarantor's property). Aldermore offers Residential Mortgages of up to £1 million with an average loan balance of approximately £134,000 as at 30 June 2014. At the same date, 0.27 per cent. of the Residential Mortgage gross balances were three months or more in arrears.

Aldermore currently offers fixed term, variable rate and discount rate mortgages. The fixed rate mortgage is fixed for an agreed period of time, usually 2, 3 or 5 years. At the end of the fixed rate period, the mortgage reverts to the Aldermore Managed Rate.

The variable rate mortgage is linked to the Aldermore Managed Rate for the term of the mortgage. With a discounted rate mortgage, the initial rate payable is reduced by a set amount from the Aldermore Managed Rate for an agreed period, usually 1 or 2 years. At the end of the discounted rate period, the mortgage reverts to a variable rate linked to the Aldermore Managed Rate. To reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, Aldermore applies 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, variable or discounted rate for the particular product.

The following table provides a breakdown of Aldermore's Residential Mortgages, broken down by interest type, as at 30 June 2014 and 31 December 2013.

Interest rate type	As at 30 June 2014	As at 31 December 2013
	(percentages)	
Fixed rate	58	60
Variable rate	42	40
Total	100	100

Aldermore offers repayment and interest only Residential Mortgages. Borrowers with repayment mortgages pay off both interest and capital, on a monthly basis. Borrowers with interest only mortgages pay off only the interest, on a monthly basis, and repay the capital at the expiry of the mortgage term. In line with the wider market, Aldermore's buy to let mortgages are typically interest only. Aldermore applies rigorous affordability rental cover tests as part of its underwriting process and assessments of asset suitability for the purpose of security for its buy to let mortgages.

The table below sets out Aldermore's Residential Mortgage loans, broken down by repayment type as at 30 June 2014.

Mortgage by repayment type	As at 30 June 2014
	percentages
Repayment	26
Interest only	74
Total	100

The following table sets out the geographical distribution of Aldermore's Residential Mortgage loans as at 30 June 2014.

Region	As at 30 June 2014
	(percentage)
East Anglia	10
East Midlands	5
Greater London	27
North East	3
North West	10
Scotland	2
South East	21
South West	9
Wales	3
West Midlands	6
Yorkshire & Humberside	5
Total	100

In order to minimise credit risk on Residential Mortgages, Aldermore's credit procedures for Residential Mortgage lending take into account, among other factors, the borrower's credit history, LTV criteria and income multiples.

During 2013, approximately 91 per cent. of Aldermore's Residential Mortgages were originated through intermediaries and approximately 87 per cent. during the six months ended 30 June 2014.

For information about Aldermore's strategy in the Residential Mortgages segment, please see paragraph 5 of *"Description of Aldermore's Business — Strategy"*.

7.6 Savings

Aldermore offers a range of straightforward retail and SME business saving products to its customers.

As at 30 June 2014, Aldermore's savings deposit base had approximately 114,000 customers and £3.9 billion of deposits, having grown at a compound average rate of 52 per cent. since 1 January 2011. As at 30 June 2014, Aldermore's loan to deposit ratio was 104 per cent. and the average balance per account was approximately £34,000. The vast majority of savers are fully covered by

FSCS with only approximately 250 customers that were not eligible for FSCS cover (as per FSCS test result in May 2014).

The following table compares Aldermore's savings deposits by type of customer segment as at 30 June 2014, 31 December 2013, 31 December 2012 and 31 December 2011.

	As at 30 June 2014 (£ millions)	As at 31 December		
		2013	2012 (£ millions)	2011
Retail deposits	3,074	2,945	2,061	1,359
SME deposits	785	519	101	--
Total	3,859	3,464	2,162	1,359

Aldermore offers a range of fixed term, notice, easy access and cash ISA products. The following table provides a breakdown of Aldermore's retail savings account book by account type as at 30 June 2014 and 31 December 2013.

Retail savings deposits	As at 30 June 2014	As at 31 December 2013
	(percentages)	
Fixed Rate Accounts	45	44
Notice Accounts	19	20
Easy Access Accounts	18	18
Fixed Rate Cash ISAs	10	10
Notice Case ISAs	8	7
Total	100	100

The following table provides a breakdown of Aldermore's SME savings account book by account type as at 30 June 2014 and 31 December 2013.

SME savings deposits	As at 30 June 2014	As at 31 December 2013
	(percentages)	
Fixed Rate Accounts	52	59
Fixed Accounts with Access	2	2
Customised Fixed Rate Accounts	8	1
Easy Access Account.....	38	38
Total	100	100

Aldermore operates its SME deposit product on an in house IT platform. The Directors believe that this innovative platform enables product and service differentiation and provides potential for future product expansion.

Aldermore has outsourced administrative back office services for its retail deposit business to Newcastle Building Society allowing it to benefit from Newcastle Building Society's regulatory and operational expertise. These services include product set up and maintenance, customer on boarding, account opening and management, account closures, management of online application and transaction pages and certain telephone and postal based account operating services. The Newcastle Building Society relationship is managed by a dedicated team at Aldermore which provides effective governance and oversight of pre determined performance service standards. Aldermore retains control of proposition, pricing, customer communication and any intellectual property in relation to product design.

As part of its growth strategy in the deposit savings market segment, Aldermore intends to:

- improve customer experience by core software and environment updates;
- enhance technological functionality to drive additional purchases and launch new products;
- develop cross selling opportunities with the existing savings base;
- extend customer base with retail by targeting the family segment and leveraging the existing Aldermore SME franchise; and
- expand distribution by entry into the corporate deposit market and exploring third party distribution partnerships.

8 Credit risk management and the underwriting process

8.1 Credit risk management

Aldermore manages credit risks associated with lending through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. Each business segment has separate rules and applications have to conform to the criteria therein.

Aldermore also seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and through limiting concentrated exposures on larger loans or certain sectors which can represent higher risk.

8.2 The underwriting process

Asset Finance

In Asset Finance, the underwriting process is initiated by the intermediary submitting an application to Aldermore via, depending on the intermediary's technical capabilities, its online proposal system, direct interface with Aldermore's system or email.

Whilst Aldermore has built and is using an auto decisioning capability for smaller lower risk transactions, currently proposals are submitted to manual underwriters with appropriate credit approval mandate and industry expertise. Smaller transactions (i.e. less £200,000) are generally underwritten within 4 hours of submission whilst larger and more complex transactions are generally handled within 2 business days. As part of the underwriting process, individual underwriters will proactively engage with the intermediary to request additional information to enable a timely credit decision.

A team of underwriters carefully reviews all applications. Information on the business and the individuals behind the business is considered and financial and credit information is obtained from external credit reference agencies. Assets which act as security are valued and the future resale value of assets is, where appropriate, also considered. Where appropriate, audits and site visits are used to ensure that Aldermore maintains oversight of certain facilities as well as an awareness of the location, use and condition of assets being financed.

Credit approval mandates are tiered on the basis of loan size and asset category. If a transaction is larger than the underwriter's credit mandate, it will be referred to a more senior underwriter or to the credit committee. Underwriting decisions are monitored through a quality control process for training and development of the teams and to ensure credit policies are being followed.

Invoice Finance

In Invoice Finance, following the application, a fact finding site visit is undertaken by a regional manager. Where appropriate non binding indicative terms are offered to the customer. If the terms are accepted, a formal collateral survey is undertaken usually by an internal survey team. However, in more complex cases, the survey may be outsourced to a panel surveyor. For applications in excess of £0.5 million, an internal cross functional deal forum is held.

On receipt of the debtor book survey, a full credit application is submitted to the central underwriting team via Aldermore's customer relationship management system. The approval process includes a detailed review of the management, financial and operational strength of the client's business and careful consideration is given to the quality and contractual collectability of the underlying receivables which act as security. Information on the business and the individuals behind the business is carefully reviewed and financial and credit information is obtained from external credit reference agencies.

During the term of the facility, audits and reconciliations are performed to ensure the risk of fraud and default risks associated with client failure are carefully managed.

Credit approval mandates are tiered on the basis of loan size and asset category. If a transaction is larger than the underwriter's credit mandate, it will be referred to a more senior underwriter or to the credit committee. Where required, the underwriter will request additional decision making information from the regional sales manager.

In order to ensure appropriate credit quality, the underwriters are subject to quality control assessments.

SME Commercial Mortgages

In SME Commercial Mortgages, the underwriting process is initiated by the submission of an application to Aldermore's portal for an initial "Heads of Terms" decision. All full applications are subject to manual underwriting by qualified and tested personnel who are subject to quality control assessments from credit risk as well as internal audits.

Properties are individually valued and a detailed report produced to ensure the property represents suitable security. Consideration is given to whether the property has alternate use or has an identifiable market in the event of default, where the asset acting as security has to be recovered and sold. Valuations are performed by qualified external surveyors. The valuation reports also provide commentary on the tenancy/letting of properties where the commercial mortgages are connected to an investment property transaction.

Affordability assessments are performed on all loans and other forms of security are often obtained, such as a personal guarantee.

Residential Mortgages

In Residential Mortgages, the underwriting process is initiated by the submission of an application to Aldermore's paperless portal. An initial assessment of the application is carried out and the intermediary/customer is able to obtain a "decision in principle" within 90 seconds. Rules embedded within the on line system determine if an application auto fails or auto passes, then requesting key information via portal messaging. Applications that auto fail as well as approved "decisions in principle" are referred by the system for manual underwriting. These go to mandated underwriters who have been trained and tested as suitable to hold mandates at various levels. Applications are underwritten in accordance with a residential mortgage lending policy and each loan has to undergo an affordability assessment, which takes into account the specific circumstances of each borrower. Information is obtained on all loan applications from credit reference agencies which provide a detailed insight into the applicant's credit history and indebtedness which is carefully reviewed by the underwriters.

As in other business segments, credit approval mandates are tiered on the basis of loan size and asset category. If a transaction is larger than the underwriter's credit mandate, it will be referred to a more senior underwriter or to the credit committee.

In order to ensure appropriate credit quality, the underwriters are subject to quality control assessments.

9 Distribution channels

Aldermore has an efficient distribution model which combines a wide range of specialist lending intermediaries and direct customer distribution with a modern digital infrastructure. Aldermore does not have a traditional branch network. Instead, Aldermore distributes its products predominantly through intermediaries, and also utilises distribution online, by phone or from its regional offices around Great Britain.

Aldermore distributes its products primarily through:

9.1 Intermediaries

Aldermore's intermediary led distribution model is designed to meet the needs of its customers and provide Aldermore with a scalable platform for future growth. Generally, across the banking industry, SME customers tend to seek advice from intermediaries/brokers due to lack of in house expertise. Similarly, a significant proportion of mortgage customers tend to seek advice from qualified mortgage brokers.

Aldermore has access to a wide range of specialist lending intermediaries and brokers. Its total distribution network comprises approximately 14,000 brokers and intermediaries thereby ensuring that Aldermore is not reliant on any particular intermediary or group of intermediaries. During the six months ended 30 June 2014, Aldermore derived approximately 85 per cent. of its lending business from intermediaries.

Asset Finance

The Asset Finance segment is supported by approximately 400 brokers and 300 vendors or dealers. Of total origination of £339 million in the six months ended 30 June 2014, distribution via intermediaries was 79 per cent. The top ten brokers accounted for 22 per cent. of origination in the year ended 31 December 2013.

Invoice Finance

The Invoice Finance segment is supported by approximately 600 intermediaries. Of total origination of £27 million in the six months ended 30 June 2014, distribution via intermediaries was 64 per cent. The top ten brokers accounted for 24 per cent. of origination in the year ended 31 December 2013.

SME Commercial Mortgages

The SME Commercial Mortgages segment is supported by over 800 intermediaries. Of total origination of £195 million in the six months ended 30 June 2014, distribution via intermediaries was 92 per cent.. Aldermore maintains a tightly controlled broker panel for its SME Commercial Mortgage products, which it regularly reviews. Strategic relationships with key brokers include a trading arrangement with "Mortgages for Business". The top ten brokers accounted for 57 per cent. of origination in the year ended 31 December 2013.

Residential Mortgages

Of total origination of £480 million in the six months ended 30 June 2014, distribution via intermediaries was 87 per cent. Aldermore has approximately 12,000 registered and FCA authorised brokers with strong strategic relationships with major distributors (including Legal & General, Sesame Bankhall and Connells). The top ten brokers accounted for 9 per cent. of origination in the year ended 31 December 2013.

Aldermore works closely with its intermediaries in collating information required for assessing customer credit quality. Aldermore's IT infrastructure supports its intermediaries network in a number of ways, providing easy access and facilitating decision making. For example, in the Residential Mortgages market, intermediaries can submit applications to Aldermore's paperless portal within 15 minutes and receive an initial credit decision within 90 seconds. Furthermore, intermediaries can monitor the progress of an application online and speak directly to an experienced underwriter if required in order to discuss individual cases.

9.2 Direct

Internet

Aldermore employs a modern IT infrastructure to support the offering of its products directly to its customers through the internet.

Direct sales for the year six months ended 30 June 2014 accounted for 21 per cent. for Asset Finance¹⁰, 36 per cent. for Invoice Finance, 8 per cent. for SME Commercial Mortgages and 13 per cent. for Residential Mortgages. Almost all SME deposit accounts and 76 per cent. of retail savings accounts are opened directly online.

The expansion of its direct distribution channels is a key part of Aldermore's future digital strategy (for further details see paragraphs 4.6 and 5.3 of "*Description of Aldermore's Business — Key strengths — Leveraging scalable and efficient digital operating model*" and "*Description of Aldermore's Business — Strategy — Strengthening distribution channels including direct and existing relationships with intermediaries*").

Telephony

Aldermore has a telephony service in connection with its retail and SME deposits business and an in bound only telephony service in connection with its Residential Mortgage business. During the six months ended 30 June 2014, it distributed approximately 6 per cent. of its retail business

¹⁰ Asset Finance figure includes vendor and direct distribution

through telephony. The back office operations (including telephony) for its retail deposits business have been outsourced to Newcastle Building Society (for further details see paragraph 7.6 of *“Description of Aldermore’s Business — Business and activities — Savings”*). Aldermore’s Invoice Finance segment currently operates a limited telephony service. As part of its growth strategy, Aldermore plans to enhance its direct sales capability via telephony.

In person

Aldermore undertakes client management and makes some direct sales, in person, through staff based at a number of its regional offices. Historically, the regional office network supported the Invoice Finance segment. However, it will be increasingly used to cross sell into other business segments through its customer relationship managers.

10 Information technology

Aldermore employs a modern, onshore IT infrastructure composed of industry standard systems that are configured to Aldermore’s requirements. This digitally enabled infrastructure is scalable such that it can expand to support predicted future growth with moderate ongoing investment. Core IT applications are either unrestricted for future growth or structured in a manner that permits, for example expansion through additional licences. The modern nature of the IT infrastructure provides Aldermore with a flexible, reliable and secure platform that does not have any “legacy” issues.

The Board appreciates that as Aldermore develops its online proposition, expands its product franchise and develops its overall market profile, the availability and stability of its IT platform will become increasingly critical to enable growth and to build brand reputation. Given the importance of Aldermore’s IT infrastructure to its future growth, Aldermore continues to invest in its digital capabilities.

During 2011, 2012 and 2013, Aldermore invested £7.3 million, £9.1 million and £9.2 million respectively across both capital and operational expenditure, and in the six months ended 30 June 2014, Aldermore invested £5.5 million in its IT infrastructure:

- improving data centre resilience and workload balancing by increasing capacity in a secondary data centre and processing requirements thereby reducing reliance on a single site;
- further strengthening back up and recovery facilities;
- developing its core operating software;
- implementing a new general ledger system; and
- developing skills and human resources in the IT team and external support partners.

Investment continues to be made in Group-wide capabilities such as IT security, cyber crime prevention and customer relationship management (which will provide increased cross selling opportunities and sales force management), regulatory compliance, risk management and treasury capabilities. Aldermore expects to make further investments in its customer facing web presence and portals to exploit growing use of mobile and tablet devices by consumers.

11 Employees and operational functions

Employees

As at 30 June 2014, Aldermore had over 800 employees and contractors.

Aldermore appreciates that dynamic growth depends on dynamic employees and is committed to maintaining an engaged and motivated workforce.

Aldermore continues to focus on career development opportunities. In 2013, key initiatives included creating the “Developing Leaders Programme” and the “Next Generation Leadership Programme”, and “Train the Trainer” workshops designed to deliver more local and on demand training. Aldermore also raised awareness about its employee assistance programme which provides guidance and advice for staff and their families.

12 Capitalisation, liquidity and sources of funding

12.1 Capitalisation

Aldermore has levels of capital which are in excess of the requirements set by the PRA. As at 30 June 2014:

- Aldermore’s fully loaded CRD IV CET1 Ratio was 10.9 per cent.;
- Aldermore’s Total Capital Ratio was 12.7 per cent.; and
- Aldermore’s Leverage Ratio was 5.0 per cent.

The Board believes that these ratios demonstrate that it is well placed to meet the new capital requirements from both Europe and the implementation of the recommendations of the ICB.

In May 2012, the Group raised £36 million by issuing Subordinated Notes with a nominal value of £40 million. The Subordinated Notes can be called for repayment from May 2017 and comply with the Capital Requirement Regulation’s definition of Tier 2 capital.

The table below sets out Aldermore’s total capital, split by type of capital, as at 30 June 2014.

Total Capital Resources	As at 30 June 2014
	(£ millions)
Total Tier 1 capital (all Common Equity Tier 1)	256.6
Total Tier 2 capital	43.6
Total regulatory capital	300.2
Total risk weighted assets	2,359.5

The table below sets out the composition of Aldermore’s CET1 capital, as at 30 September 2014.

Tier 1	As at 30 September 2014
	(£ millions)
Share capital	23.7
Share premium	-
Warrant reserve	2.2
Profit and loss account	266.2
Less intangibles	(23.2)
Total tier 1 capital (all Common Equity Tier 1)	268.9

The above information includes interim profits for the period. The inclusion of these interim profits within regulatory capital is yet to be verified and approved by the PRA.

12.2 Liquidity

Aldermore holds liquidity principally in the form of high quality liquid assets. As at 30 September 2014, cash and loans and advances to banks were £146.5 million and overall non trading debt securities, including supranational bank bonds, gilts and asset backed securities, were £493.3 million.

At 30 September 2014, Aldermore held a 21 per cent. liquidity buffer (liquid assets excluding encumbered cash as a percentage of total funding liabilities). Based on the liquidity buffer held, Aldermore has sufficient liquidity to meet its day to day cash flow needs, with consideration being given to both normal and stressed conditions (over a survival period of 91 days) as well as internal and regulatory liquidity requirements.

12.3 Sources of Funding

The majority of Aldermore's funding for its customer loans is generated through customer liabilities in the form of retail and SME deposits (for further information, see paragraph 7.6 of *"Description of Aldermore's Business — Business and activities — Savings"*). The Board views the generation and maintenance of its retail and SME deposit funding base as a key part of its strategy.

In addition, Aldermore has the following sources of funding:

- the £333 million AAA UK RMBS transaction; and
- £485 million of UK Treasury Bills through the Funding for Lending Scheme of which £189 million was on balance sheet funding as at 30 June 2014.

12.3.1 RMBS

In April 2014, Aldermore successfully raised £333.3 million in capital from a AAA RMBS issuance of Class A Notes by a special purpose vehicle, Oak No. 1 PLC (the **"RMBS Issuer"**), to third party investors. The transaction was backed by a pool of 2,686 first ranking owner occupied UK residential mortgages originated by Aldermore with an average balance of £134,878 and an average remaining contractual term of 20.9 years. The Class A Notes were admitted to the Official List of the Irish Stock Exchange Limited pursuant to a prospectus dated 8 April 2014.

As part of the RMBS transaction, variable funding notes (the **"Class Z VFN"**) were also issued and retained by Aldermore Bank PLC. At the date of issuance, the initial principal amount of Class Z VFN was £38.9 million. A maximum principal amount of £500 million may be funded by Aldermore as holder of the Class Z VFN at the request of the RMBS Issuer. This commitment to provide further funding is scheduled to terminate in May 2019 (or, if earlier, the occurrence of an event of default under the RMBS transaction).

The margin applicable to the interest rate on the Class A Notes is subject to a step up, as more fully described in the table below.

The key terms of the RMBS transaction are as follows:

Class of Notes	Initial Principal Amount	Interest Rate	Relevant Margin	Step-up Date	Ratings (Moody's/S&P)	Final Maturity Date
Class A Notes	£333,300,000	3 month GBP LIBOR plus Relevant Margin	Prior to the Step Up Date 0.67 per cent. per annum and on and after the Step Up Date 1.34 per cent. per annum	The Interest Payment Date falling in May 2019	Aaa(sf)/AAA(sf)	The Interest Payment Date falling in February 2052
Class Z VFN	£38,945,500 (being the initial Principal Amount subscribed for as at 10 April 2013) up to a maximum of £500,000,000	3 month GBP LIBOR plus Relevant Margin	0.00 per cent. per annum	N/A	Not rated (retained by Aldermore)	The Interest Payment Date falling in February 2052

The RMBS is in line with Aldermore's strategy of diversifying its funding sources. Aldermore expects to undertake further issuances of asset backed securities in the next couple of years to further diversify its funding mix.

12.3.2 Funding for Lending Scheme

Aldermore has utilised the Funding for Lending Scheme as an additional source of funding. As at 30 June 2014, FLS funding accounted for 4 per cent. of Aldermore's funding. Under FLS, Aldermore receives Treasury Bills from the Bank of England at a subsidised cost which it then uses as collateral in third party secured financing arrangements. This supports Aldermore's ability to offer competitive pricing on its lending products to borrowers. Aldermore has access, if desired, to draw down further liquidity from FLS. However, this is not intended at the current time and Aldermore is not reliant on using FLS funding to support its forecast growth.

12.4 Capitalisation and Indebtedness Statement

The following table sets out the Group's capitalisation at 30 September 2014. The capitalisation of the Group has been extracted without material adjustment from unaudited internal management reporting.

	As at 30 September 2014 (£'000)
Shareholders' equity	
Share capital	23,737
Share premium	—
Other reserves	3,217
Retained earnings ⁽¹⁾	266,158
Total capitalisation	293,113

Note:

- (1) The above information includes interim profits for the period. The inclusion of these interim profits within regulatory capital is yet to be verified and approved by the PRA.

There has been no material change in the Group's capitalisation since 30 September 2014.

The following table sets out the Group's net indebtedness as at 30 September 2014, which has been extracted without material adjustment from unaudited internal management reporting.

	As at 30 September 2014 (£'000)
Issued debt securities	301,297
Bank debt ⁽¹⁾	790
Subordinated liabilities	37,690
Total indebtedness	339,777

Note:

- (1) Bank debt represents cash collateral posted by swap counterparties

Indirect and contingent indebtedness

	As at 30 September 2014 (£'000)
Guarantees and assets pledged as collateral security:	
Securities pledged in the FLS	204,108
Securitised mortgages	317,308
Other contingent liabilities	—
Total indirect and contingent indebtedness	521,416

13 Dividend Policy

The Issuer has not yet paid a dividend and, as at the date of this Information Memorandum, the Issuer does not have a dividend policy in place. The Issuer intends to review its position in relation to dividends on an ongoing basis and will consider in this regard, *inter alia*, its available distributable reserves and the growth opportunities available to it at the relevant time. Prior to an IPO Event the declaration and payment of dividends is subject to certain restrictions as described in “*Description of the Ordinary Shares and rights – Description of the Ordinary Shares - Dividends*”.

14 Shareholders

A description of the Issuer's issued share capital is set out in “*Description of the Ordinary Shares and rights*”.

AnaCap Financial Partners L.P., AnaCap Financial Partners II, L.P., AnaCap Derby Co investment (No.1) LP and AnaCap Derby Co investment (No.2) L.P. are the principal shareholders of the Issuer and hold 18.90 per cent., 24.54 per cent., 25.13 per cent. and 21.39 per cent., respectively, of the issued ordinary share capital (excluding Class C Ordinary Shares).

DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

Directors

The following table lists the names, positions and ages of the Directors:

Name	Age	Position	Date appointed
Glyn Jones	62	Chairman	21 March 2014
Phillip Monks	54	Chief Executive Officer	20 May 2009
James Mack	43	Chief Financial Officer	30 September 2013
John Callender	64	Independent Non Executive Director	20 May 2009
Peter Cartwright	48	Non Executive Director	3 December 2008
Neil Cochrane	30	Non Executive Director	4 September 2014
Danuta Gray	55	Senior Independent Director	29 September 2014
John Hitchins	59	Independent Non Executive Director	28 May 2014
Peter Shaw	55	Independent Non Executive Director	4 September 2014
Christopher Stamper	59	Independent Non Executive Director	6 February 2014
Cathy Turner	51	Independent Non Executive Director	28 May 2014

John Callender has notified the Board of his intention to retire from the Board in early 2015.

The business address of each of the Directors is Apex Plaza, 4th Floor Block D, Forbury Road, Reading, Berkshire, RG1 1AX.

The management expertise and experience of each Director is set out in his/her biography below:

Executive Directors

Phillip Monks — Chief Executive Officer

Phillip was part of the team which founded Aldermore in 2009 and has over 30 years' industry experience. Most recently he established, and obtained a banking licence for, Europe Arab Bank where he was CEO until 2008. Prior to this, Phillip held senior roles within Barclays Bank PLC, including Branch Director of Barclays Private Bank in Geneva, Director of Business and Corporate Banking in North West England, Managing Director of Barclays Corporate Banking in London, the Midlands and South East and, finally, CEO of Gerrard Investment Management from 2003 upon its acquisition by Barclays from Old Mutual plc.

James Mack — Chief Financial Officer

James joined Aldermore in June 2013 and is responsible for the Finance and Treasury functions. From 2010, he held a number of senior finance roles within the Co operative Banking Group including Acting CFO, Director of Financial Control and Head of Financial Planning and Analysis. Prior to this, James spent six years with the Skipton Building Society and was instrumental in leading the merger with the Scarborough Building Society. James joined KPMG in 1993 and spent 11 years in their financial services practice.

Non Executive Directors

Glyn Jones — Chairman

Glyn joined the Board as Chairman in March 2014. He is currently the Senior Independent Director on the board of Direct Line Insurance Group plc and, since May 2007, has been the chairman of Aspen Insurance Holdings Limited, a New York listed specialty lines insurance and re insurance business. Glyn was formerly the chairman of Towry Holdings Limited between 2006 and 2011. He also served as chairman of Hermes Fund Managers from 2008 to 2011 and was chairman of the sister company BT Pension Scheme Management for a part of this period. Glyn was chief executive officer of the independent investment group, Thames River Capital, from 2005 to 2006. From 2000, he served as chief executive officer of Gartmore Investment Management in the UK for four years. Prior to this, Glyn was chief executive officer of Coutts NatWest Group and Coutts Group, having joined in 1997. In 1991, Glyn joined Standard Chartered in Hong Kong where he became the general manager of Global Private Banking. He was a consulting partner with Coopers & Lybrand/Deloitte Haskins & Sells Management Consultants from 1981 to 1990. Glyn is a graduate of Cambridge University and a Fellow of the Institute of Chartered Accountants in England & Wales.

John Callender — Independent Non Executive Director

John joined the Board in May 2009 and chairs the Risk Committee. He is currently non executive chair of ANZ Bank Europe Ltd and holds non executive directorship at Ford Credit Europe plc (where he chairs the risk committee and is a member of the audit committee) and at Motability Operations plc (where he chairs the remuneration committee and is a member of the audit committee). John is also a member of the Financial Conduct Authority Regulatory Decisions Committee which he was invited to join in 2013. Until recently, John also served for a number of years as a Governor of Reading Blue Coat School in Sonning, Berkshire. Previously, he was a senior executive at Barclays Bank PLC with considerable experience of operating in Europe, India and the USA, running a number of businesses including asset finance, leasing, invoice finance and contract hire operations. He served on the board of Finance and Leasing Trade Association for six years and was elected chair for 1996/1997.

Peter Cartwright — Non Executive Director

Peter's involvement with the Board dates back to the launch of Aldermore in May 2009. He is one of the founding partners of AnaCap Financial Partners LLP where he is also the Co Managing Principal responsible for developing AnaCap's portfolio company investments. Prior to AnaCap, Peter was commercial director within a specialty insurance services provider backed by a UK based private equity firm, and between 1999 and 2003 was Sales & Marketing Director and Operations Director for GMAC UK and On:line Finance, respectively, having previously worked for GE Capital. Peter is an experienced business builder and operational specialist and holds various non executive and supervisory board roles within banks and financial services companies across Europe.

Neil Cochrane — Non Executive Director

Neil joined the Board as a Non Executive Director in September 2014. Neil's involvement with Aldermore dates back to May 2010, when he joined AnaCap Financial Partners LLP's Business Services team. This role saw Neil take responsibility for day to day interaction with senior management of AnaCap's portfolio companies on strategic and operational development. Neil is currently an investment director within the team. Neil brings eight years of strategic financial services experience to this role. He started his career as a consultant at Oliver Wyman Financial Services in 2006 where he was involved in a broad range of projects for banking and insurance clients. His assignments covered clients in the UK, Europe and the U.S. and were predominately focused on new business launches, strategy development, M&A and risk management. Neil graduated from the University of Nottingham in 2006 with a BA (Hons) in Economics.

Danuta Gray — Senior Independent Director

Danuta joined the Board as the Senior Independent Director in September 2014. Danuta has extensive business experience having spent 26 years in the telecommunications sector. Starting her career at BT in 1984, Danuta held numerous senior roles becoming Senior Vice President, BT Europe in 1999. During her time at BT she gained experience in marketing, customer service, communications, technology and sales, and in leading and implementing change. Danuta was Chairman of Telefónica O2 in Ireland until December 2012, having previously been its Chief Executive from 2001 to 2010. Previously Danuta served for seven years on the board of Irish Life & Permanent PLC as Chairman of the Remuneration Committee and was a non executive director of Aer Lingus PLC from 2006 to 2013. Danuta is currently also a non executive director at Old Mutual PLC, Michael Page International PLC and Paddy Power PLC.

John Hitchins — Independent Non Executive Director

John is an independent Non Executive Director and chairs the Audit Committee. He was appointed to the Board in May 2014. He brings 36 years of experience in the audit arena, having spent his whole career at PricewaterhouseCoopers (“PwC”), including as an audit partner. John was formerly Chairman of the Banking Committee of the Institute of Chartered Accountants in England & Wales and a board member of the Institute’s Financial Services Faculty. He has also served as a member of the Institute’s Business Law Committee. During his career with PwC, John specialised in bank auditing and financial advisory services and his clients have included institutions such as Euroclear, Lloyds Banking Group, The Bank of England, Bank of Ireland, Britannia Building Society, Barclays, JP Morgan Chase and Nomura. Until recently, John was a member of the UK FCA Practitioner and Markets Practitioner Panels. He is currently a member of the Governing Council of the Centre for the Study of Financial Innovation, a not for profit City based think tank. John is a graduate of Oxford University and a Fellow of the Institute of Chartered Accountants in England & Wales.

Peter Shaw — Independent Non Executive Director

Peter joined the Board as an independent Non Executive Director in September 2014. Peter brings over 30 years of financial services experience to his new role, having spent most of his career at RBS NatWest. Joining NatWest as a graduate trainee in 1981, Peter worked across a number of business areas during his career with the group including retail, SME, private banking, corporate banking, HR and risk. Between 1994 and 2002, Peter was Managing Director of various group businesses offshore, based in Jersey. In 2002, Peter returned to the UK to become COO of the Risk Function at Group Head Office and between 2004 and 2010 Peter was Chief Risk Officer for various group businesses including RBS UK Retail, Wealth & Ulster Bank. Between May 2012 and January 2013, Peter acted as interim Chief Risk Officer for the Co operative Banking Group. Peter is currently also a non executive director at Bank of Ireland UK PLC, where he is chair of the bank’s risk committee and a member of the audit committee. Peter graduated from London South Bank University in 1981 with a BA in Modern Languages. Peter holds an ACIB and DipFS. He is also a Fellow of the Chartered Institute of Bankers in Scotland.

Christopher Stamper — Independent Non Executive Director

Chris is an independent Non Executive Director and was appointed to the Board in February 2014. He brings 35 years of experience in the asset finance industry, most recently as director and CEO of ING Lease (UK) Ltd. He is a founding governor of The Leasing Foundation and was a director of Finance and Leasing Association Ltd. from 2003 to 2012 and a former Chairman of their Asset Finance Division. Previously, Chris was Head of Abbey Business responsible for five business units focused on the SME market. Prior to this, Chris was the Managing Director of Lombard Sales Finance where he spent 21 years.

Cathy Turner — Independent Non Executive Director

Cathy is an independent Non Executive Director and chairs the Remuneration Committee. She was appointed to the Board in May 2014. She is currently Non Executive Director and Chair of the Remuneration Committee of Countrywide plc. She is also a Vice President of UNICEF UK and a member of the board of the Royal College of Art. She is also an Associate of the advisory group Manchester Square Partners. Cathy has extensive industry experience working with Deloitte & Touche, Ernst & Young and Watson Wyatt as a compensation and benefits consultant in her early career. She subsequently joined Barclays PLC, where she was a member of the Group Executive Committee with responsibility for Human Resources, Corporate Affairs, Strategy and Brand and Marketing. During her time with Barclays she was also Director, Investor Relations for four years and had extensive experience in remuneration in her many roles. Most recently, she was Chief Administrative Officer of Lloyds Banking Group PLC. Cathy is a graduate of the University of Lancaster.

Senior Management

The Issuer's current Senior Management, which is inclusive of the two Executive Directors listed above, is as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Steve Barry	46	Chief Risk Officer
Vicki Harris	48	Group Marketing and Strategy
Ali Humphries	50	Group HR Director
Paul Myers	50	Chief Operating Officer
Mark Stephens	54	Deputy CEO and Group Commercial Director

The management expertise and experience of each Senior Manager is set out in their biography below:

Steve Barry — Chief Risk Officer

Steve joined Aldermore in 2009 and is responsible for Credit, Operational and Treasury Risk as well as Compliance. He has over 20 years' experience in the financial services industry in a range of roles including Finance and Risk Director at Beacon Group, Partner in charge of Risk & Liability Management at AnaCap Financial Partners and CFO and Head of Risk for London Mortgage Company.

Vicki Harris — Group Marketing and Strategy

Vicki joined Aldermore in June 2014 and is responsible for Marketing and Group Strategy. Prior to joining Aldermore, Vicki was at Octopus Investments, a fast growing UK retail fund manager, where she was COO responsible for scaling the company's operations and customer engagement model. Vicki worked for GE Capital for 11 years in both operational and corporate roles and launched the European arm of GE Healthcare Financial Services. In 2009, she was appointed MD of Strategy and Marketing for GE Capital EMEA with the mission to rebuild the business model post the financial crisis. She also held senior roles in GE's private equity arm. Before GE, Vicki worked in consulting for McKinsey and in M&A and business development for The Rank Organisation. Vicki is a graduate of Cambridge University and a member of the Institute of Chartered Accountants in England & Wales.

Ali Humphries — Group HR Director

Ali joined Aldermore in July 2010 and has over 20 years experience in human resources. Her previous experience includes Head of HR roles with Nationwide Building Society and HBOS, as well as 11 years in Organisation Development with Zurich Financial Services. Ali was director of her own consulting

business providing interim and project management services to blue chip companies. Ali is responsible for Aldermore's HR function including reward, performance management, recruitment and HR shared services.

Paul Myers — Chief Operating Officer

Paul was part of the team that founded Aldermore in 2009. Prior to this, he was engaged as an independent consultant with several blue chip financial services companies. Paul spent over 20 years in various roles with Barclays Bank PLC, holding a range of executive level positions, including Chief Operating Officer, in a variety of disciplines across Barclays' SME banking divisions. Paul is responsible for the Savings division and Aldermore's infrastructure including IT, operating models and efficiency and management information systems.

Mark Stephens — Deputy CEO and Group Commercial Director

Mark was also part of the team which founded Aldermore in 2009 and has over 30 years' experience in the banking industry. He was former CEO of Base Commercial Finance which became part of Ruffer Bank and later Aldermore in 2009. Prior to this, he held senior positions at Abbey National (now Santander UK), where he was Head of Commercial Lending, Anglo Irish Bank Corporation plc and Halifax Bank plc.

Save in their capacities as persons legally and beneficially interested in shares in the Issuer, there are no potential conflicts of interest between any duties to the Issuer of the Directors and their private interests and/or other duties.

Corporate governance

UK Corporate Governance Code

The Board is committed to the highest standards of corporate governance. The Board intends to act in accordance with best practice as outlined in the UK Corporate Governance Code (the "**Code**") and comply with the requirements of the Code so far as it considers it appropriate for an unlisted company.

As envisaged by the Code, the Board has established an Audit Committee, a Corporate Governance and Nomination Committee, a Remuneration Committee and a Risk Committee. If the need should arise, the Board may set up additional committees as appropriate.

The Code recommends that at least half the board of directors of a UK listed company, excluding the Chairman, should comprise non executive directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement. As of the date of this Information Memorandum, the Board consists of 9 Non Executive Directors (including the non executive Chairman) and 2 Executive Directors. The Board regards all of the Non Executive Directors, other than Peter Cartwright and Neil Cochrane, as "independent non executive directors" within the meaning of the Code and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board regarded Glyn Jones as independent upon his appointment as Chairman for the purposes of the Code. In addition, it has appointed a Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other directors when necessary. Danuta Gray has been appointed as Senior Independent Director.

Audit Committee

The Audit Committee is made up of five members, four of whom are independent Non Executive Directors and includes one member with recent and relevant financial experience. The Audit Committee is chaired by John Hitchins, who is considered by the Board to have recent and relevant financial experience. Its membership is as follows:

<u>Name</u>	<u>Committee Position</u>
John Hitchins	Chairman
John Callender	Member
Peter Shaw	Member
Christopher Stamper	Member
Peter Cartwright	Member

The Audit Committee will normally meet at least four times a year at the appropriate times in the reporting and audit cycle. The Audit Committee has responsibility for, amongst other things, the monitoring of the financial integrity of the financial statements of Aldermore and the involvement of the Auditors in that process as well as reviewing the Issuer's internal control and risk management systems. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports, remains with the Board.

The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, as mentioned above, together with requirements of any quorum for and the right to attend meetings. The duties of the Audit Committee covered in the terms of reference are: financial statements and reporting, narrative reporting, reviewing the effectiveness of the Group's internal control and financial reporting and, in conjunction with the Risk Committee, reviewing statements concerning internal control risk management systems, reporting on the adequacy and security of Aldermore's whistleblowing arrangements and procedures for detecting fraud, Aldermore's internal audit function, and Aldermore's relationship with its external auditors. The terms of reference also set out the authority of the Audit Committee to carry out its duties.

Risk Committee

The Risk Committee is made up of five members; four of whom are independent Non Executive Directors. Its membership is as follows:

<u>Name</u>	<u>Committee Position</u>
John Callender	Chairman
Peter Cartwright	Member
John Hitchins	Member
Peter Shaw	Member
Christopher Stamper	Member

The Risk Committee will normally meet at least four times per year. The Risk Committee oversees the development, implementation and maintenance of Aldermore's risk management framework, ensuring that its strategy, principles, policies and resources are aligned to Aldermore's risk appetite, as well as to regulatory and industry best practices. The Risk Committee also monitors and reviews the formal arrangements established by the Board in respect of internal controls and risk management framework and reviews the effectiveness of Aldermore's systems for risk management and compliance with financial services legislation and other regulations.

The terms of reference of the Risk Committee cover such issues as membership and frequency of meetings, together with the requirements for quorum for and the right to attend meetings. The duties of the Risk Committee covered in the terms of reference relate to the following: the Issuer's overall risk appetite, risk tolerance and risk strategy; the risk management framework; monitoring the effectiveness of the Group's internal control and risk systems; reviewing and supervising the regulatory requirements; advising on the risk of proposed strategic transactions; and advising the Remuneration Committee on any risk management or control issues.

Corporate Governance and Nomination Committee

The Corporate Governance and Nomination Committee (the "**Nomination Committee**") is made up of five members, a majority of whom are independent Non Executive Directors. Its membership is as follows:

<u>Name</u>	<u>Committee Position</u>
Glyn Jones	Chairman
John Callender	Member
Peter Cartwright	Member
Danuta Gray	Member
Cathy Turner	Member

The Nomination Committee will meet not less than twice during the annual reporting cycle.

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board Committees and the chairmanship of the Board Committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary. The Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

The terms of reference of the Nomination Committee cover such issues as membership and frequency of meetings, as mentioned above, together with the requirements for quorum for and the right to attend meetings. The duties of the Nomination Committee covered in the terms of reference relate to the following: monitoring corporate governance and the composition of the Board and committees of the Issuer and the Group, overseeing the Board's governance arrangements, monitoring and making recommendations to the Board on governance issues, reviewing the size and composition of the Board, and making recommendations for any changes necessary.

Remuneration Committee

The Code provides that a remuneration committee should comprise at least three members who are independent Non Executive Directors (other than the chairman). The membership of the Remuneration Committee is as follows:

<u>Name</u>	<u>Committee Position</u>
Cathy Turner	Chairman
Danuta Gray	Member
Glyn Jones	Member
Peter Shaw	Member
Peter Cartwright	Member

The Remuneration Committee will meet not less than twice a year.

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Issuer's policy on executive remuneration, including setting the over arching principles, parameters and governance framework of the Group's remuneration policy and determining the individual remuneration and benefits package of each of the Issuer's Executive Directors and certain senior executives. The Remuneration Committee is also responsible for recommending and monitoring the structure and level of remuneration for Senior Management, including pension rights and any compensation payments. The Remuneration Committee has responsibility for setting the remuneration policy (including pension rights and any compensation payments) for all Executive Directors, members of the senior leadership team, the Chairman of the Board and any Code Staff (being any staff who have a material impact on Aldermore's risk profile and are therefore subject to the applicable remuneration structure rules in the PRA Remuneration Code at SYSC 19A of the PRA Handbook). The Remuneration Committee is also responsible for the operation of the Issuer's all employee share plan arrangements. The Board itself shall determine the remuneration of the Non Executive Directors within the limits set in the Articles. No Director or senior manager shall be involved in any decisions as to their own remuneration.

The terms of reference of the Remuneration Committee cover such issues as membership and frequency of meetings, as mentioned above, together with the requirements for quorum for and the right to attend meetings. The duties of the Remuneration Committee covered in the terms of reference relate to the following: determining and monitoring policy on and setting level of remuneration, early termination, performance related pay, pension arrangements, authorising claims for expenses from the members of the Board, reporting and disclosure, share schemes and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the Remuneration Committee to carry out its duties.

Recent changes to corporate governance

In January 2014, the PRA issued a draft requirement notice under section 166 of the FSMA to appoint a "skilled person" to review and report whether (a) there were appropriate, independent Board and executive-level governance arrangements, policies and processes in place across Aldermore; (b) these arrangements were applied effectively by the Board, committees and executive management to deliver independent, effective and robust management and oversight of Aldermore; and (c) the relationship between all shareholders and the management of Aldermore was appropriate, and the influence exerted by all shareholders was proportionate to their declared control of Aldermore. The report, finalised in April 2014, was undertaken by EgonZehnder. The findings of the report in respect of the reviewed matters were generally supportive of Aldermore's governance arrangements, including the appropriateness of AnaCap's influence and the direction being pursued on board governance. The report also noted actions that had already been initiated by the then newly appointed Chairman, Glyn Jones, to further strengthen corporate governance, which were consistent with recommendations made in the report. Following discussions with the PRA concerning the recommendations of the report, an action plan was agreed with

the PRA and Aldermore has implemented a number of changes, including the enhancement of the composition of the Board through the appointment of new Non-Executive Directors.

DESCRIPTION OF THE ORDINARY SHARES AND RIGHTS

Set out below is a description of the principal rights attaching, as at the date of this Information Memorandum, to the Ordinary Shares that will be issued in the event that the Securities are converted in accordance with their terms, including a summary of the key provisions of the Articles as at the date of this Information Memorandum, the Shareholders' Agreement and the Warrant Instruments (as defined in "Description of the Ordinary Shares and rights – Warrant Instruments" below). As at the date of this Information Memorandum, the Ordinary Shares are a different class from the Class A Ordinary Shares, Class B Ordinary Shares, Class C Ordinary Shares and the Class D Ordinary Shares which are also described below. Capitalised terms used but not defined in this section have the meanings given to them in the Articles.

1. Description of the Ordinary Shares

A. Share capital

The share capital of the Issuer currently comprises 35,694,000 Class A 1 Ordinary Shares, 58,704,268 Class A 2 Ordinary Shares (together with the Class A 1 Ordinary Shares, the "**Class A Ordinary Shares**"), 3,854,632 Class B Ordinary Shares, 132,000,000 Class C Ordinary Shares, 54,405,224 Class D Ordinary Shares and 84,584,275 Class E Ordinary Shares (together, the "**Shares**" and each, a "**Class**"). All the Shares are in registered form and are fully paid up.

The current holders of the Class A Ordinary Shares are AnaCap Financial Partners L.P. and AnaCap Financial Partners II, L.P. (together the "**Investor Shareholders**"), the current holders of the Class B Ordinary Shares and the Class C Ordinary Shares include certain current members of management of the Group and their affiliates, the current holder of the Class D Ordinary Shares is AnaCap Derby Co-investment (No.1) LP and the current holders of the Class E Ordinary Shares include AnaCap Financial Partners II, L.P., AnaCap Derby Co-investment (No.1) LP, AnaCap Derby Co-investment (No.2) L.P., Lansdowne Global Financials Master Fund Limited, a partner of and funds managed by Toscafund Asset Management LLP and certain members of management of the Group.

B. Voting rights and appointment of directors

The holders of Class A Ordinary Shares are entitled to receive notice of, to attend and (on a poll) to one vote per Class A Ordinary Share at general meetings of the Issuer. The Class B Ordinary Shares, Class C Ordinary Shares, Class D Ordinary Shares, Class E Ordinary Shares and the deferred shares (if any) do not carry any right to receive notice of, to attend or to vote at general meetings of the Issuer. The rights attaching to any Class, including the Class E Ordinary Shares, may only be varied where the holders of the relevant Class consent (in writing from holders of at least three-quarters in nominal value of the issued shares in that Class, or a special resolution passed at a general meeting of the holders of that Class) to the variation in accordance with the Companies Act.

The holders of Class A Ordinary Shares will have the right to appoint up to two persons nominated by them (or such higher number as they may determine in their sole discretion) as non-executive directors of the Issuer and to remove any such person so appointed, and upon them ceasing to hold office for any reason whatsoever, to reappoint them or appoint other persons in their place.

In the event that any resolution put to a general meeting is one which directly or indirectly varies this right to appoint directors or is for the removal of any such directors, the holders of the Class A Ordinary Shares shall have 1,000 votes for each Class A Ordinary Share held.

C. Dividends

No dividends may be declared without the prior written consent of the Investor Shareholders. Dividends shall only be declared or paid on Class A Ordinary Shares, Class D Ordinary Shares and Class E

Ordinary Shares and shall be on a *pro rata* basis. The Class B Ordinary Shares, Class C Ordinary Shares and deferred shares (if any) shall not be entitled to received any dividends. See also “*Description of Aldermore’s Business – Dividend Policy*”.

D. Return of capital

On a return of capital on a liquidation, reduction of capital or otherwise, the holders of the Shares will be entitled to any remaining assets of the Issuer, after payment of its liabilities, in the following order:

- (a) first, in paying the holders of deferred shares (if any) an aggregate amount of £100, such amount being apportioned between the holders *pro rata* to their shareholding;
- (b) second, in paying the holders of the Shares the amount paid up or credited as paid up on each Share, including the full amount of any premium at which each Share was issued and any accrued but unpaid dividends due on each Share; and
- (c) last, in paying to the holders of the Class A Ordinary Shares, Class B Ordinary Shares, Class D Ordinary Shares and Class E Ordinary Shares the balance *pro rata* to their holding of such Shares.

In the event of a Sale (as defined below) or an IPO Event, the consideration payable (whether in cash or otherwise) by the purchaser(s) shall be allocated between the holders of the Shares to ensure the same order of allocation set out in paragraphs (a) to (c) above, save that in paragraph (c) above the holders of the Class C Ordinary Shares shall also be paid the balance *pro rata* to their holding of Shares.

“**Sale**” means the sale (other than any permitted transfer) of any part of the equity share capital of the Issuer to any person resulting in that person together with any person acting in concert (within the meaning given in the City Code on Takeovers and Mergers) with such person holding 50.01 per cent. or more of the equity share capital of the Issuer.

E. Transfers of Class E Ordinary Shares

Holders of Class E Ordinary Shares are not permitted to transfer, mortgage, charge or otherwise dispose of the whole or any part of the legal or beneficial interest in, or grant any option or other rights over, such Shares except where: (i) it is a permitted transfer in accordance with the Articles; or (ii) it is a disposal which is required to be made pursuant to the Articles.

Prior to an IPO Event, any Class E Ordinary Shares may only be transferred in the following permitted circumstances:

- (a) by any person where the Class E Ordinary Shares are sold pursuant to the “tag-along” or “drag-along” rights on a transfer of Class A Ordinary Shares in the circumstances set out in the Articles (see the summary of the Articles in “*Description of the Ordinary Shares and rights – Articles of Association*” below for further details);
- (b) if the holder is a member of the Centerbridge group which transfers such Shares to another member of the Centerbridge group with the prior written consent of the Investor Shareholders (such consent not to be unreasonably withheld or delayed); or
- (c) to any other person with the prior written consent of the Investor Shareholders,

provided that, in relation to paragraphs (b) and (c) above, the transfer of the Class E Ordinary Shares will be conditional upon:

- (i) delivery to the Issuer of a deed of adherence whereby the transferee agrees to be bound by the terms of any shareholders’ agreement in such form as may be required;

- (ii) the holder of the Class E Ordinary Shares proposing the transfer having undertaken to pay the reasonable expenses of the Investor Shareholders in connection with the transfer;
- (iii) the delivery of such documents, opinions, instruments and certificates that the Investor Shareholders shall, in their reasonable belief, require; and
- (iv) the holder of the Class E Ordinary Shares proposing the transfer providing the Investor Shareholders at least 30 days prior written notice of the proposed transfer.

If, in connection with an IPO Event, it is proposed that a new holding company of the Issuer will be established, the Issuer may require the holders of the Shares to transfer all the Shares to the Issuer in exchange for shares in the new holding company, subject to the conditions in the Articles.

F. Pre-emption rights

Except in the case of a Permitted Share Issue (as defined below), no further securities shall be allotted or granted to any person unless the Issuer has first offered such securities to all holders of the Class A Ordinary Shares, Class B Ordinary Shares, Class D Ordinary Shares and Class E Ordinary Shares on the same terms and at the same price as such further securities are being offered to such other person on a *pari passu* and *pro rata* basis to the number of Shares held by such holders.

For the avoidance of doubt, the issue and delivery of Ordinary Shares by the Issuer upon Conversion will constitute a Permitted Share Issue and as such, will not be subject to such pre-emptive rights. As provided in Condition 9(a), the Issuer has undertaken to maintain all corporate authorities necessary to issue and allot a sufficient number of Ordinary Shares, free from pre-emption rights and all other encumbrances, in the event of a Conversion.

A “**Permitted Share Issue**” means the issue of any shares in the capital of the Issuer or the grant of a right to subscribe for, or to convert securities into, shares in the capital of the Issuer: (a) as specifically contemplated by the Articles; (b) to any employee of or consultant to the Issuer or any of its subsidiaries, in each case, in accordance with any equity incentive scheme, the terms of which have been approved in writing by the holders of the Class A Ordinary Shares; or (c) to any person with the approval of the holders of the Class A Ordinary Shares, provided that where any issue of shares in the capital of the Issuer affords preferable shareholder rights (excluding the price at which shares are issued) than those enjoyed by the holders of the Class D Ordinary Shares or Class E Ordinary Shares, such issue shall require the prior approval of both: (i) the holders of a majority of the Class D Ordinary Shares; and (ii) the holders of a majority of the Class E Ordinary Shares.

G. Variation of class rights

Save with the prior written consent of the Investor Shareholders, the Issuer shall not permit or cause to be proposed any alteration to the rights attaching to the Shares or any Class.

2. Articles of Association

The Issuer’s objects are not restricted by its Articles. Accordingly, pursuant to section 31 of the Companies Act 2006, the Issuer’s objects are unrestricted.

The Articles were adopted on 30 September 2014, and include provisions to the following effect:

A. Shares

The Class A 1 Ordinary Shares and the Class A 2 Ordinary Shares shall be treated as one class of Shares for the purposes of the Articles. The liability of the holders of the Shares is limited to the amount, if any, unpaid on the Shares held by them. Save as expressly set out in the Articles, the Class A Ordinary Shares, Class B Ordinary Shares, Class C Ordinary Shares, Class D Ordinary Shares, Class E Ordinary Shares and deferred shares (if any) shall constitute separate classes of shares.

B. Dividends

A description of the restrictions around the declaration and payment of dividends under the Articles is set out in “*Description of the Ordinary Shares and rights – Description of the Ordinary Shares – Dividends*” above.

C. Return of Capital

A description of the order of priority of a distribution of assets of the Issuer on a liquidation, reduction of capital or otherwise is set out in “*Description of the Ordinary Shares and rights – Description of the Ordinary Shares – Return of Capital*” above.

D. Votes in general meeting and appointment of directors

A description of the voting rights in respect of each Class of Shares and the right to appoint directors under the Articles is set out in “*Description of the Ordinary Shares and rights – Description of the Ordinary Shares – Voting rights and appointment of directors*” above.

E. Issue of Shares and pre-emption on issue

A description of the pre-emption rights under the Articles is set out in “*Description of the Ordinary Shares and rights – Description of the Ordinary Shares – Pre-emption rights*” above.

F. General Restrictions on Transfer

No person shall transfer, mortgage, charge or otherwise dispose of the whole or any part of the legal or beneficial interest in, or grant any option or other rights over, any Shares except for: (i) a transfer of Shares permitted in accordance with the Articles (which may take place without being subject to certain pre-emption and other restrictions contained in the Articles including, “drag along” and “tag along” rights); (ii) a sale of the entire legal title to and beneficial interest in any Class A Ordinary Shares in accordance with the transfer provisions relating thereto in the Articles (including certain pre-emption and other restrictions such as “drag along” and “tag along” rights); or (iii) a disposal which is required to be made pursuant to the Articles. For additional information on the restrictions on transfers in respect of Class E Ordinary Shares specifically, see “*Description of the Ordinary Shares and rights – Description of the Ordinary Shares – Transfers of Class E Ordinary Shares*” above.

G. Permitted Transfers

Any share in the capital of the Issuer (with the exception of the Class E Ordinary Shares prior to the occurrence of an IPO Event) may at any time be transferred without being subject to the general restrictions on transfer or the “drag along” and “tag along” provisions:

- (a) to any person with the prior consent in writing of holders of Shares entitled to cast (on a poll) 50.1 per cent. of the votes at general meeting of the Issuer;
- (b) by any individual member to a Privileged Relation (as defined below) of such member;
- (c) by any person entitled to Shares in consequence of the death or bankruptcy of an individual member to any person or trustee to whom such individual member, if not dead or bankrupt, would be permitted to transfer;

- (d) by an investment fund:
 - (i) to any member of the same group as the investment fund;
 - (ii) to any unitholder, shareholder, partner, participant in or manager of or adviser to (or an employee of such manager or adviser) the investment fund;
 - (iii) to any other investment fund managed or advised by the same manager or adviser as the transferring investment fund or to any member of the same group of such manager or adviser; or
 - (iv) to any trustee, depositary or nominee of or custodian for the investment fund or for any other transferee under paragraph (i), (ii) or (iii) above;
- (e) by a trustee or nominee or custodian for an investment fund to the investment fund or to any of the persons mentioned in paragraph (d)(i), (ii), and (iii) above;
- (f) by any person, with consent of the holders of Class A Ordinary Shares, in the case of a transfer of any employee shares and/or deferred shares (if any); or
- (g) by any person in the case of transfer of any Shares as a result of a “tag along” or “drag along” right.

“**Privileged Relation**” means in relation to an individual member, or deceased or former individual member, the spouse or civil partner or the widower or widow or surviving civil partner (who has not entered into another civil partnership) or the child or one or more of the children of such member.

Additional information on permitted transfers in relation to Class E Ordinary Shares under the Articles is set out in “*Description of the Ordinary Shares and rights – Description of the Ordinary Shares – Transfers of Class E Ordinary Shares*” above.

H. Pre-emption on transfer, “tag along” and “drag along”

Pre-emption

A holder of Shares (other than Class E Ordinary Shares) (the “**Proposing Transferor**”) shall be required before effecting a transfer, excluding any permitted transfer, to give a transfer notice setting out details of the proposed sale including as to the Shares to be transferred, the identity of the purchaser(s) and other details of the transfer as the directors of the Issuer may determine. The price applicable to the proposed sale shall be either (the “**Prescribed Price**”): (a) the market value as agreed not more than one month prior to the notice date between the Proposing Transferor and the directors of the Issuer; (b) if no such agreement has been reached, the price contained in a bona fide offer received by the Proposing Transferor from a third party not more than one month prior to the notice date; or (c) if neither (a) nor (b) applies, a price determined by the auditors of the Issuer or other firm of chartered accountants selected and in accordance with the provisions in the Articles. All such sale Shares shall be offered by the Issuer, acting as the agent for the sale, to each member of the Issuer, other than the proposed transferor, for purchase at the prescribed price in cash on a *pari passu* and *pro rata* basis to their existing holding of Class A Ordinary Shares, Class B Ordinary Shares, Class D Ordinary Shares and Class E Ordinary Shares. Any sale Shares not purchased by a member shall be used to satisfy the requests by acceptors for excess sale Shares *pro rata* to their existing holding (without taking into account holdings of deferred shares (if any)). Any sale Shares not purchased by members may be offered by the Directors to such third parties as they think fit at the prescribed price within the relevant period. If the Issuer gives notice to the Proposing Transferor that (a) the Issuer has no prospect during the relevant period of finding purchasers for any of the Shares or (b) it has not within the relevant period found purchasers to purchase all or some of the Shares, the Proposing Transferor shall, at any time during a period of 28 days (or such other period as required under the Articles) after the end of the relevant period be entitled, subject to the

Articles and any relevant contractual restrictions to which the Proposing Transferor is subject, transfer those unsold Shares to any person by way of a bona fide sale at any price which is not less than the Prescribed Price. Any such sale is subject to satisfaction of certain conditions as set out in the Articles. If these conditions are not fulfilled, the Directors may refuse to register the instrument of transfer or impose further conditions to be fulfilled by the Proposing Transferor before doing so.

Tag Along

If a holder of Class A Ordinary Shares proposes to transfer any Class A Ordinary Shares (other than a Permitted Transfer) which, when aggregated with any transfers made in the previous 12 month period by that proposing transferor (other than any permitted transfers) include more than 50.1 per cent. in nominal amount of the share capital held by the proposing transferor at the commencement of such 12 month period, the proposing transferor will not be entitled to sell the Class A Ordinary Shares unless the proposed purchasers of such Shares:

- (a) offer to purchase from each holder of Shares (excluding deferred shares) such proportion of Shares held (the **"Tag Along Shares"**) equal to the proportion of which the Class A Ordinary Shares that are being sold (during the previous 12 months, if applicable) bears to the total holding of Class A Ordinary Shares held by the proposing transferor; and
- (b) shall, in respect of any holder of any Shares (excluding deferred shares (if any)) who accepts the offer in paragraph (a) above, acquire from that holder the Tag Along Shares on the same terms (including price) simultaneously with the acquisition of the Class A Ordinary Shares from the proposing transferor.

Drag Along

If at any time, the holders of Class A Ordinary Shares who together hold in excess of 50.1 per cent. by nominal amount of the Class A Ordinary Shares intend to sell its Class A Ordinary Shares (the **"Forcing Sellers"**) to a purchaser who has made a bona fide offer on arm's length terms for the entire issued share capital of the Issuer (which, for this purpose, may exclude the Class C Ordinary Shares and any deferred shares), the Forcing Sellers will have the right to "drag along" the other holders of shares, requiring them to sell to the purchaser all their holdings of shares on the terms contained in a drag along notice. The holders of deferred shares (if any) shall sell such deferred shares to the purchaser on completion for an aggregate price of £100 for all such deferred shares.

If, in connection with an IPO Event, it is proposed that a new holding company of the Issuer is established for the IPO Event (the **"Newco Entity"**), then, in the event of any proposed transfer of all the Shares in the Issuer to the Newco Entity in exchange for Newco Entity shares, the Issuer may, at its sole discretion and subject to certain conditions (as set out in the Articles), require holders of the Shares to transfer all the Shares held by them to Newco Entity in exchange for Newco Entity shares.

I. Ratchet

Immediately prior to the earlier of an IPO Event or a Sale, a certain number of Class C Ordinary Shares shall be converted into deferred shares. The aggregate number of Class C Ordinary Shares to be converted shall be determined in accordance with the formulae set out in the Articles by reference to the internal rate of return which would result on the occurrence of the IPO Event or the Sale on the assumption that such IPO Event or Sale will proceed immediately thereafter at an anticipated price. The internal rate of return is calculated by reference to the capital invested by the shareholders and the net proceeds available to the shareholders from the IPO Event or Sale and there are a number of internal rate of return percentage hurdles dependent on which a number of issued Class C Ordinary Shares will be converted into deferred shares. If there is a disagreement over the number of Class C Ordinary Shares to be converted into deferred shares, the auditor of the Issuer shall determine such number acting as experts, not arbitrators, at the expense of the Issuer.

J. Compulsory Transfers

A transfer of Shares shall be deemed to have occurred upon the occurrence of certain events as further described in, and subject to the provisions of, the Articles. Such events include (a) a holder's bankruptcy (b) a holder's death (c) a holder's liquidation and (d) a Permitted Transferee ceasing to be a Privileged Relation.

K. Redemption

The Issuer may issue shares which are to be redeemed, or are liable to be redeemed at the option of the Issuer or the holder, provided the consent of the Class A Shareholders has been obtained. The Issuer has not issued any such redeemable shares as at the date of this Information Memorandum.

3. Shareholders' Agreement

A subscription and shareholders' agreement was entered into on 13 September 2011 between the Issuer, AnaCap Financial Partners L.P., AnaCap Financial Partners II, L.P., AnaCap Derby Co-investment (No.1) LP, AnaCap Derby Co-investment (No.2) L.P. and certain members of management (the "**Executives**"), and amended on 23 July 2012 (the "**Shareholders' Agreement**"). Lansdowne Global Financials Master Fund Limited and a partner of and funds managed by Toscafund Asset Management LLP acceded to the Shareholders' Agreement in December 2013. Upon conversion of the Securities into Ordinary Shares prior to an IPO Event, the holders of such Ordinary Shares will be required to execute a deed of adherence relating to the Shareholders' Agreement. The Shareholders' Agreement includes provisions to the following effect:

A. The Board and Board Meetings

Board meetings will be held at intervals of not more than 6 weeks and at least 10 board meetings will be held in each calendar year. Unless a director that is appointed by the Investor Shareholders otherwise agrees, no business shall be transacted at any meeting of the Board (or any committee of the Board) save for that specified in an agenda to be delivered to the Investor Shareholders.

The Investor Shareholders have the right to:

- (a) appoint and maintain in office up to two persons (or such higher number as they may in their absolute discretion nominate) (each, an "**Investor Director**") as non-executive directors of the Issuer (and as a member of any committee of the Board) and to remove any Investor Director and, upon their removal whether by the Investor Shareholders or otherwise, to appoint another director in his place; and
- (b) appoint a representative to attend any Board meeting or committee meeting as an observer.

The Issuer will pay to the general partner of AnaCap Financial Partners II, L.P. (or as the Investor Shareholders direct) a monitoring fee of £150,000 per annum exclusive of VAT in respect of the provision of services (whether or not an Investor Director holds office).

The Investor Shareholders are entitled to appoint any person to be the alternate director of an Investor Director.

So long as at least one of the Executives (as specified in the Shareholders' Agreement) continues to hold Class B Ordinary Shares and remains as an employee or consultant of the Issuer or has been appointed to the board of the Issuer, the Executives are entitled to receive notice of general meetings and send a representative to attend and speak (but not to vote) at general meetings of the Issuer from time to time.

Holders of more than 50.1 per cent. or more of the Class D Ordinary Shares and/or the Class E Ordinary Shares shall be entitled to send a representative to attend and speak at, but not vote at, general meetings held by Issuer from time to time.

B. Matters requiring consent

Each of the Executives shall (whether as shareholder or director) exercise all voting rights and powers of control available to him to procure that the Issuer shall not effect or propose certain matters set out in the Shareholders' Agreement unless prior written consent from the Investor Shareholders is obtained, such matters including amongst others:

- (a) permitting any alteration to the Issuer's share capital (including any increase thereof) or the rights attaching to Shares or any waiver of any right to receive payment on any of its Shares;
- (b) creating, allotting, issuing, buying-in or redeeming any share or loan capital or granting any options or warrants for the issue of any share or loan capital or issuing any securities convertible into Shares;
- (c) permitting or cause to be proposed any amendment to the memorandum of association or the Articles;
- (d) proposing to pay any dividend or other distribution;
- (e) agreeing the prescribed price of certain transfers;
- (f) negotiating or permitting the disposal of Shares in the Issuer amounting to a Sale or IPO Event;
- (g) offering or granting any registration rights to any future shareholder in the Issuer without offering substantially similar rights to the Investor Shareholders;
- (h) subscribing or otherwise acquiring, or disposing of any shares in the capital of any other company, in each case in excess of 5 per cent. of the issued share capital of such company;
- (i) other than in the ordinary course of business, entering into, giving, permitting or suffering to subsist any guarantee of or indemnity or contract of suretyship for or otherwise committing the Issuer in respect of the due payment of money or the performance of any such contract or obligation of any other person or body;
- (j) acquiring or disposing of the whole or a part of the undertaking of any other person or disposing of the whole or part of the undertaking of the Issuer or merging the Issuer or any part of its business with any other person;
- (k) incurring capital expenditure which exceeds the amount for capital expenditure in the relevant capital expenditure budget by more than 5 per cent. or in relation to any item £250,000;
- (l) permitting the Issuer to cease, or propose to cease, to carry on its business or permitting the Issuer or its directors (or any one of them) to take any step to wind up the Issuer, save where it is insolvent (within the meaning of section 123 Insolvency Act 1986);
- (m) save as otherwise required by law, permitting the Issuer or its directors (or any one of them) to take any step to place the Issuer into administration, permitting the Issuer or its directors to propose to enter into any arrangement, scheme, moratorium, compromise or composition with its creditors or applying for an interim order under Part 1 Insolvency Act 1986, or permitting the Issuer or its directors to invite the appointment of a receiver or administrative receiver over all or any part of the Issuer's assets or undertaking;
- (n) making any material change to the nature of the business or jurisdiction where the Issuer is managed and controlled;
- (o) doing any act or thing outside the ordinary course of the business carried on by the Issuer;
- (p) factoring any of its debts, borrowing monies (other than by way of its facilities in place at the date of the Shareholders' Agreement) or accepting credit (other than normal trade credit);

- (q) mortgaging or charging or permitting the creation of or suffering to subsist any mortgage or fixed or floating charge, lien (other than a lien arising by operation of law) or other encumbrance over the whole or any part of its undertaking, property or assets;
- (r) making any loan or advance or giving any credit (other than in the ordinary course of business) to any person or acquiring any loan capital of any corporate body (wherever incorporated);
- (s) entering into any transaction or making any payment other than on an arm's length basis for the benefit of the Issuer; and
- (t) entering into or varying either any unusual or onerous contract or any other material or major or long term contract.

Notwithstanding the foregoing, consent shall not be required in relation to the specified matters if such matter is required by law (including by any competent judicial authority, or any recognised investment exchange) or such matter has been specifically agreed to in writing by the Investor Shareholders.

An Investor Director is authorised to communicate the consent or withholding of consent of the Investor Shareholders to any such matters. In this respect, the Investor Director will not be acting in his capacity as a director of the Issuer and accordingly will not owe any fiduciary duties to the Issuer or other holders of shares in the capital of the Issuer.

C. Sale or IPO Event

The Shareholders' Agreement states that it is the intention of the parties to the Shareholders' Agreement to effect a Sale or an IPO Event as soon as practicable. In the event of an IPO Event each of the parties shall use all reasonable endeavours to restructure the share capital of the Issuer prior to the IPO Event to ensure that the shares issued pursuant to the IPO Event shall be allocated among the shareholders in accordance with the Articles as if a Sale had occurred at the date of the IPO Event with the consideration in relation to such Sale being the issue of shares in the capital of the Issuer to be listed.

D. Restrictive covenants

Each of the Executives undertakes and covenants with the Investor Shareholders and the Issuer that (save for any interest in the shares of a company traded on a securities market of 3 per cent. or less) he shall not: (a) while he is a director or employee of the Issuer, carry on or be concerned, engaged or interested directly or indirectly in any trade or business competing with the business of the Issuer carried on at such time, or in relation to the business of the Issuer that he has been engaged or involved in, at any time during the period of twelve months immediately proceeding the date upon which the Executive ceases to be a director or employee to the Issuer; and (b) at any time during the period of twelve months commencing on the date upon which the Executive ceases to be a director or employee to the Issuer, take certain actions including engaging or being interested directly or indirectly in any capacity in any trade or business in the United Kingdom which is competing with the business of Aldermore or saying anything which may lead any person to cease to do business with the Issuer on substantially the same terms as previously, solicit or have dealings with, any person, firm or company who was a client or customer of the Issuer or entice away suppliers with whom he shall have been engaged.

E. The conversion of Class A 1 Ordinary Shares and Class E Ordinary Shares to deferred shares

Immediately prior to the earlier of a Sale or an IPO Event, and in any event immediately prior to any Class C Ordinary Shares being converted into deferred shares under the Articles, a certain number of Class A 1 Ordinary Shares and Class E Ordinary Shares may convert into deferred shares.

The aggregate number of Class A 1 Ordinary Shares to be converted into deferred shares is to be determined in accordance with the ratchet mechanism set out in the Shareholders' Agreement having regard to the agreed or determined value of a specified portfolio of loans relating to the business of Base

Commercial Mortgages Holdings Limited on the date of such Sale or IPO Event. In the event any of the Class A 1 Ordinary Shares are converted into deferred shares, a number of Class E Ordinary Shares shall be automatically converted into deferred shares to ensure that the proportion of share capital (excluding the Class C Shares) represented by the Class E Ordinary Shares immediately after the conversion of the Class A 1 Ordinary Shares (but before the conversion of any Class C Shares) is as near as may be to the proportion of share capital (excluding the Class C Shares) represented by the Class E Ordinary Shares immediately prior to the conversion of the Class A 1 Ordinary Shares.

Any conversion of the Class E Ordinary Shares in this respect shall be made on the following terms:

- (a) conversion shall take effect immediately following the conversion of any Class A 1 Ordinary Shares at no cost to the holders of the Class E Ordinary Shares and the conversion of Class E Ordinary Shares into deferred shares shall occur *pro rata* (or as near thereto to avoid apportionment of a fraction of a share) according to the number of Class E Ordinary Shares held by each shareholder;
- (b) in the event the holders of the Class A Ordinary Shares and Class E Ordinary Shares are unable to agree the number of Class E Ordinary Shares to be converted, the determination of the auditors as to the number of Class E Ordinary Shares to be converted shall (save in the case of manifest error) be conclusive and binding on the Issuer and the holders of the Class A Ordinary Shares and Class E Ordinary Shares shall be entitled to make representations to the auditors (providing such copies to the directors of the Issuer); and
- (c) after the conversion, the Issuer shall issue certificates for the deferred shares to the persons entitled as a result of the conversions and for the balance of the Class E Ordinary Shares and the holders thereof shall be bound to deliver up to the Issuer for cancellation the certificates in respect of their pre-conversion holdings of the Class E Ordinary Shares.

4. Warrant Instruments

Two series of warrants ("**Series A Warrants**" and "**Series B Warrants**", together, the "**Warrants**") were issued by the Issuer, which, upon exercise would deliver to the holder, in aggregate, 4,358,668 Class E Ordinary Shares (which are accounted for in the financial statements of the Issuer) valued at £2.2 million. Two warrant instruments (the "**Warrant Instruments**") both dated 11 May 2012, created the Warrants. The holders each have the right (but not the obligation) to subscribe in cash during a subscription period in whole or in part and on more than one occasion for up to 4,358,668 Class E Ordinary Shares at the applicable subscription price and on the applicable terms and conditions set out in the Warrant Instruments. The Issuer provided certain customary representations and warranties to the holders of the Warrants.

The Warrants were issued in registered form and are subject to certain customary terms and conditions. In particular:

- (a) the subscription period during which the subscription rights attach to the warrants expires on the earlier of: (i) the completion of a sale of the shares of the Issuer which results in a change of control of the Issuer (as described in the Articles); and (ii) 31 May 2022;
- (b) the Class E Ordinary Shares allotted will rank in full for all dividends and other distributions, subject to certain conditions, and *pari passu* in all other respects with the Class E Ordinary Shares in issue at the time; and
- (c) the Warrants are subject to customary anti-dilution adjustments. The subscription price per Series A Warrant is £1.12 and per Series B Warrant is £1.55. All Warrants remain unexercised as at the date of this Information Memorandum.

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 Securities or, following conversion, Ordinary Shares and who hold those Securities or Ordinary Shares 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 and, in the case of Ordinary Shares only, certain income tax, capital gains tax and corporation tax consequences of acquiring, holding and disposing of the Ordinary Shares. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Securities or Ordinary Shares. The United Kingdom tax treatment of prospective Securityholders depends on their individual circumstances and may be subject to change in the future. Prospective Securityholders 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 Securities qualify, or have qualified, as Additional Tier 1 instruments under Article 52 of Commission Regulation (EEC) No 575/2013 (the "**CRR**") and form, or will have formed, a component of Additional Tier 1 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 Securityholders should note that, if the Securities are not such Additional Tier 1 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 Securities

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

Interest on the Securities may be subject to income tax by direct assessment even where paid without withholding. However, interest received without deduction or withholding on account of United Kingdom tax will not generally be chargeable to United Kingdom tax in the hands of a Securityholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Securityholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch, agency or permanent establishment in connection with which the interest is received or to which the Securities are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment. In addition, there are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Securityholders.

Information Reporting

Information relating to securities may be required to be provided to HMRC in certain circumstances. This may include the value of the securities, details of the holders or beneficial owners of the securities (or the persons for whom the securities are held), details of the persons to whom payments derived from the securities are or may be paid and information and documents in connection with transactions relating to the securities. Information may be required to be provided by, amongst others, the holders of the securities, persons by (or via) whom payments derived from the securities are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to

the securities on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be provided to tax authorities in other countries.

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 Securities, or on the write-down of the Securities on Conversion, or on Conversion.

The Ordinary Shares

Distributions

The Issuer will not be required to withhold UK tax at source from distributions paid on the Ordinary Shares.

(a) UK resident individuals

A United Kingdom resident individual shareholder who receives a dividend from the Issuer will be entitled to a tax credit which may be set off against the shareholder's total income tax liability. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "**gross dividend**"), which is also equal to one-ninth of the cash dividend received. Such an individual shareholder who is liable to income tax only at the basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such shareholder's liability to income tax on the dividend. In the case of such an individual shareholder who is liable to income tax at the higher rate (but not the additional rate), the tax credit will be set against but not fully match the shareholder's tax liability on the gross dividend and such shareholder will have to account for additional income tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received) to the extent that the gross dividend when treated as the top slice of the shareholder's income falls above the threshold for higher rate income tax. In the case of such an individual shareholder who is subject to income tax at the additional rate, the tax credit will also be set against but not fully match the shareholder's liability on the gross dividend and such shareholder will have to account for additional income tax equal to 27.5 per cent. of the gross dividend (which is also equal to approximately 30.6 per cent. of the cash dividend received) to the extent that the gross dividend when treated as the top slice of the shareholder's income falls above the threshold for additional rate income tax.

A United Kingdom resident individual shareholder who is not liable to income tax in respect of the gross dividend and other United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Issuer.

(b) UK resident companies

Shareholders who are within the charge to corporation tax will be subject to corporation tax on dividends paid by the Issuer, unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Each shareholder's position will depend on its own individual circumstances, although it would normally be expected that the dividends paid by the Issuer would fall within an exempt class. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.

(c) Non-UK residents and exempt UK residents

Non-United Kingdom resident shareholders will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Issuer. A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income

under local law. Shareholders who are not resident for tax purposes in the United Kingdom should obtain their own tax advice concerning tax liabilities on dividends received from the Issuer.

Capital Gains

Shareholders who are resident in the United Kingdom, or, in the case of individuals, who cease to be resident in the United Kingdom for a period of five years or less, may depending on their circumstances (including the availability of exemptions or reliefs), be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a sale or other disposal of shares in the Issuer.

Stamp duty and stamp duty reserve tax

(a) Issue and delivery on Conversion

No stamp duty or SDRT will arise on the issue and delivery to the Securityholders of Ordinary Shares in registered form by the Issuer on Conversion. In the case of shares issued to a clearance service or depositary receipt system, this is as a result of case law which has been accepted by HMRC.

(b) Transfers outside of Depositary Receipt Systems and Clearance Services

An agreement to transfer Ordinary Shares in the Issuer will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser.

Transfers of Ordinary Shares in the Issuer will generally be subject to stamp duty at the rate of 0.5 per cent. of the consideration given for the transfer (rounded up to the next £5). The purchaser normally pays the stamp duty.

If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional) any SDRT already paid is generally repayable, normally with interest, and any SDRT charge yet to be paid is cancelled.

(c) Transfers within CREST

Paperless transfers of Ordinary Shares in the Issuer within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration.

(d) Transfers to and within Depositary Receipt Systems and Clearance Services

Where Ordinary Shares in the Issuer are transferred (i) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT may be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration given or, in certain circumstances, the value of the shares.

Except in relation to clearance services that have made an election under section 97A(1) of the Finance Act 1986 (to which the special rules outlined below apply), no stamp duty or SDRT is payable in respect of transfers within clearance services or depositary receipt systems.

There is an exception from the 1.5 per cent. charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986, which has been approved by HMRC. In these circumstances, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration

payable for the transfer will arise on any transfer of Ordinary Shares in the Issuer into such an account and on subsequent agreements to transfer such shares within such account.

Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise will strictly be accountable by the clearance service or depositary receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt system.

European Union

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

The Savings Directive

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 to or for the benefit of an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria and Luxembourg 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. Luxembourg will elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

The Council of the European Union has adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (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 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 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 Securities or Ordinary Shares (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 Securities or Ordinary Shares 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.

A joint statement issued in May 2014 by the participating Member States (other than Slovenia) indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. However, full details are not available. The FTT, as initially implemented on this basis, may not apply to dealings in the Securities.

The proposed FTT remains subject to negotiation between the participating Member States and the timing remains unclear. Additional EU Member States may decide to participate.

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

Foreign Account Tax Compliance Act

Certain provisions of U.S. law, commonly known as “**FATCA**” impose a new 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 new 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.

Under FATCA, withholding is required with respect to foreign passthru payments to persons that are not compliant with FATCA or that do not provide the necessary information, consents or documentation made on or after January 1, 2017 (at the earliest).

The application of FATCA to interest, principal or other amounts paid with respect to the Securities and the information reporting obligations of the Issuer and other entities in the payment chain is still developing. In particular, a number of jurisdictions (including the United Kingdom) have entered into, or have announced their intention to enter into, intergovernmental agreements (or similar mutual understandings) with the United States, which modify the way in which FATCA applies in their jurisdictions. The full impact of such agreements (and the laws implementing such agreements in such jurisdictions) on reporting and withholding responsibilities under FATCA is unclear. The Issuer and other entities in the payment chain may be required to report certain information on their U.S. account holders to government authorities in their respective jurisdictions or the United States in order (i) to obtain an exemption from FATCA withholding on payments they receive and/or (ii) to comply with applicable law in their jurisdiction. It is not yet certain how the United States and the jurisdictions which enter into intergovernmental agreements will address withholding on “foreign passthru payments” (which may include payments on the Securities) or if such withholding will be required at all.

Whilst the Securities are in global form and held within Euroclear or Clearstream, Luxembourg (together, the “**ICSDs**”), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Securities by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain from the Issuer to the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Securities. The documentation expressly contemplates the possibility that the Securities may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA-compliant holder could be subject to withholding. However, definitive Securities will only be printed in remote circumstances.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE SECURITIES AND THE HOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF SECURITIES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA

AND TO LEARN HOW FATCA MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

SUBSCRIPTION AND SALE

The Manager has, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 5 December 2014, agreed to subscribe or procure subscribers for the Securities 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 Manager in respect of certain of its expenses, and has agreed to indemnify the Manager against certain liabilities, incurred in connection with the issue of the Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

Selling restrictions

United States

The Securities 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 Securities 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 Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities (i) as part of its 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 Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities 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.

The Securities are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities 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 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 FSMA) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

No action has been taken by the Issuer or the Manager that would, or is intended to, permit a public offer of the Securities in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Manager has undertaken that it will not, directly or indirectly, offer or sell any Securities 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 Securities by it will be made on the same terms.

The Securities are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the TMR other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on pages 3 to 4 of this Information Memorandum for further information.

GENERAL INFORMATION

Authorisation

The issue of the Securities and the issue of any Class E Ordinary Shares upon Conversion were duly authorised by resolutions of the Board of Directors of the Issuer passed on 28 October 2014 and 24 November 2014, resolutions of a committee of the Board of Directors of the Issuer passed on 26 November 2014, 2 December 2014 and 4 December 2014 and a resolution of the holders of the Class A Ordinary Shares of the Issuer passed on 3 December 2014.

Listing

Application has been made to the ISE for the Securities to be admitted to the official list and to trading on the GEM.

The Issuer estimates that the total expenses related to the admission to trading will be approximately €13,041.20.

Clearing systems

The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1150025549 and the Common Code is 115002554.

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 Group and no material adverse change in the financial position or prospects of the Issuer since 30 June 2014.

Litigation

Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Information Memorandum which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Auditors

The consolidated financial statements of the Group for the years ended 31 December 2011, 31 December 2012 and 31 December 2013 and the consolidated financial statements of the Group for the six months ended 30 June 2014 have been prepared for the purposes of this Information Memorandum. The above referred financial statements are the Group's first set of financial statements prepared in accordance with IFRS. The financial information has been audited in accordance with IFRS and has been reported on without qualification by KPMG LLP

KPMG LLP is the auditor appointed by the Issuer for the purposes of auditing its consolidated financial statements. The financial information contained in this Information Memorandum does not amount to statutory accounts within the meaning of section 434(3) of the Companies Act. Full audited accounts

(prepared in accordance with generally accepted accounting practice in the United Kingdom) have been delivered to the Registrar of Companies of the Issuer for the accounting periods ended 31 December 2013, 31 December 2012 and 31 December 2011.

The unaudited consolidated financial information of the Group for the six months ended 30 June 2013 has been prepared in accordance with IFRS and has not been reviewed or audited by KPMG LLP.

Documents available

Physical copies of the following documents will be available while the Securities remain outstanding at the registered office of the Issuer and at the office of the Irish Listing Agent during normal business hours on any weekday:

- the constitutional documents of the Issuer;
- the audited consolidated financial statements of the Group for the years ended 31 December 2011, 31 December 2012 and 31 December 2013 and the audited consolidated financial statements of the Group for the six months ended 30 June 2014, in each case, as set out in “Historical Financial Information” of this Information Memorandum; and
- this Information Memorandum.

In addition, physical copies of the Trust Deed (which includes the terms and form of the Securities), and the Agency Agreement, will be available while the Securities remain outstanding at the office of the Irish Listing Agent during normal business hours on any weekday.

Incorporation of Issuer

The Issuer is a public limited company originally incorporated as a private limited company on 3 December 2008 under the Companies Act 1985. On 30 September 2014, the Issuer was re-registered as a public limited company under the Companies Act and changed its name from AC Acquisitions Limited to Aldermore Group PLC.

Conflicts of Interest

The 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. In the ordinary course of their business activities, the 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 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 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 Securities. Any such short positions could adversely affect future trading prices of the Securities. The 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.

HISTORICAL FINANCIAL INFORMATION

Section A - Accountant's report on Historical Financial Information



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Private & confidential

The Directors
Aldermore Group PLC
Apex Plaza, 4th Floor Block D,
Forbury Road, Reading,
Berkshire RG1 1AX
United Kingdom

5 December 2014

Dear Sirs

Aldermore Group PLC

We report on the financial information set out on pages F-3 to F-97. This financial information has been prepared for inclusion in the information memorandum dated 5 December 2014 of Aldermore Group PLC (the 'Information Memorandum') on the basis of the accounting policies set out in note 1(a). This report has been prepared for the purposes of the financial information contained in the Information Memorandum as required by the Listing and Admission to Trading Rules of the Global Exchange Market of the Irish Stock Exchange (the 'GEM Rules') and is given for the purpose of complying with the GEM Rules and for no other purpose. We have not audited or reviewed the financial information for the six months ended 30 June 2013 which has been included for comparative purposes only, and accordingly do not express an opinion thereon.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under the GEM Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with the GEM Rules, consenting to its inclusion in the Information Memorandum.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the information memorandum dated 5 December 2014, a true and fair view of the state of affairs of Aldermore Group PLC as at 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014 and of its consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the three years ended 31 December 2011, 31 December 2012 and 31 December 2013 and the six months ended 30 June 2014 in accordance with the basis of preparation set out in note 1 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1(a).

Declaration

For the purposes of the GEM Rules, we are responsible for this report as part of the information memorandum and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the information memorandum in compliance with the GEM Rules.

Yours faithfully

Handwritten signature in black ink, appearing to read "KPMG LLP".

KPMG LLP

Section B - Historical Financial Information

Aldermore Group PLC

Consolidated financial statements for the period ended 30 June 2014

Consolidated income statement for the six month periods ended 30 June 2014 and 2013 and the years ended 31 December 2013, 2012 and 2011

	Note	6 months ended 30 June		Year ended 31 December		
		2014	2013	2013	2012	2011
		(unaudited)				
		(£'000)				
Interest income.....	5	103,769	66,792	156,441	99,277	53,418
Interest expense	6	(42,587)	(36,051)	(75,799)	(63,283)	(29,717)
Net interest income		61,182	30,741	80,642	35,994	23,701
Fee and commission income.....	7	12,701	10,856	23,555	19,434	15,567
Fee and commission expense.....	8	(4,381)	(3,345)	(7,529)	(5,393)	(4,165)
Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss.....	9	392	1,680	3,277	(1,934)	(48)
Gains on disposal of debt securities.....		236	—	1,869	3,231	—
Other operating income	10	3,726	3,199	6,531	6,583	8,091
Total operating income.....		73,856	43,131	108,345	57,915	43,146
Provisions	31	(2,738)	(1,661)	(2,111)	(483)	(349)
Costs in preparation for an initial public offering		(2,231)	—	—	—	—
Other administrative expenses		(42,566)	(29,757)	(65,252)	(49,424)	(40,088)
Administrative expenses	13	(47,535)	(31,418)	(67,363)	(49,907)	(40,437)
Depreciation and amortisation	14	(1,789)	(1,722)	(3,822)	(2,319)	(1,405)
Operating profit before impairment losses....		24,532	9,991	37,160	5,689	1,304
Impairment losses on loans and advances to customers	19	(5,924)	(4,661)	(11,468)	(5,416)	(2,041)
Profit/(loss) before taxation.....		18,608	5,330	25,692	273	(737)
Taxation (charge)/credit.....	16	(4,364)	(371)	14	941	7
Profit/(loss) after taxation—attributable to equity holders of the Group		14,244	4,959	25,706	1,214	(730)
Basic earnings per share	17	6.1p	2.5p	12.7p	0.6p	(0.5)p
Diluted earnings per share	17	6.0p	2.5p	12.7p	0.6p	n/a

The notes and information on pages F-9 to F-97 form part of these financial statements.

The result for the period is derived entirely from continuing activities.

Aldermore Group PLC

Consolidated financial statements for the period ended 30 June 2014

Consolidated statement of comprehensive income for the six month periods ended 30 June 2014 and 2013 and the years ended 31 December 2013, 2012 and 2011

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
		(unaudited)			
			(£'000)		
Profit/(loss) after taxation	14,244	4,959	25,706	1,214	(730)
Other comprehensive income/(expense):					
<i>Items that may subsequently be transferred to the income statement:</i>					
Available for sale debt securities:	502	(1,240)	(2,566)	3,374	(1,523)
Fair value movements	863	(1,611)	(1,490)	7,546	(1,523)
Amounts transferred to the income statement.....	(236)	—	(1,869)	(3,231)	—
Taxation	(125)	371	793	(941)	—
Total other comprehensive income/(expense).....	502	(1,240)	(2,566)	3,374	(1,523)
Total comprehensive income/(expense) attributable to equity holders of the Group	14,746	3,719	23,140	4,588	(2,253)

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Consolidated statement of financial position as at 30 June 2014 and 31 December 2013, 2012 and 2011

	Note	30 June 2014	31 December 2013	31 December 2012	31 December 2011
		(£'000)			
Assets					
Cash and balances at central banks.....		30,768	192,844	1,654	125
Loans and advances to banks.....	18	119,324	237,544	105,019	61,773
Debt securities	20	558,232	355,653	342,364	321,079
Derivatives held for risk management	21	9,586	8,872	10,262	8,596
Loans and advances to customers	19	4,008,920	3,373,844	2,056,560	1,156,598
Fair value adjustment for portfolio hedged risk.....	5	(1,570)	—	—	—
Other assets	25	818	312	567	1,454
Prepayments and accrued income	26	5,100	5,109	3,160	1,309
Deferred taxation	16	4,223	3,299	—	—
Property, plant and equipment	24	3,056	2,858	1,612	1,219
Intangible assets.....	23	22,698	22,657	22,427	18,801
Total assets		4,761,155	4,202,992	2,543,625	1,570,954
Liabilities					
Amounts due to banks	27	192,153	385,951	115,079	—
Customers' accounts	28	3,858,533	3,464,018	2,161,649	1,358,855
Derivatives held for risk management	21	25,709	17,867	31,612	21,520
Fair value adjustment for portfolio hedged risk.....	6	(1,592)	—	—	—
Other liabilities	29	11,631	14,343	11,320	8,854
Accruals and deferred income	30	16,777	16,236	9,899	9,594
Current taxation		5,882	2,492	—	—
Provisions	31	3,289	1,157	576	350
Debt securities in issue	32	332,295	—	—	—
Subordinated notes.....	33	36,095	35,571	34,600	—
Total liabilities		4,480,772	3,937,635	2,364,735	1,399,173
Share capital	34	23,737	23,737	19,918	19,807
Share premium account		237,305	237,305	177,959	177,891
Capital contribution reserve		2	2	2	—
Warrant reserve.....		2,200	2,200	2,200	—
Available for sale reserve		1,084	582	3,148	(226)
Retained earnings.....		16,055	1,531	(24,337)	(25,691)
Shareholders' funds		280,383	265,357	178,890	171,781
Total liabilities and shareholders' funds.....		4,761,155	4,202,992	2,543,625	1,570,954

The consolidated statement of financial position as at 1 January 2011, the date of transition to IFRS, is presented in Note 43.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Consolidated statement of changes in equity for the six month periods ended 30 June 2014 and 2013 and the years ended 31 December 2013, 2012 and 2011

	Attributable to equity holders of the Group						Total
	Share capital	Share premium account	Warrant reserve	Capital contribution reserve	Available for sale reserve	Retained earnings	
	(£'000)						
6 months ended 30 June 2014							
As at 1 January ...	23,737	237,305	2,200	2	582	1,531	265,357
Total							
comprehensive income	—	—	—	—	502	14,244	14,746
Transactions with equity holders:							
—Shares issued, net of expenses..	—	—	—	—	—	—	—
—Share based payments (Note 37)	—	—	—	—	—	280	280
As at 30 June	<u>23,737</u>	<u>237,305</u>	<u>2,200</u>	<u>2</u>	<u>1,084</u>	<u>16,055</u>	<u>280,383</u>
6 months ended 30 June 2013 (unaudited)							
As at 1 January ...	19,918	177,959	2,200	2	3,148	(24,337)	178,890
Total							
comprehensive income	—	—	—	—	(1,240)	4,959	3,719
Transactions with equity holders:							
—Shares issued, net of expenses..	—	—	—	—	—	—	—
—Share based payments (Note 37)	—	—	—	—	—	41	41
As at 30 June	<u>19,918</u>	<u>177,959</u>	<u>2,200</u>	<u>2</u>	<u>1,908</u>	<u>(19,337)</u>	<u>182,650</u>
Year ended 31 December 2013							
As at 1 January ...	19,918	177,959	2,200	2	3,148	(24,337)	178,890
Total							
comprehensive income	—	—	—	—	(2,566)	25,706	23,140
Transactions with equity holders: ..							—
—Shares issued, net of expenses..	3,819	59,346	—	—	—	—	63,165
—Share based payments (Note 37)	—	—	—	—	—	162	162
As at 31 December	<u>23,737</u>	<u>237,305</u>	<u>2,200</u>	<u>2</u>	<u>582</u>	<u>1,531</u>	<u>265,357</u>

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Consolidated statement of changes in equity for the six month periods ended 30 June 2014 and 2013 and the years ended 31 December 2013, 2012 and 2011 (continued)

Year ended 31 December 2012

As at 1 January ...	19,807	177,891	—	—	(226)	(25,691)	171,781
Total							
comprehensive income	—	—	—	—	3,374	1,214	4,588
Transactions with equity holders:							
—Shares issued, net of expenses..	111	68	—	—	—	—	179
—Capital contribution.....	—	—	—	2	—	—	2
—Warrant reserve.	—	—	2,200	—	—	—	2,200
—Share based payments(Note 37).....	—	—	—	—	—	140	140
As at 31 December	19,918	177,959	2,200	2	3,148	(24,337)	178,890

Year ended 31 December 2011

As at 1 January ...	12,517	109,620	—	—	1,297	(24,961)	98,473
Total							
comprehensive income	—	—	—	—	(1,523)	(730)	(2,253)
Transactions with equity holders:							
—Shares issued, net of expenses..	7,290	68,271	—	—	—	—	75,561
As at 31 December	19,807	177,891	—	—	(226)	(25,691)	171,781

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Consolidated statement of cash flows for the six month periods ended 30 June 2014 and 2013 and the years ended 31 December 2013, 2012 and 2011

		6 months ended 30 June		Year ended 31 December		
	Note	2014	2013	2013	2012	2011
		(unaudited)				
		(£'000)				
Cash flows from operating activities						
Profit/(loss) before taxation		18,608	5,330	25,692	273	(737)
Adjustments for non-cash items and other adjustments included within the income statement	35	3,770	11,343	18,002	(11,118)	(8,030)
Increase in operating assets.....	35	(659,009)	(613,978)	(1,320,852)	(912,719)	(696,584)
Increase in operating liabilities	35	207,846	656,280	1,571,927	930,951	742,662
Income tax paid.....		(2,014)	—	—	—	—
Net cash flows (used in)/generated from operating activities		(430,799)	58,975	294,769	7,387	37,311
Cash flows from investing activities						
Purchase of debt securities.....		(335,773)	(17,812)	(89,071)	(150,496)	(203,742)
Proceeds from sale and maturity of debt securities		100,145	—	41,265	31,951	—
Capital repayments of debt securities		35,033	15,930	23,893	111,045	23,484
Interest received on debt securities ...		5,174	3,246	7,948	8,108	1,230
Purchase of property, plant and equipment and intangible assets....		(2,028)	(3,988)	(5,298)	(6,338)	(4,989)
Net cash used in investing activities		(197,449)	(2,624)	(21,263)	(5,730)	(184,017)
Cash flows from financing activities						
Proceeds from issue of shares		—	—	63,165	179	75,561
Capital contribution for share buyback.....		—	—	—	2	—
Proceeds from issue of subordinated notes and warrants		—	—	—	36,000	—
Proceeds from issue of debt securities		333,300	—	—	—	—
Issuance costs.....		(2,077)	—	—	(209)	—
Interest paid on subordinated notes...		(2,575)	(2,575)	(5,150)	(2,856)	—
Net cash from / (used in) financing activities		328,648	(2,575)	58,015	33,116	75,561
Net (decrease) / increase in cash and cash equivalents		(299,600)	53,776	331,521	34,773	(71,145)
Cash and cash equivalents at start of the period	35	415,210	83,689	83,689	48,916	120,061
Movement during the period.....		(299,600)	53,776	331,521	34,773	(71,145)
Cash and cash equivalents at end of the period.....	35	115,610	137,465	415,210	83,689	48,916

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements

1 Basis of preparation

(a) Accounting basis

These are the first consolidated financial statements to have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“**IFRSs**”). The Group prepared its consolidated financial statements under United Kingdom Generally Accepted Accounting Practice (“**UK GAAP**”) until 31 December 2013. UK GAAP differs in certain respects from IFRSs, hence when preparing these financial statements, management has amended certain accounting and valuation methods and accounts disclosures to comply with IFRSs. The disclosures required by IFRS 1: ‘*First-time Adoption of International Financial Reporting Standards*’ concerning the transition from UK GAAP to IFRSs are given in Note 43. The significant accounting policies adopted are set out in Note 2.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Aldermore Group PLC (referred to as the “**Company**”) and its subsidiaries which are entities controlled by the Company (jointly referred to as the “**Group**”) made up to 30 June 2014, 30 June 2013 and 31 December each year. Aldermore Group PLC provides a range of banking and financial services in the UK.

Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company’s subsidiaries include securitisation vehicles.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Uniform accounting policies are applied consistently across the Group. Intercompany transactions and balances are eliminated upon consolidation.

(c) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group’s capital and liquidity plans, including stress tests, have been reviewed by the Directors. The Group’s capital plans have been considered both including and excluding the plans to raise capital in order to continue the Group’s forecast growth strategy via an Additional Tier 1 instrument in December 2014.

The Group’s forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including a range of stressed scenarios, taking management actions as appropriate if the additional capital needed to continue the forecast growth strategy is not forthcoming. After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority (“**PRA**”).

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

1 Basis of preparation (continued)

(d) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the financial statements:

- derivative financial instruments are measured at fair value through profit or loss;
- debt securities designated at fair value through profit or loss;
- available for sale debt securities are valued at fair value through other comprehensive income; and
- fair value adjustments for portfolios of financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships, which reflect changes in fair value attributable to the risk being hedged.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Note 3.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

1 Basis of preparation (continued)

(f) Future accounting developments

All standards or amendments to existing standards which have been endorsed by the European Union (“EU”) and which are available for early adoption for annual periods commencing on or after 1 January 2014 have been adopted by the Group.

There are also a number of standards, amendments and interpretations which have been issued by the International Accounting Standards Board (“IASB”) but which have not yet been endorsed by the EU. The most significant of these is IFRS 9: “Financial Instruments”, the planned replacement for IAS 39: “Financial Instruments: Recognition and Measurement”.

IFRS 9 introduces new requirements for the classification and measurement of financial assets, hedge accounting and the impairment of financial assets. Under IFRS 9 financial assets are classified and measured based on the business model under which they are held and the characteristic of their contractual cash flows. In addition, IFRS 9 is replacing the incurred loss approach to impairment of IAS 39 with one based on expected losses, and is replacing the rules based hedging requirements of IAS 39 with new requirements that align hedge accounting more closely with risk management activities.

IFRS 9, including the final version of the requirements in respect of impairment, was issued on 24 July 2014. The IASB has decided to apply IFRS 9 for annual periods beginning on or after 1 January 2018. IFRS 9 is required to be applied retrospectively, but prior periods need not be restated. IFRS 9, including its commencement date, will be subject to endorsement by the EU.

In addition, the IASB has commenced a separate project for macro hedging, which is exploring a new way to account for the dynamic risk management of open portfolios and is likely to be of future relevance to the Group. That project is still at the Discussion Paper stage and as yet the likely final form of any amendments to IFRS 9, or their required implementation date, is not clear. The adoption of IFRS 9 is expected to have a material impact on the Group’s financial statements, but this has not yet been quantified.

The IASB has also issued IFRS 15: “Revenue from contracts with customers”. The impact for the Group is currently being assessed. The Standard will be effective for annual reporting periods beginning on or after 1 January 2017 with retrospective application subject to EU endorsement.

2 Significant accounting policies

(a) Interest income and expense

Interest income and expense are recognised in the income statement on an effective interest rate (“EIR”) basis. The EIR is the rate that, at the inception of the financial asset or liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument (for example, prepayment options) but does not consider the assets’ future credit losses.

At each reporting date, management makes an assessment of the expected remaining life of its financial assets, including any acquired loan portfolios and where there is a change in those assessments the remaining amount of any unamortised discount or premiums is adjusted so that the interest income continues to be recognised prospectively on the amortised cost of the financial asset at the original EIR. The adjustment arising is recognised within interest income in the income statement for the current period.

The calculation of the EIR includes all transaction costs and fees paid or received that are an integral part of the interest rate, together with the discounts or premium arising on the acquisition of loan portfolios. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(a) Interest income and expense (continued)

Interest income and expense presented in the income statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis;
- Interest on available for sale debt securities calculated on an EIR basis;
- Interest income recognised on finance leases where the Group acts as the lessor (see Note 2(o));
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk, together with changes in the fair value of the hedged item attributable to the hedged risk; and
- Interest income on financial assets designated at fair value so as to avoid an accounting mismatch with derivatives held as an “economic” hedge and the matching interest component of the derivative.

Interest income includes amounts the Group charges its invoice finance clients as interest each day on the balance of their outstanding loans. This interest income is recognised in the income statement on an EIR basis.

(b) Fee and commissions and other operating income

Fee and commission income

Fee and commission income includes fees relating to services provided to customers which do not meet the criteria for inclusion within interest income.

Within the Invoice Finance division of the Group, customers are charged a factoring fee for managing their sales ledgers. This fee is recognised within fee and commissions income over the period in which the ledger management service is provided. Other fee and commission income includes fees charged for valuations, documentation, mortgage services and arrears, and are recognised as the related services are performed within fee and commission income.

Arrangement fees and others fees relating to loans and advances to customers are included within interest income as part of the EIR calculation.

Fee and commission expense

Fee and commission expense predominantly consists of introducer commissions, legal and valuation fees and company search fees. Where these fee and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income as part of the EIR calculation. Where they are not incremental costs that are directly attributable they are recognised within fee and commission expense as the services are received.

Other operating income

Other operating income predominantly arises from the provision of invoice finance services and includes disbursements and collect out income. This income is recognised within other operating income as the service has been provided.

(c) Net income from derivatives and other financial instruments at fair value through profit or loss

Net income from derivatives and other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedging arrangement and financial assets designated at fair value through profit or loss. It includes all realised and unrealised fair value changes, interest and foreign exchange differences, with the exception of interest income on financial assets designated at fair value and the matching interest component of the hedging derivatives. The assets designated at fair value are treated in this manner so as to avoid an accounting mismatch with derivatives held as an “economic” hedge.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)
2 Significant accounting policies (continued)

(d) *Financial instruments—recognition and derecognition*

(i) *Recognition*

The Group initially recognises loans and advances, amounts due to banks, customer accounts and subordinated notes issued on the date that they are originated.

Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(ii) *Derecognition*

Financial assets are derecognised when they are qualifying transfers and:

- the rights to receive cash flows from the assets have ceased; or
- the Group has transferred substantially all the risks and rewards of ownership of the assets.

When a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

When available for sale financial assets are derecognised, the cumulative gain or loss, including that previously recognised in reserves, is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised through the income statement.

(iii) *Funding for Lending Scheme (“FLS”)*

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under FLS are not derecognised from the statement of financial position, as the Group retains substantially all the risks and rewards of ownership, including all cashflows arising from the loans and advances and exposure to credit risk. The treasury bills that the Group borrows against the transferred assets are not recognised in the statement of financial position, but where they are sold to third parties by the Group under agreements to repurchase, the cash received is recognised as an asset within the statement of financial position together with the corresponding obligation to return it which is recognised as a liability at amortised cost within ‘Due to banks’. Interest is accrued over the life of the agreement on an EIR basis.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)
2 Significant accounting policies (continued)

(e) *Financial assets*

(i) *Overview*

The Group classifies its financial assets (excluding derivatives) as either:

- loans and receivables;
- available for sale; or
- financial assets designated at fair value through profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses. Loans and receivables mainly comprise loans and advances to banks and customers.

(iii) *Available for sale*

Available for sale financial assets are debt securities that are not held for trading and are intended to be held for an indefinite period of time. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on current bid prices where quoted in an active market. Where there is no active market or the debt securities are unlisted the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Foreign exchange gains or losses on available for sale debt securities are recognised in the income statement. Impairment losses are recognised in the income statement. Other fair value changes are recognised in other comprehensive income and presented in the available for sale reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

(iv) *Fair value assets designated at fair value through profit or loss*

Financial assets designated at fair value through profit or loss are assets which have been designated as such to eliminate or significantly reduce a measurement and recognition inconsistency or where management specifically manages an asset or liability on that basis. These assets are measured at fair value based on current bid prices where quoted in an active market. Where there is no active market or the securities are unlisted the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques. Gains and losses arising from changes in the fair value are brought into the income statement within "Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss" as they arise.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)
2 Significant accounting policies (continued)

(f) *Financial liabilities*

(i) *Overview*

Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs for financial liabilities other than derivatives. Financial liabilities, other than derivatives, are subsequently measured at amortised cost.

(ii) *Financial liabilities at amortised cost*

Financial liabilities at amortised cost are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(iii) *Subordinated notes*

Subordinated notes issued by the Group are assessed as to whether they should be treated as equity or financial liabilities. Where there is a contractual obligation to deliver cash or other financial assets, they are treated as a financial liability and measured at amortised cost using the EIR after taking account of any discount or premium on the issue and directly attributable costs that are an integral part of the EIR. The amount of any discount or premium is amortised over the period to the expected call date of the instrument. All subordinated notes issued by the Group are classified as financial liabilities; however, the warrants attached to the subordinated notes, which give the holders the right to subscribe for shares in Aldermore Group PLC (the “**Parent Company**”), have been included in equity as a warrant reserve at the residual value attributable to the warrants after deducting from the face value of the instrument as a whole the amounts determined separately as the fair value of the subordinated notes at the date of issue.

(g) *Impairment—financial assets*

(i) *Assessment*

At each reporting date the Group assesses its financial assets not at fair value through profit or loss as to whether there is objective evidence that the assets are impaired. Objective evidence that financial assets are impaired can include:

- significant financial difficulty of the borrower;
- a breach of contract such as default or delinquency in interest or principal repayments;
- the granting of a concession for economic or legal reasons relating to the borrower’s financial condition that the Group would not otherwise grant;
- indications that a borrower or issuer will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a debt security because of the issuer’s financial difficulties; or
- national or local economic conditions that correlate with defaults within groups of financial assets e.g. increases in unemployment rates or decreases in property prices relating to the collateral held.

The Group considers evidence for the impairment of loans and advances at both the individual asset and collective level. In certain cases where a borrower is experiencing significant financial distress, the Group may use forbearance measures to assist them and militate against default.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(g) Impairment—financial assets (continued)

(ii) Scope

The Group considers evidence of impairment of financial assets at both an individual asset and collective level.

Individual impairment

All financial assets are assessed for individual impairment using a range of risk criteria. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets are considered to be individually impaired where they meet one or more of the following criteria:

- A default position equivalent to 3 or more missed monthly repayments (or a quarterly payment which is over 30 days past due);
- Litigation proceedings have commenced;
- Act of insolvency, e.g. bankruptcy, administration or liquidation, or appointment of an LPA Receiver;
- Invoice finance accounts are classified as in default when there is cessation of additional advances and/or when the facility is in collect-out; or
- Where there is evidence of fraud.

Collective impairment

All financial assets that are not found to be individually impaired are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(g) *Impairment—financial assets (continued)*

(iii) *Measurement*

Impairment provisions on financial assets individually identified as impaired are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR.

When assessing collective impairment, the Group estimates incurred losses using a statistical model which multiplies the probability of default (“PD”) for each class of customer (using external credit rating information) by the loss given default (“LGD”) multiplied by the estimated exposure at default (“EaD”) to arrive at the projected expected loss. An emergence period is subsequently applied to the projected expected loss to determine the estimated level of incurred losses at each reporting date. In addition an adjustment is made to discount the imputed cash flows from the model at the assets' original EIR to arrive at the recorded collective provisions. The model's results are adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to differ from those suggested by historical modelling.

In assessing the level of collective impairment provisions, the Group uses statistical modeling of historical trends of probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes to ensure they remain appropriate.

Impairment losses are recognised immediately in the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write off is made when all or part of a financial asset is deemed uncollectible or forgiven after all collection procedures have been completed and the amount of the loss has been determined. Write offs are charged against amounts previously reflected in the allowance account or directly to the income statement. Any additional amounts recovered after a financial asset has been previously written off are offset against the write off charge in the income statement once they are received. Allowances for impairment losses are released at the point when it is deemed that, following a subsequent event, the risk has reduced such that an allowance is no longer required.

Interest on impaired financial assets is recognised at the same EIR as applied at the initial recognition of the financial asset but applied to the book value of the financial asset net of any individual impairment allowances that have been raised.

(iv) *Impairment of financial assets classified as available for sale*

Impairment losses on available for sale debt securities are recognised by reclassifying the losses accumulated in the available for sale reserve in equity to the income statement. The cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in the income statement. Changes in impairment provisions attributable to the effective interest method are reflected as a component of interest income.

If in a subsequent period the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(h) Financial instruments—fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimises the use of unobservable inputs. The chosen valuation techniques incorporate all the factors that market participants would take into account in pricing a transaction.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price—i.e. the fair value of the consideration received or given.

If an asset measured at fair value has a bid and an offer price, the Group measures assets and long positions at a bid price and liabilities at an offer price.

(i) Derivative financial instruments

The Group enters into derivative transactions only for the purpose of reducing exposures to fluctuations in interest rates, exchange rates and market indices; they are not used for proprietary trading purposes.

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties. As the Group's derivatives are covered by master netting agreements with the Group's counterparties, with any net exposures then being further covered by the payment or receipt of periodic cash margins, the Group has used a risk free discount rate for the determination of their fair values.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the current legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate. Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within Amounts due to banks. Where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in loans and advances to banks.

Notes to the financial statements (continued)
2 Significant accounting policies (continued)

(j) Hedge accounting

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective, the strategy in undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated.

The Group enters into the following types of hedging relationships:

(i) Fair value hedges

Where a derivative is designated as the hedging instrument to hedge the change in fair value of a recognised asset or liability or a firm commitment that could affect income or expense, changes in the value of the derivative are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued. Any adjustment up to that point, to a hedged item for which the EIR method is used, is amortised to income or expense as part of the recalculated EIR method of the item over its remaining expected life.

(ii) Fair value hedge accounting for a portfolio hedge of interest rate risk

As part of its risk management process the Group identifies portfolios whose interest rate risk it wishes to hedge. The portfolios comprise either only assets or only liabilities. The Group analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Group designates as the hedged item an amount of assets or liabilities from each portfolio that it wishes to hedge.

The Group measures monthly the change in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, the Group recognises the change in fair value of each hedged item in the income statement with the cumulative movement in their value being shown on the statement of financial position as a separate item, 'Fair value adjustment for portfolio hedged risk', either within assets or liabilities as appropriate. If the hedge no longer meets the criteria for hedge accounting, this amount is amortised on a straight line basis to the income statement over the remaining average useful life of the original hedge relationship.

The Group measures the fair value of each hedging instrument monthly. The value is included in derivative financial instruments in either assets or liabilities as appropriate, with the change in value recorded in the income statement. Any hedge ineffectiveness is recognised in the income statement as the difference between the change in fair value of the hedged item and the change in fair value of the hedging instrument.

(k) Embedded derivatives

A derivative may be embedded in another instrument, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract (and the host contract is not carried at fair value through profit or loss), the embedded derivative is separated from the host and held on the statement of financial position at fair value. Movements in fair value are posted to the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular asset or liability.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(l) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset or costs incurred in bringing the asset to use. Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost of each asset to realisable values on a straight-line basis over its expected useful life, as follows:

- Fixtures, fittings and equipment 5 years
- Computer hardware 1 to 5 years

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Equipment held for use in operating leases is written down to its estimated residual value on a straight-line basis over the period of the underlying lease agreement.

(m) Intangible assets

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment on an annual basis. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

All goodwill reflected in these financial statements relates to acquisitions undertaken prior to the date of transition to IFRSs on 1 January 2011. As permitted by IFRS 1 the deemed cost of the goodwill at the date of transition has been taken as its carrying amount i.e. cost net of cumulative amortisation under UK GAAP.

Computer systems

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Software is amortised on a straight line basis in the income statement over its useful life, from the date that it is available for use. The estimated useful life of software is one to five years.

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

Goodwill

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to cash generating units ("CGU"). An impairment loss is recognised if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of post-tax profits for the subsequent five years, and a residual value, discounted at a risk-adjusted interest rate appropriate to the cash generating unit.

Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(n) Impairment of non-financial assets (continued)

Intangible assets

If impairment is indicated, the assets recoverable amount (being the greater of fair value less costs to sell and value in use) is estimated. Value in use is calculated by discounting the future cashflows from continuing use of the asset. If the carrying value of the asset is less than the greater of the value in use and the fair value less costs to sell, an impairment loss is recognised in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Assets leased to customers

All leases of assets to customers are finance leases as defined by IAS17. When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised, within interest income in the income statement, over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax cash flows.

(p) Assets leased from third parties

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement, within administrative expenses or staff costs (in the case of company cars), on a straight line basis over the period of the lease. The Group holds no assets under finance leases.

(q) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The Group has an obligation to contribute to the Financial Services Compensation Scheme ("FSCS") to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Group has an obligation in accordance with IAS 37. The amount provided is based on information received from the FSCS, forecast future interest rates and the Group's historic share of industry protected deposits. IFRIC 21 was adopted in the prior period as described in Note 43.

(r) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities held at the balance sheet date are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange differences are charged or credited to the profit or loss account.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(s) Taxation

Taxation comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Pension costs

The cost of providing retirement benefits is charged to the income statement at the amount of the defined contributions payable for each year. Differences between contributions payable and those actually paid are shown as accruals or prepayments. The Group has no defined benefit pension scheme.

(u) Share premium

Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of the shares issued. Incremental costs directly attributable to the raising of share capital are netted against the share premium account.

(v) Share based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments in Aldermore Group PLC, the Group's Parent Company ("**equity-settled transactions**"). The fair value of these transactions is determined at the grant date and is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The expense recognised in the profit or loss account for the period represents the movement in cumulative expense recognised at the beginning and end of that period. Where the Group's parent grants rights to its equity instruments to the Group's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group accounts for these share-based payments as equity-settled.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

3 Use of estimates and judgements

The preparation of financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to loan impairment provisions, EIRs, deferred tax and contingent liabilities.

(a) Loan impairment provisions

The loan portfolios are reviewed on a regular basis to assess for impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and by the reporting date. The calculation of impairment loss is management's best estimate of losses incurred in the portfolio at the balance sheet date and reflects expected future cash flows based on both the likelihood of a loan or advance being written off and the estimated loss on such a write off.

At 30 June 2014 gross loans and advances to customers totalled £4,034 million (31 December 2013: £3,395 million, 31 December 2012: £2,069 million, 31 December 2011: £1,169 million) against which impairment allowances of £25 million (31 December 2013: £21 million, 31 December 2012: £12 million, 31 December 2011: £12 million) had been made (see Note 19). The Group's accounting policy for loan impairment provisions on financial assets classified as loans and receivables is described in Note 2g. Impairment allowances are made up of two components, those determined individually against specific assets and those determined collectively. Of the impairment allowance of £25 million at 30 June 2014, £17 million relates to individual provisions and £8 million relates to collective provisions. The section below provides details of the critical elements of judgement within the loan impairment calculations. Less significant judgements are not disclosed.

Individual

Individual impairment allowances are established against the Group's individually significant financial assets that are deemed by management to be impaired. The determination of individual impairment allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions, the financial status of the customer and the realisable value of the security held. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

3 Use of estimates and judgements (continued)

(a) Loan impairment provisions (continued)

Collective

Collective impairment allowances are established for loans and advances to customers to reflect losses that are incurred as at the reporting date but are yet to be individually impaired. The collective impairment model is applied to all loans that are not individually impaired and which includes all loans not analysed for individual impairment.

The collective impairment allowance is also subject to estimation uncertainty and in particular is sensitive to changes in economic and credit conditions, including the interdependency of house prices, unemployment rates, interest rates, borrowers' behaviour and consumer bankruptcy trends. All of these factors can influence the key assumptions detailed below. It is, however, inherently difficult to estimate how changes in one or more of these factors might impact the collective impairment allowance.

The key assumptions used in the collective model are: probability of default ("PD"), the loss given default ("LGD") and the loss emergence period ("EP") (the time between a trigger event occurring and the loans being identified as individually impaired). An additional element is included within the collective provision to reflect fraud losses that are incurred as at the reporting date but are yet to be individually impaired. Further details in respect of assumptions and details of the sensitivity of the estimate of the impairment allowance to changes in significant assumptions are as follows:

Probability of default:

The PD is based on external individual customer credit rating information updated for each reporting date. This external credit rating information gives a PD in the next 12 months where 'default' is defined as loans which are 2 months or more in arrears (2 MIA) and incorporates credit information from a broad range of financial services products for each customer.

Management make an estimate so as to adjust the external data to reflect both the individual nature of the Group's lending and the Group's policy of classifying loans which are 3 months or more in arrears ("3 MIA") as 'impaired'. This adjustment is achieved by using two management assumptions: firstly a "roll rate" that reflects how many of the loans which fall into 2 MIA will also fall into 3 MIA; and secondly a scalar that adjusts the external PDs to reflect the individual nature of the Group's lending.

- A 10 per cent. absolute increase in the "roll rate" assumed by management between 2 MIA and 3 MIA, when the loans are considered to be individually impaired would increase the impairment allowance by £0.3 million
- An 10 per cent. relative reduction in the scaling factors applied to external data in order to arise at PDs appropriate to the individual nature of lending being undertaken would increase the impairment allowance by £0.3 million

Loss given default

The model calculates the LGD from the point of repossession. Not all cases that are 3 MIA will reach repossession. Management therefore adjust the model by applying an assumption of the percentage of accounts 3 MIA that will reach repossession.

- A 10 per cent. absolute reduction in this assumption would decrease the impairment allowance by £0.5 million.

The LGD is also sensitive to the application of the House Price Index ("HPI") and Forced Sale Discount ("FSD") which affect the underlying value of the collateral which is expected to be received.

- A 10 per cent. relative reduction in the HPI would increase the overall impairment allowance by £0.9 million.
- A 5 per cent. absolute increase in the FSD would increase the overall impairment provision by £1.1 million.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

3 Use of estimates and judgements (continued)

(a) Loan impairment provisions (continued)

Emergence period

Management make a judgement, according to the line of business for the underlying loans, on the length of emergence period to apply to the estimated losses expected to be recognised in the next 12 months in order to determine those which are considered as incurred as at the reporting date.

- A three month increase in all emergence periods would increase the overall impairment allowance by £2.5 million.

(b) Effective interest rate

IAS 39 requires interest earned from mortgages to be measured under the EIR method, as described in Note 2a. Management must therefore use judgement to estimate the expected life of each type of instrument and hence the expected cash flows relating to it. The accuracy of the EIR would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

A critical estimate in determining EIRs is the expected lives to maturity of the Group's commercial and residential mortgage portfolios, as a change in the estimates will have an impact on the period over which the directly attributable costs and fees, and any discount received on the acquisition of the mortgage loan portfolios, are recognised. An extension of the estimated expected lives for a period of six months would have the effect of reducing the cumulative profit before tax recognised as at 30 June 2014 by £2.5 million (31 December 2013: £2.4 million, 31 December 2012: £0.8 million, 31 December 2011: £0.9 million).

(c) Deferred tax

Taxation involves estimation techniques to assess the liability in terms of possible outcomes. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted. In 2012, and 2011, no deferred tax asset was recognised as there was insufficient certainty over the ability to use the amounts in the future.

(d) Contingent liabilities

As outlined in note 31 and 36, the Group has made certain judgements and estimates about the extent of any contingent liabilities for aspects of non-compliance with certain areas of detailed laws and regulations including the Consumer Credit Act and Working Time Directive. The judgements and estimates made represent the best estimate of the directors based on information available including legal advice. Further details are outlined in notes 31 and 36.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

4 Segmental information

The Group has four reportable operating segments as described below which are based on the Group's four lending divisions plus a central functions segment. Each division offers groups of similar products and services and are managed separately based on the Group's management and internal reporting structure. For each of the reportable segments the Board, which is the Group's Chief Operating Decision Maker, reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- **Residential Mortgages**—Prime residential mortgages targeting underserved segments of creditworthy borrowers that provide attractive and sustainable margins and residential buy-to-let mortgages.
- **SME Commercial Mortgages**—Property finance needs of professional, residential/commercial property investors, and owner-occupier Small and Medium Sized Enterprises ('SMEs'). Targets prime and specialist prime segments with loan sizes below £5m.
- **Asset Finance**—Lease and hire purchase financing for SMEs, focusing on sectors with strong returns and liquid secondary asset markets.
- **Invoice Finance**—Simple factoring/discounting facility and credit control for SMEs, targeting owner managed businesses.

The Central Functions segment represents the reconciling items between the total of the four reportable operating segments and the consolidated income statement. As well as common costs, Central Functions includes the Group's Treasury and Savings functions which are responsible for raising finance on behalf of the operating segments. The costs of raising finance are all recharged by Central Functions to operating segments, apart from those costs relating to the subordinated notes (Note 6).

Common costs are incurred on behalf of the operating segments and typically represent savings administration costs, back office costs and support function costs such as Finance, Risk and Human Resources. The costs are not directly attributable to the operating segments.

Information regarding the results of each reportable segment and their reconciliation to the total results of the Group are included below. Performance is measured based on the segmental result as included in the internal management reports.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)
4 Segmental information (continued)

Segmental information for the 6 months ended 30 June 2014

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Central Functions	Total
	(£'000)					
Interest income—external customers	47,456	25,315	25,410	4,691	897	103,769
Interest expense—external customers	—	—	—	—	(42,587)	(42,587)
Interest (expense)/income— internal	(20,301)	(7,292)	(9,215)	(1,792)	38,600	—
Net fees and other income— external customers	1,507	397	1,506	8,815	449	12,674
Total operating income/(expense)	28,662	18,420	17,701	11,714	(2,641)	73,856
Administrative expenses including depreciation and amortisation	(4,400)	(3,311)	(5,475)	(7,710)	(28,428)	(49,324)
Impairment losses on loans and advances to customers	198	(2,965)	(942)	(2,215)	—	(5,924)
Segmental result	24,460	12,144	11,284	1,789	(31,069)	18,608
Tax						(4,364)
Profit after tax						14,244
Assets	2,039,231	894,877	871,119	203,693	752,235	4,761,155
Liabilities	—	—	—	—	(4,480,772)	(4,480,772)
Net assets / (liabilities)	2,039,231	894,877	871,119	203,693	(3,728,537)	280,383

Segmental information for the 6 months ended 30 June 2013 (unaudited)

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Central Functions	Total
	(£'000)					
Interest income—external customers	26,517	18,228	16,129	4,444	1,474	66,792
Interest expense—external customers	—	—	—	—	(36,051)	(36,051)
Interest (expense)/income— internal	(16,408)	(7,271)	(6,540)	(2,225)	32,444	—
Net fees and other income— external customers	1,157	65	760	8,867	1,541	12,390
Total operating income/(expense)	11,266	11,022	10,349	11,086	(592)	43,131
Administrative expenses including depreciation and amortisation	(3,110)	(2,133)	(3,876)	(6,938)	(17,083)	(33,140)
Impairment losses on loans and advances to customers	(1,224)	(796)	(1,526)	(1,115)	—	(4,661)
Segmental result	6,932	8,093	4,947	3,033	(17,675)	5,330
Tax						(371)
Profit after tax						4,959
Assets	1,294,969	649,153	517,508	205,664	536,812	3,204,106
Liabilities	—	—	—	—	(3,021,454)	(3,021,454)
Net assets / (liabilities)	1,294,969	649,153	517,508	205,664	(2,484,642)	182,652

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)
4 Segmental information (continued)

Segmental information for the year ended 31 December 2013

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Central Functions	Total
	(£'000)					
Interest income—external customers	66,670	39,910	37,375	9,379	3,107	156,441
Interest expense—external customers	—	—	—	—	(75,799)	(75,799)
Interest (expense)/income— internal	(34,920)	(14,562)	(14,360)	(4,318)	68,160	—
Net fees and other income— external customers	2,875	89	1,992	17,861	4,886	27,703
Total operating income/(expense)	34,625	25,437	25,007	22,922	354	108,345
Administrative expenses including depreciation and amortisation	(6,944)	(4,792)	(9,501)	(13,993)	(35,955)	(71,185)
Impairment losses on loans and advances to customers	(1,261)	(1,965)	(2,585)	(5,657)	—	(11,468)
Segmental result	26,420	18,680	12,921	3,272	(35,601)	25,692
Tax						14
Profit after tax						25,706
Assets	1,679,686	761,998	720,198	211,962	829,148	4,202,992
Liabilities	—	—	—	—	(3,937,635)	(3,937,635)
Net assets / (liabilities)	1,679,686	761,998	720,198	211,962	(3,108,487)	265,357

Segmental information for the year ended 31 December 2012

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Central Functions	Total
	(£'000)					
Interest income—external customers	36,237	26,219	21,087	8,326	7,408	99,277
Interest expense—external customers	—	—	—	—	(63,283)	(63,283)
Interest (expense)/income— internal	(25,544)	(13,420)	(10,324)	(4,958)	54,246	—
Net fees and other income— external customers	1,283	81	1,076	18,242	1,239	21,921
Total operating income/(expense)	11,976	12,880	11,839	21,610	(390)	57,915
Administrative expenses including depreciation and amortisation	(4,688)	(3,863)	(5,092)	(13,114)	(25,469)	(52,226)
Impairment losses on loans and advances to customers	(633)	(1,110)	(1,160)	(2,513)	—	(5,416)
Segmental result	6,655	7,907	5,587	5,983	(25,859)	273
Tax						941
Profit after tax						1,214
Assets	953,772	545,754	378,325	178,709	487,065	2,543,625
Liabilities	—	—	—	—	(2,364,735)	(2,364,735)
Net assets / (liabilities)	953,772	545,754	378,325	178,709	(1,877,670)	178,890

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)
4 Segmental information (continued)

Segmental information for the year ended 31 December 2011

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Central Functions	Total
	(£'000)					
Interest income—external customers	15,533	16,537	10,033	7,059	4,256	53,418
Interest expense—external customers	—	—	—	—	(29,717)	(29,717)
Interest (expense)/income— internal	(10,807)	(8,268)	(4,802)	(3,301)	27,178	—
Net fees and other income— external customers	440	98	516	18,331	60	19,445
Total operating income/(expense)	5,166	8,367	5,747	22,089	1,777	43,146
Administrative expenses including depreciation and amortisation	(3,765)	(3,286)	(3,974)	(12,625)	(18,192)	(41,842)
Impairment losses on loans and advances to customers	145	(1,465)	(500)	(221)	—	(2,041)
Segmental result	1,546	3,616	1,273	9,243	(16,415)	(737)
Tax						7
Loss after tax						(730)
Assets	456,730	356,549	193,709	149,610	414,356	1,570,954
Liabilities	—	—	—	—	(1,399,173)	(1,399,173)
Net assets / (liabilities)	456,730	356,549	193,709	149,610	(984,817)	171,781

5 Interest income

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
On financial assets not at fair value through profit or loss:					
On loans and advances to customers	103,031	65,494	153,676	92,550	50,023
On loans and advances to banks	953	445	1,206	631	993
On debt securities	1,843	1,909	3,818	5,584	2,320
	105,827	67,848	158,700	98,765	53,336
On financial assets at fair value through profit or loss:					
Net interest expense on financial instruments hedging assets	(5,389)	(3,890)	(7,970)	(5,155)	(710)
Net interest income on debt securities designated at fair value and related derivatives	3,331	2,834	5,711	5,667	792
	103,769	66,792	156,441	99,277	53,418

Included within interest income on loans and advances to customers for the period ended 30 June 2014 is a total of £791,000 (30 June 2013 (unaudited): £502,000, 31 December 2013: £957,000, 31 December 2012: £920,000, and 31 December 2011: £605,000) relating to impaired financial advances.

Included within net interest expense on financial instruments hedging assets are fair value gains of £1,473,000 (30 June 2013 (unaudited), 31 December 2013, 31 December 2012 and 31 December 2011: £nil) on derivatives held in qualifying fair value hedging arrangements, together with losses of £1,570,000, (30 June 2013 (unaudited), 31 December 2013, 31 December 2012 and 31 December 2011: £nil) representing changes in the fair value of the hedged item attributable to the hedged interest rate risk on loans and advances to customers.

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Notes to the financial statements (continued)

6 Interest expense

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
On financial liabilities not at fair value through profit or loss:					
On customers' accounts	39,730	33,900	70,411	61,966	32,998
On due to banks	722	762	1,822	296	—
On debt securities in issue	1,072	—	—	—	—
On subordinated notes	3,100	3,014	6,121	3,875	—
	44,624	37,676	78,354	66,137	32,998
On financial liabilities at fair value through profit or loss:					
Net interest income on financial instruments hedging liabilities	(2,637)	(2,115)	(3,678)	(2,893)	(3,281)
Other	600	490	1,123	39	—
	42,587	36,051	75,799	63,283	29,717

Included within net interest income on financial instruments hedging liabilities are fair value losses of £1,617,000, (30 June 2013 (unaudited)), 31 December 2013, 31 December 2012 and 31 December 2011: £nil) on derivatives held in qualifying fair value hedging arrangements together with gains of £1,592,000 (30 June 2013 (unaudited), 31 December 2013, 31 December 2012 and 31 December 2011: £nil) representing changes in the fair value of the hedged item attributable to the hedged interest rate risk on customers' accounts.

7 Fee and commission income

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Invoice finance fees	7,410	7,357	14,949	14,533	13,142
Insurance commissions receivable.....	547	545	1,221	767	—
Other	4,744	2,954	7,385	4,134	2,425
	12,701	10,856	23,555	19,434	15,567

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

8 Fee and commission expense

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Introducer commissions	1,085	928	1,962	1,460	1,161
Legal and valuation fees	1,336	848	1,688	1,524	1,221
Company searches and other fees	966	972	2,296	1,598	1,195
Credit protection and insurance charges	581	237	762	469	588
Insurance commissions payable.....	413	360	821	342	—
	4,381	3,345	7,529	5,393	4,165

9 Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Net (losses)/gains on derivatives	(728)	8,294	13,993	(5,032)	(3,462)
Net gains/(losses) on assets designated at fair value through profit or loss.....	1,548	(6,614)	(10,716)	3,098	3,414
Net losses on available for sale assets held in fair value hedges	(428)	—	—	—	—
	392	1,680	3,277	(1,934)	(48)

10 Other operating income

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Disbursements, collect out and other invoice finance income	3,561	3,117	6,344	6,559	8,091
Other	165	82	187	24	—
	3,726	3,199	6,531	6,583	8,091

11 Staff costs

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Wages and salaries.....	19,328	15,436	33,684	25,985	21,740
Social security costs.....	2,426	1,817	3,905	3,071	2,753
Other pension costs.....	615	334	835	705	493
	22,369	17,587	38,424	29,761	24,986

The average number of persons employed by the Group during the period, including Non-Executive Directors, was 720 (30 June 2013 (unaudited): 589, 31 December 2013: 621, 31 December 2012: 492, 31 December 2011: 415).

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

12 Pension and other post-retirement benefit commitments

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Pension contributions of £615,000 (30 June 2013 (unaudited): £334,000, 31 December 2013: £835,000, 31 December 2012: £705,000, 31 December 2011: £493,000) were charged to the income statement during the period in respect of these schemes. The Group made payments amounting to £14,000 (30 June 2013 (unaudited): £11,000, 31 December 2013: £25,000, 31 December 2012: £22,000, 31 December 2011: £21,000) in aggregate in respect of certain employees' individual personal pension arrangements during the period. There were outstanding contributions of £99,000 at the period end (31 December 2013: £128,000, 31 December 2012: £114,000, 31 December 2011: £78,000).

13 Administrative expenses

	Note	6 months ended 30 June		Year ended 31 December		
		2014	2013	2013	2012	2011
		(unaudited)				
		(£'000)				
Staff costs	11	22,369	17,587	38,424	29,761	24,986
Legal and professional and other services		10,798	5,345	12,095	8,952	5,771
Information technology costs.....		3,467	2,283	4,683	3,283	2,484
Office costs		1,974	1,576	3,191	2,956	2,770
Provisions	31	2,738	1,661	2,111	483	349
Other		6,189	2,966	6,859	4,472	4,077
		47,535	31,418	67,363	49,907	40,437

Included in administrative expenses are £2.2 million of costs incurred in preparation for an initial public offering.

14 Depreciation and amortisation

	Note	6 months ended 30 June		Year ended 31 December		
		2014	2013	2013	2012	2011
		(unaudited)				
		(£'000)				
Depreciation.....	24	430	338	697	480	438
Amortisation of intangible assets.....	23	1,359	1,384	3,125	1,839	967
		1,789	1,722	3,822	2,319	1,405

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Notes to the financial statements (continued)

15 Profit/(loss) on ordinary activities before taxation

The profit/(loss) on ordinary activities is arrived after charging/(crediting):

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Operating lease rentals (including service charges)					
—land and buildings.....	922	587	1,174	1,248	1,014
—plant and equipment.....	263	219	436	451	443
Foreign exchange loss/(gain).....	23	16	33	(3)	(13)
The remuneration of the Group's external auditor, KPMG LLP, and their associates is as follows:					
Fees payable to the Group's auditor for the audit of the annual accounts (excluding VAT) ⁽¹⁾	230	130	245	185	162
Audit fees.....	230	130	245	185	162
Fees payable to the Group's auditor and its associates for other services (excluding VAT):					
Audit related assurance services.....	68	—	43	—	—
Taxation compliance services.....	14	16	29	22	30
Other taxation advisory services ⁽²⁾	111	—	94	4	18
Corporate finance services ⁽³⁾	400	—	—	—	425
Other assurance services.....	205	26	94	52	57
All other services.....	—	19	58	39	—
Non-audit fees.....	798	61	318	117	530
	1,028	191	563	302	692

Notes:

- (1) Fees payable for the audit of the annual accounts include amounts accrued but unbilled for the 6 months ended 30 June 2014 of £150,000 (30 June 2013 (unaudited): £130,000).
- (2) Other taxation advisory services relate to restructuring advice in relation to the Group's preparation for an initial public offering.
- (3) Fees payable for corporate finance services for the period ended 30 June 2014 include £400,000 for the preparation of documentation for the Group's initial public offering. For the year ended 31 December 2011, these fees include £425,000 in relation to an external capital raising exercise.

16 Taxation

(a) *Tax charge/(credit)*

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Current tax on profits for the period.....	5,406	—	2,492	—	—
Over provision in previous period.....	—	—	—	—	(7)
Total current tax charge/(credit).....	5,406	—	2,492	—	(7)
Deferred tax.....	(1,042)	371	(2,506)	(941)	—
	4,364	371	(14)	(941)	(7)

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Notes to the financial statements (continued)

16 Taxation (continued)

(a) Tax charge/(credit) (continued)

A current tax charge of £7,000 and a deferred tax charge of £118,000 was recognised in other comprehensive income during the period ended 30 June 2014 (30 June 2013 (unaudited): £371,000 deferred tax credit, 31 December 2013: £793,000 deferred tax credit, 31 December 2012: £941,000 deferred tax charge and 31 December 2011: £nil) in respect of available for sale debt securities.

(b) Factors affecting tax charge/(credit) for the period

The tax assessed for the period is different to that resulting from applying the standard rate of corporation tax in the UK of 21.5 per cent. (30 June 2013 (unaudited): 23.25 per cent., 31 December 2013: 23.25 per cent., 31 December 2012: 24.5 per cent., 31 December 2011: 26.5 per cent). The differences are explained below:

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Profit/(loss) before tax	18,608	5,330	25,692	273	(737)
Tax at 21.5 per cent. (2013: 23.25 per cent., 2012: 24.5 per cent., 2011: 26.5 per cent) thereon	4,001	1,239	5,973	67	(195)
Effects of:					
Expenses not deductible for tax purposes	288	(14)	(26)	42	108
Prior year deductible temporary differences utilised in the period	—	(1,229)	(3,455)	(109)	87
Recognition / (release) of deferred tax asset.....	—	375	(2,506)	(941)	—
Over provision in previous period	—	—	—	—	(7)
Deferred tax rate adjustment.....	75	—	—	—	—
	4,364	371	(14)	(941)	(7)

(c) Deferred tax asset

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable future taxable profits against which the unwinding of the asset can be offset. No net deferred tax asset was recognised at 31 December 2012 and 2011 as there was insufficient certainty over the ability to use the amounts in the future.

Reductions in the UK corporation tax rate from 26 per cent. to 24 per cent. (effective from 1 April 2012) and to 23 per cent. (effective 1 April 2013) and to 21 per cent. (effective from 1 April 2014) were substantively enacted on 26 March 2012, 3 July 2012 and 2 July 2013 respectively. A further reduction to 20 per cent. (effective from 1 April 2015) was also substantively enacted on 2 July 2013. This will reduce the Group's future current tax charge accordingly. The deferred tax assets at 30 June 2014 and 31 December 2013 have been calculated based on the rate of 20 per cent. substantively enacted at the balance sheet dates. The unrecognised deferred tax balances at 31 December 2012 have been calculated at 23 per cent. (31 December 2011: 25 per cent) based upon tax rates substantively enacted at those dates.

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Notes to the financial statements (continued)

16 Taxation (continued)

(c) *Deferred tax asset* (continued)

Analysis of recognised deferred tax asset:

	Balance at start of period	Recognised in profit or loss	Recognised in other comprehensive income	Balance at end of period
	(£'000)			
Six months ended 30 June 2014				
Capital allowances less than depreciation	3,392	1,005	—	4,397
Gains on available for sale debt securities recognised through other comprehensive income	(148)	—	(118)	(266)
Other temporary differences	55	37	—	92
	<u>3,299</u>	<u>1,042</u>	<u>(118)</u>	<u>4,223</u>
Year ended 31 December 2013				
Tax losses carried forward	941	(941)	—	—
Capital allowances less than depreciation	—	3,392	—	3,392
Gains on available for sale debt securities recognised through other comprehensive income	(941)	—	793	(148)
Other temporary differences	—	55	—	55
	<u>—</u>	<u>2,506</u>	<u>793</u>	<u>3,299</u>
Year ended 31 December 2012				
Tax losses carried forward	—	941	—	941
Gains on available for sale debt securities recognised through other comprehensive income	—	—	(941)	(941)
	<u>—</u>	<u>941</u>	<u>(941)</u>	<u>—</u>

No deferred tax asset was recognised at 31 December 2011.

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	(£'000)			
Analysis of unrecognised deferred tax balances:				
Capital allowances less than depreciation	—	—	1,147	165
Losses carried forward	—	—	4,705	6,916
Other temporary differences	—	—	712	955
	<u>—</u>	<u>—</u>	<u>6,564</u>	<u>8,036</u>

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Notes to the financial statements (continued)

17 Earnings per share

Basic earnings per share is calculated by dividing the net profit / (loss) attributable to equity shareholders of the Group by the weighted average number of ordinary shares in issue during the period.

	6 months ended		Year ended		
	30 June 2014	30 June 2013	31 December 2013	31 December 2012	31 December 2011
	(unaudited)		(£'000)		
Profit/(loss) attributable to equity shareholders of the Group	14,244	4,959	25,706	1,214	(730)
Weighted average number of ordinary shares in issue (thousand)	233,658	195,461	203,019	195,461	150,905
Basic earnings/(losses) per share (pence) ..	6.1	2.5	12.7	0.6	(0.5)

The ordinary shares in issue used in the denominator in the calculation of basic earnings per share are the A1, A2, D and E ordinary shares. The B and C ordinary shares are excluded from the calculation of both basic and diluted earnings (see below) on the basis that prior to any initial public offering they have no entitlement to dividends or other distributions of the Parent Company.

The calculation of diluted earnings per share has been based on the the same profit/(loss) attributable to equity shareholders of the group as for basic earnings and the weighted average number of ordinary shares outstanding after the potential dilutive effect of outstanding share warrants. The share warrants give the holders the right to subscribe for 2,905,779 E ordinary shares at a price of £1.12 per share and a further 1,452,889 E ordinary shares at a price of £1.55 per ordinary share, and are exercisable until 31 May 2022.

	6 months ended		Year ended		
	30 June 2014	30 June 2013	31 December 2013	31 December 2012	31 December 2011
	(unaudited)				
Weighted average number of ordinary shares in issue (thousand) (basic)	233,658	195,461	203,019	195,461	150,905
Effect of share warrants in issue	1,966	114	357	—	—
Weighted average number of ordinary shares in issue (thousand) (diluted).....	235,624	195,575	203,376	195,461	150,905
Diluted earnings/(losses) per share (pence)	6.0	2.5	12.6	0.6	(0.5)

18 Loans and advances to banks

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	(£'000)			
Included in cash and cash equivalents: balances with less than three months maturity at inception.....	89,831	226,194	83,189	48,916
Cash collateral on derivatives placed with banks	19,530	11,350	21,830	12,857
Other loans and advances to banks	9,963	—	—	—
	119,324	237,544	105,019	61,773

There were no individual or collective provisions for impairment against loans and advances to banks. £9,963,000 is recoverable more than 12 months after the reporting date (2013: £nil, 2012: £nil, 2011: £nil) and relates to cash pledged by the Group's securitisation vehicle, Oak No.1 PLC.

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Notes to the financial statements (continued)

19 Loans and advances to customers

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
			(£'000)	
Gross loans and advances	4,034,007	3,394,872	2,069,009	1,168,919
less: allowance for impairment losses.....	(25,087)	(21,028)	(12,449)	(12,321)
	4,008,920	3,373,844	2,056,560	1,156,598

Amounts include:

Expected to be recovered more than 12 months after the reporting date	3,467,678	2,880,879	1,704,531	736,696
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At 30 June 2014, loans and advances to customers of £796.9 million (31 December 2013: £822.9 million, 31 December 2012: £647.6 million, 31 December 2011: £nil) were pre-positioned with the Bank of England and HM Treasury Funding for Lending Scheme. These loans and advances were available for use as collateral with the Scheme, against which £485.0 million of UK Treasury Bills had been drawn as at the reporting date (31 December 2013: £485.0 million, 31 December 2012: £205.0 million, 31 December 2011: £nil).

At 30 June 2014, loans and advances to customers include £338.1 million (31 December 2013, 2012 and 2011: £nil) which have been used in secured funding arrangements, resulting in the beneficial interest in these loans being transferred to Oak No. 1 PLC which is a securitisation vehicle consolidated into these financial statements. The carrying value of these loans on 10 April 2014 when the beneficial interest was transferred was £362.3 million. These loans secured £332.3 million of funding for the Group (see Note 32). All the assets pledged are retained within the statement of financial position as the Group retains substantially all the risks and rewards relating to the loans.

Allowance for impairment losses

	Individual	Collective	Total
		(£'000)	
6 months ended 30 June 2014			
Balance as at 1 January	14,714	6,314	21,028
Impairment loss for the period:			
Charge to the income statement	4,314	1,610	5,924
Unwind of discounting	(379)	(412)	(791)
Write-offs net of recoveries	(1,074)	—	(1,074)
Balance as at 30 June 2014	17,575	7,512	25,087
Year ended 31 December 2013			
Balance as at 1 January	9,318	3,131	12,449
Impairment loss for the year:			
Charge to the income statement	7,689	3,779	11,468
Unwind of discounting	(361)	(596)	(957)
Write-offs net of recoveries	(1,932)	—	(1,932)
Balance as at 31 December 2013	14,714	6,314	21,028
Year ended 31 December 2012			
Balance as at 1 January	9,877	2,444	12,321
Impairment loss for the year:			
Charge to the income statement	4,286	1,130	5,416
Unwind of discounting	(477)	(443)	(920)
Write-offs net of recoveries	(4,368)	—	(4,368)
Balance as at 31 December 2012	9,318	3,131	12,449
Year ended 31 December 2011			
Balance as at 1 January	12,954	2,276	15,230
Impairment loss for the year:			
Charge to the income statement	1,748	293	2,041
Unwind of discounting	(480)	(125)	(605)
Write-offs net of recoveries	(4,345)	—	(4,345)
Balance as at 31 December 2011	9,877	2,444	12,321

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)
19 Loans and advances to customers (continued)

Finance lease receivables

Loans and advances to customers include the following finance leases of equipment where the Group is the lessor:

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	(£'000)			
Gross investment in finance leases, receivable:				
Less than one year	358,091	279,078	155,253	85,276
Between one and five years	598,039	512,398	250,714	123,091
More than five years	14,197	19,574	21,932	12,332
	970,327	811,050	427,899	220,699
Unearned finance income	(108,585)	(90,852)	(49,574)	(26,990)
Net investment in finance leases.....	861,742	720,198	378,325	193,709
Net investment in finance leases, receivable:				
Less than one year	308,715	235,781	137,266	74,847
Between one and five years	539,493	465,403	221,668	108,038
More than five years	13,534	19,014	19,391	10,824
	861,742	720,198	378,325	193,709

The Group enters into finance lease and hire purchase arrangements with customers in a wide range of sectors including plant and machinery, cars and commercial vehicles. The accumulated allowance for uncollectible minimum lease payments receivable is £2,061,000 (31 December 2013: £2,328,000, 31 December 2012: £1,750,000, 31 December 2011: £2,261,000).

Due to the nature of the business undertaken, there are no unguaranteed residual values for any of the finance leases.

Included in the above disclosure is approximately £63 million in relation to block discounting facilities and approximately £23 million in relation to unsecured lending at 30 June 2014.

20 Debt Securities

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	(£'000)			
Debt securities designated at fair value through profit or loss:				
UK Government Gilts	109,557	108,399	115,329	64,326
Supranational Bonds	55,361	54,499	58,287	55,890
	164,918	162,898	173,616	120,216
Available for sale debt securities:				
UK Government Gilts and Treasury Bills.....	35,993	24,647	30,358	79,961
Supranational Bonds	250,563	90,264	69,692	54,478
Corporate Bonds	—	—	—	5,489
Asset-backed securities.....	106,758	77,844	68,698	60,935
	393,314	192,755	168,748	200,863
	558,232	355,653	342,364	321,079

At 30 June 2014, £505.7 million (31 December 2013: £301.6 million, 31 December 2012: £316.0 million, 31 December 2011: £220.3 million) of debt securities are expected to be recovered more than 12 months after the reporting date. There were no impairment losses in respect of available for sale debt securities.

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Notes to the financial statements (continued)

21 Derivatives held for risk management

Amounts included in the statement of financial position are analysed as follows:

	30 June 2014	30 June 2014	31 December 2013	31 December 2013	31 December 2012	31 December 2012	31 December 2011	31 December 2011
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	(£'000)							
Instrument type								
Interest rate (including fair value hedges detailed below).....	9,090	25,331	8,484	17,511	10,022	31,372	8,474	21,398
Equity	378	378	354	354	240	240	122	122
Foreign exchange.....	118	—	34	2	—	—	—	—
	9,586	25,709	8,872	17,867	10,262	31,612	8,596	21,520

All derivatives are held either as fair value hedges qualifying for hedge accounting (from January 2014) or are held for the purpose of managing risk exposures arising on the Group's other financial instruments (all periods).

Fair value hedges of interest rate risk

From January 2014, the Group has used interest rate swaps within qualifying hedge accounting relationships to manage its exposure to changes in the fair values of certain fixed rate lending and savings products and debt securities held, attributable to changes in market interest rates. The fair values of derivatives designated as fair value hedges is as follows:

	30 June 2014	30 June 2014
	Assets	Liabilities
	(£'000)	
Instrument type		
Interest rate swaps.....	8,335	4,299
	8,335	4,299

Other derivatives held for risk management

The Group uses other derivatives, not designated in qualifying hedge relationships, to manage its exposure to the following:

- interest rate risk on certain debt securities held which are designated at fair value through profit or loss;
- interest rate basis risk on certain mortgage loans;
- equity market risk on equity linked products offered to depositors; and
- foreign exchange risk on currency loans provided to invoice finance customers.

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Notes to the financial statements (continued)

22 Investment in subsidiaries

Aldermore Group PLC, the Parent Company of the Group, owns 100 per cent. of the issued share capital of Aldermore Holdings Limited. Aldermore Holdings Limited owns 99.9 per cent. and the Parent Company owns 0.01 per cent. of the issued share capital of Aldermore Bank PLC, which is a registered bank. Subsidiary undertakings, all of which are registered in England and operate in the United Kingdom, are listed below. All subsidiaries are included in the consolidated financial statements.

Subsidiary undertakings	Principal activity	Shareholding (%)
Aldermore Holdings Limited.....	Holding company	100
Aldermore Bank PLC	Banking and related services	100
Securitisation vehicles		
Oak No.1 Mortgages Holdings Limited.....	Holding company for securitisation vehicle	*
Oak No.1 PLC	Securitisation company	*
Dormant subsidiary undertakings		
Aldermore Bank Nominees Limited	Dormant	100
Aldermore Invoice Finance (Holdings) Limited.....	Dormant	100
Aldermore Invoice Finance Limited	Dormant	100
Aldermore Invoice Finance (Oxford) Limited.....	Dormant	100
Base Commercial Mortgages Holdings Limited.....	Dormant	100
Base Commercial Mortgages Limited	Dormant	100
Base Commercial Mortgages Funding Limited	Dormant	100
Lynchwood Commercial Funding No.1 Limited	Dormant	100
Lynchwood Commercial Funding No.2 Limited	Dormant	100

* The share capital of these securitisation vehicles is not owned by the Group, but these vehicles are included in the consolidated financial statements as they are controlled by the Group.

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Notes to the financial statements (continued)

23 Intangible assets

	Computer systems	Goodwill (£'000)	Total
Cost/deemed cost at transition to IFRS			
1 January 2014.....	16,253	12,653	28,906
Additions	1,400	—	1,400
30 June 2014.....	17,653	12,653	30,306
1 January 2013.....	12,898	12,653	25,551
Additions	3,355	—	3,355
31 December 2013.....	16,253	12,653	28,906
1 January 2012.....	7,433	12,653	20,086
Additions	5,465	—	5,465
31 December 2012.....	12,898	12,653	25,551
1 January 2011.....	3,062	12,653	15,715
Additions	4,371	—	4,371
31 December 2011.....	7,433	12,653	20,086
Amortisation			
1 January 2014.....	6,249	—	6,249
Disposals.....	—	—	—
Charge for the period.....	1,359	—	1,359
30 June 2014.....	7,608	—	7,608
1 January 2013.....	3,124	—	3,124
Charge for the year	3,125	—	3,125
31 December 2013.....	6,249	—	6,249
1 January 2012.....	1,285	—	1,285
Charge for the year	1,839	—	1,839
31 December 2012.....	3,124	—	3,124
1 January 2011.....	318	—	318
Charge for the year	967	—	967
31 December 2011.....	1,285	—	1,285
Net book value			
30 June 2014.....	10,045	12,653	22,698
31 December 2013.....	10,004	12,653	22,657
31 December 2012.....	9,774	12,653	22,427
31 December 2011.....	6,148	12,653	18,801
1 January 2011.....	2,744	12,653	15,397

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions. The aggregate amount allocated to each Cash Generating Unit ("CGU") is as follows:

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
		(£'000)		
SME Commercial Mortgages	8,547	8,547	8,547	8,547
Invoice Finance.....	4,106	4,106	4,106	4,106
	12,653	12,653	12,653	12,653

No impairment losses on goodwill were recognised during the period ended 30 June 2014 (31 December 2013: £nil, 31 December 2012: £nil, 31 December 2011: £nil).

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Notes to the financial statements (continued)

23 Intangible assets (continued)

The recoverable amounts for SME Commercial Mortgages and Invoice Finance CGUs have been calculated based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. Value in use at 30 June 2014, 31 December 2013 and 31 December 2012 has been determined in a similar manner as at 31 December 2011.

- Key assumptions used in the calculation of value in use were the following: Cash flows were projected based on past experience, actual operating results and the four year business plan. Cash flows for a further 12 year period were extrapolated using a constant growth rate of 6 per cent. (31 December 2013: 6 per cent., 31 December 2012 and 31 December 2011: 2 per cent). The constant growth rate is the long term compound growth rate in cash flows estimated by management based on historical performance and their view of the future prospects of the CGUs. The forecast period is based on the Group's long term perspective with respect to the operation of these CGUs.
- Pre-tax discount rates of 13 per cent. and 15 per cent. (31 December 2013, 31 December 2012, 31 December 2011: 13 per cent. and 15 per cent) respectively were applied in determining the recoverable amounts for the SME Commercial Mortgages and Invoice Finance operating divisions. These discount rates were based on the weighted average cost of funding for the CGUs based on the Group's regulatory capital requirement and expected market returns for debt and equity funding, adjusted for risk premiums to reflect the systemic risk of the individual CGU.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either CGU to reduce below the carrying amount.

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Notes to the financial statements (continued)

24 Property, plant and equipment

	Fixtures, fittings and equipment	Computer hardware (£'000)	Motor vehicles	Total
Cost/deemed cost at transition to IFRS				
1 January 2014.....	2,661	3,078	—	5,739
Additions	36	592	—	628
30 June 2014.....	2,697	3,670	—	6,367
1 January 2013.....	1,888	1,908	—	3,796
Additions	773	1,170	—	1,943
31 December 2013.....	2,661	3,078	—	5,739
1 January 2012.....	1,384	1,539	23	2,946
Additions	504	369	—	873
Disposals.....	—	—	(23)	(23)
31 December 2012.....	1,888	1,908	—	3,796
1 January 2011.....	1,213	1,092	23	2,328
Additions	171	447	—	618
31 December 2011.....	1,384	1,539	23	2,946
Depreciation				
1 January 2014.....	1,357	1,524	—	2,881
Charge for the period.....	165	265	—	430
30 June 2014.....	1,522	1,789	—	3,311
1 January 2013.....	1,040	1,144	—	2,184
Charge for the year	317	380	—	697
31 December 2013.....	1,357	1,524	—	2,881
1 January 2012.....	851	853	23	1,727
Disposals.....	—	—	(23)	(23)
Charge for the year	189	291	—	480
31 December 2012.....	1,040	1,144	—	2,184
1 January 2011.....	617	649	23	1,289
Charge for the year	234	204	—	438
31 December 2011.....	851	853	23	1,727
Net book value				
30 June 2014.....	1,175	1,881	—	3,056
31 December 2013.....	1,304	1,554	—	2,858
31 December 2012.....	848	764	—	1,612
31 December 2011.....	533	686	—	1,219
1 January 2011.....	596	443	—	1,039

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Notes to the financial statements (continued)

25 Other assets

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
			(£'000)	
Amounts recoverable within one year	620	197	454	1,415
Amounts recoverable after one year	198	115	113	39
	818	312	567	1,454

Included within other assets at 30 June 2014 are £340,000 costs incurred in preparation for an initial public offering. These have subsequently been written off to the Income Statement.

26 Prepayments and accrued income

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
			(£'000)	
Amounts recoverable within 12 months:				
Accrued income	1,901	1,810	1,541	179
Other prepayments	3,199	3,299	1,619	1,130
	5,100	5,109	3,160	1,309

27 Amounts due to banks

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
			(£'000)	
Amounts repayable within 12 months:				
Due to banks—repurchase agreements	189,438	383,071	114,579	—
Due to banks—deposits	600	1,205	500	—
Cash collateral received on derivatives	2,115	1,675	—	—
	192,153	385,951	115,079	—

Collateral given under repurchase agreements

The face value of securities sold under agreements to repurchase at 30 June 2014 was £190 million (31 December 2013: £385 million, 31 December 2012: £115 million, 31 December 2011: £nil) of which securities with a face value of £190 million (31 December 2013: £385 million, 31 December 2012: £115 million, 31 December 2011: £nil) were drawn down from the Bank of England under the terms of the Funding for Lending Scheme. The Group conducts these transactions under the terms of applicable General Master Repurchase Agreement guidelines. Consideration received in return for the collateral is recorded as 'Amounts due to banks' and is accounted for as a financial liability at amortised cost.

28 Customers' accounts

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
			(£'000)	
Amounts repayable within one year	2,979,249	2,728,364	1,886,669	1,017,818
Amounts repayable after one year	879,284	735,654	274,980	341,037
	3,858,533	3,464,018	2,161,649	1,358,855

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Notes to the financial statements (continued)

29 Other liabilities

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	(£'000)			
Amounts payable within 12 months:				
Other taxation and social security costs	893	3,967	4,508	2,580
Amounts payable to Invoice Finance customers	6,841	7,146	6,032	5,372
Trade creditors	2,830	848	211	232
Other payables	1,067	2,382	569	670
	11,631	14,343	11,320	8,854

30 Accruals and deferred income

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	(£'000)			
Amounts payable within 12 months:				
Accruals	13,790	13,787	8,151	9,066
Deferred income	1,984	1,805	1,225	191
Fee accruals	1,002	644	523	337
	16,777	16,236	9,899	9,594

At 30 June 2014 £nil (31 December 2013: £nil, 31 December 2012: £nil, 31 December 2011: £nil) of accruals and deferred income are expected to be payable more than 12 months after the reporting date.

31 Provisions

	Financial Services Compensation Scheme	Customer redress	Total
	(£'000)		
1 January 2014	707	450	1,157
Utilised during the period	—	(606)	(606)
Provided during the period	2,582	156	2,738
30 June 2014	3,289	—	3,289
1 January 2013	576	—	576
Utilised during the year	(1,530)	—	(1,530)
Provided during the year	1,661	450	2,111
31 December 2013	707	450	1,157
1 January 2012	350	—	350
Utilised during the year	(257)	—	(257)
Provided during the year	483	—	483
31 December 2012	576	—	576
1 January 2011	76	—	76
Utilised during the year	(75)	—	(75)
Provided during the year	349	—	349
31 December 2011	350	—	350

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Notes to the financial statements (continued)

31 Provisions (continued)

Financial Services Compensation Scheme ("FSCS")

In common with all regulated UK deposit-takers, the Group pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy, which includes capital and interest levies. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc., Kaupthing Singer & Friedlander Ltd, Heritable Bank plc., Landsbanki Islands hf, London Scottish Bank plc. and Dunfermline Building Society. In order to fund the compensation costs of the defaults, the FSCS borrowed £20.4 billion from HM Treasury which is repayable by 31 March 2016.

The FSCS provision at 30 June 2014 of £3,289,000 (31 December 2013: £707,000, 31 December 2012: £576,000, 31 December 2011: £350,000) represents interest levies for scheme years 2013/2014 and 2014/2015 of £935,000, and £1,220,000, respectively, capital levy for scheme year 2014/2015 of £1,088,000, and management expenses levy for the scheme year 2014/2015 of £45,000.

The interest levy provisions represent the interest costs on the loans borrowed for HM Treasury for the 12 months ending 31 March 2014 and 31 March 2015. The funding rate used is the higher of the 12 month LIBOR plus 100 basis points, and the relevant gilt rate published by the Debt Management Office.

The capital levy provision includes the Group's estimate of its share of the capital shortfalls on loans made to failed institutions by the FSCS. The shortfalls are expected to be recovered by 31 March 2016 when the loans from HM Treasury are due for repayment.

Customer redress

Total costs of £606,000 in relation to Consumer Credit Act ("CCA") non-compliance have been reflected in the 2014 and 2013 financial statements. The Group has a small number of loans which are regulated under the CCA and has identified that, following changes to the CCA in 2008, certain letters and statements have been sent to customers that do not fully comply with the requirements prescribed by the CCA. Accordingly, certain customers were entitled to redress for interest and fees charged on the relevant loans as a result of this technical non-compliance, notwithstanding there is unlikely to have been any customer detriment. The costs incurred relate to repayment of the interest and fees charged to the affected customers.

Furthermore, the Group has recently identified subsequent CCA lending where there are certain additional potential aspects of CCA non-compliance in relation to statements sent to customers. None of these are considered to have given rise to customer detriment. There are a range of possible outcomes but none are likely to be material.

32 Debt securities in issue

Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
			(£'000)	
In not more than one year	—	—	—	—
In more than one year	332,295	—	—	—
	332,295	—	—	—

Debt securities in issue with a principal value of £333.3 million (31 December 2013: £nil, 31 December 2012: £nil, 31 December 2011: £nil) are secured on certain portfolios of variable and fixed rate mortgages through the Group's securitisation vehicle, Oak No. 1 PLC. These notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgage customers in respect of the underlying assets. There is no obligation for the Group to make good any shortfall.

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Notes to the financial statements (continued)

33 Subordinated notes

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
		(£'000)		
Subordinated notes.....	36,095	35,571	34,600	—

During 2012 the Group issued £40 million subordinated 12.875 per cent. loan notes, repayable in 2022, with an option for the Group to redeem early after five years. The interest rate is fixed until May 2017. The loan notes were issued at a discount, and are carried in the balance sheet at amortised cost using the EIR of 18.597 per cent. In addition to the loan notes, a warrant was issued by the Group's parent company, Aldermore Group PLC. The warrant was valued at £2,200,000, and this was treated as a warrant reserve within shareholders' funds in accordance with the accounting policy in Note 2 f(iii).

34 Share capital

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
		(£)		
Type				
A1 ordinary shares of £0.10 each	3,569,400	3,569,400	3,569,400	3,569,400
A2 ordinary shares of £0.10 each	5,870,427	5,870,427	5,870,427	5,870,427
B ordinary shares of £0.10 each.....	385,463	385,463	385,463	275,006
C ordinary shares of £0.0001 each.....	13,200	12,845	12,981	12,856
D ordinary shares of £0.10 each	5,440,522	5,440,522	5,440,522	5,440,522
E ordinary shares of £0.10 each.....	8,458,428	8,458,428	4,638,772	4,638,772
	23,737,440	23,737,085	19,917,565	19,806,983

Rights of class of share:

Type	Full voting rights	Dividend rights	Distribution rights in the event of a sale or windup
A1 ordinary shares of £0.10 each	✓	✓	✓
A2 ordinary shares of £0.10 each	✓	✓	✓
B ordinary shares of £0.10 each.....	×	×	✓
C ordinary shares of £0.0001 each.....	×	×	✓
D ordinary shares of £0.10 each	×	✓	✓
E ordinary shares of £0.10 each.....	×	✓	✓

During the six months ended 30 June 2014, 7,815,867 C ordinary shares with a nominal value of £781 were issued for £781.

During the six months ended 30 June 2014, 4,260,960 (31 December 2013: 1,361,031, 31 December 2012: 4,277,200, 31 December 2011: 13,318,800) C ordinary shares with a nominal value of £426 (31 December 2013: £136, 31 December 2012: £1,332, 31 December 2011: £428) were repurchased. These shares were subsequently cancelled creating a capital contribution reserve.

During the year ended 31 December 2013, 38,196,551 E ordinary shares with a nominal value of £3,819,656 were issued for £64,138,380. A total of £59,344,711 share premium was recognised on these issues, net of capital raising costs.

During the year ended 31 December 2012, the following shares were issued and a total of £80,176 share premium was recognised on these issues:

- 1,104,568 B ordinary shares with a nominal value of £110,457 were issued for £190,633
- 5,526,987 C ordinary shares with a nominal value of £552.70 were issued for £553

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Notes to the financial statements (continued)
34 Share capital (continued)

During the year ended 31 December 2011, the following shares were issued and a total of £70,732,505 share premium was recognised on these issues:

- 15,399,337 A2 ordinary shares with a nominal value of £16,308,426
- 557,813 B ordinary shares with a nominal value of £87,522
- 13,214,373 C ordinary shares with a nominal value of £1,321
- 10,554,545 D ordinary shares with a nominal value of £10,600,000
- 46,387,724 E ordinary shares with a nominal value of £51,026,500

Share based payments

The Employee Share Programme allows certain employees of the subsidiary, Aldermore Bank PLC, to acquire shares of the Group's parent company, Aldermore Group PLC. The grant date fair value of share based payment awards granted is recognised as an employee expense in the Group with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The consolidated charge reflects that recognised at a subsidiary level with the corresponding credit going to equity.

The following classes of shares have been granted to employees and Directors of the Group. For shares issued below fair value, the difference between fair value and price paid is charged to the income statement by the employing entity over the relevant service period up to which the benefits of the awards are received.

	Number of shares granted	Weighted average fair value at grant date
6 months ended 30 June 2014		
B ordinary shares of £0.10 each.....	455,021	£1.21
C ordinary shares of £0.0001 each.....	36,182,667	£0.0018
E ordinary shares of £0.10 each.....	—	—
Year ended 31 December 2013		
B ordinary shares of £0.10 each.....	303,347	£0.52
C ordinary shares of £0.0001 each.....	—	—
E ordinary shares of £0.10 each.....	171,027	£1.31
Year ended 31 December 2012		
B ordinary shares of £0.10 each.....	391,167	£0.33
C ordinary shares of £0.0001 each.....	5,526,987	£0.0001
E ordinary shares of £0.10 each.....	—	—
Year ended 31 December 2011		
B ordinary shares of £0.10 each.....	557,813	£0.33
C ordinary shares of £0.0001 each.....	11,366,373	£0.0001
E ordinary shares of £0.10 each.....	—	—

The value from the shares is expected to be derived on a form of exit. However, the Articles of Association stipulate that in the event of an employee leaving the Group, the shares are immediately transferred back to the Company's custody with an amount paid back to the leaver depending on the conditions of leaving.

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Notes to the financial statements (continued)

34 Share capital (continued)

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted during 2014 and 2013 was based on contemporaneous transactions between unconnected parties in the same, or similar, shares, with adjustments made to take account of the different rights, including dividend rights. The charge in the Group's income statement for the six months ended 30 June 2014 in relation to all share based payment transactions was £280,000 (31 December 2013: £162,000, 31 December 2012: £140,000, 31 December 2011 £nil).

35 Statement of cash flows

(a) Adjustments for non-cash items and other adjustments included within the income statement

	30 June 2014	30 June 2013 (unaudited)	31 December 2013 (£'000)	31 December 2012	31 December 2011
Depreciation and amortisation	1,789	1,722	3,822	2,319	1,405
Amortisation of discount/(premium) on debt securities	163	(947)	(1,607)	(2,897)	(2,210)
Amortisation of securitisation issuance cost.....	139	—	—	—	—
Discount accretion on subordinated notes .	546	461	971	557	—
Impairment losses on loans and advances..	5,924	4,662	11,468	5,416	2,041
Unwind of discounting	(791)	(502)	(957)	(920)	(605)
Write off net of recoveries	(1,074)	535	(1,932)	(4,368)	(4,345)
Net (gain)/loss on debt securities designated at fair value through profit or loss.....	(1,548)	6,614	10,716	(3,098)	(3,414)
Net (gain)/loss on disposal of available for sale debt securities	(236)	—	(1,869)	(3,231)	—
Net (gain)/loss from derivatives and hedge accounting	428	—	—	—	—
Interest expense on subordinated notes.....	2,554	2,553	5,150	3,318	—
Interest income on debt securities.....	(5,337)	(3,796)	(7,922)	(8,354)	(902)
Interest expense on debt securities in issue	933	—	—	—	—
Equity settled share based payment charge	280	41	162	140	—
	3,770	11,343	18,002	(11,118)	(8,030)

(b) Increase in operating assets

	30 June 2014	30 June 2013 (unaudited)	31 December 2013 (£'000)	31 December 2012	31 December 2011
Loans and advances to customers	(639,135)	(613,515)	(1,325,863)	(900,090)	(682,796)
Loans and advances to banks	(18,143)	5,975	10,480	(8,973)	(12,857)
Derivative financial instruments	(714)	1,168	1,390	(1,666)	(3,443)
Fair value adjustments for portfolio hedged risk.....	1,570	—	—	—	—
Other operating assets	(2,587)	(7,606)	(6,859)	(1,990)	2,512
	(659,009)	(613,978)	(1,320,852)	(912,719)	(696,584)

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Notes to the financial statements (continued)

35 Statement of cash flows (continued)

(c) Increase in operating liabilities

	30 June 2014	30 June 2013	31 December 2013	31 December 2012	31 December 2011
		(unaudited)			
			(£'000)		
Due to banks	(193,798)	256,435	270,872	115,079	—
Customers' accounts	394,515	399,170	1,302,369	802,794	719,129
Derivative financial instruments	7,842	(8,316)	(13,745)	10,092	20,886
Fair value adjustments for portfolio hedged risk	(1,592)	—	—	—	—
Other operating liabilities	879	8,991	12,431	2,986	2,647
	207,846	656,280	1,571,927	930,951	742,662

(d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on demand and overnight deposits classified as cash and balances at central banks (unless restricted) and balances within loans and advances to banks. The following balances have been identified as being cash and cash equivalents. Excluded balances comprise minimum balances required to be held at the Bank of England as they are not readily convertible to cash in hand or demand deposits. Cash and cash equivalents as at 30 June 2014 include £29 million held by the securitisation vehicle, Oak No.1 PLC, which is not available to the other members of the Group (31 December 2013, 31 December 2012, 31 December 2011: £nil).

	30 June 2014	30 June 2013	31 December 2013	31 December 2012	31 December 2011
		(unaudited)			
			(£'000)		
Cash and balances at central banks	30,768	22,629	192,844	1,654	125
Less excluded balances	(4,989)	(2,616)	(3,828)	(1,154)	(125)
Loans and advances to banks	89,831	117,452	226,194	83,189	48,916
	115,610	137,465	415,210	83,689	48,916

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Notes to the financial statements (continued)

36 Commitments and contingencies

At 30 June 2014 the Group had undrawn commitments to lend of £415.6 million (31 December 2013: £343.7 million, 31 December 2012: £213.6 million, 31 December 2011: £190.6 million). These relate mostly to irrevocable lines of credit granted to customers.

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
		(£'000)		
Land and buildings				
In less than one year	1,659	1,201	1,183	1,121
Between one and five years	4,478	3,319	3,270	3,227
More than five years	3,037	1,123	1,696	1,459
	9,174	5,643	6,149	5,807
Equipment				
In less than one year	189	140	334	332
Between one and five years	141	14	150	482
More than five years	—	—	—	—
	330	154	484	814

At 30 June 2014 the majority of operating leases for equipment related to 30 cars that the Group held under lease (31 December 2013: 64, 31 December 2012: 74, and 31 December 2011: 82). The majority of these leases are due to expire in 2017.

(a) Consumer Credit Act

As outlined in note 31, the Group has identified potential aspects of non-compliance in relation to the Consumer Credit Act. The CCA includes very detailed and highly technical requirements. Whilst the Group believes it has identified all instances where it has not been fully compliant with the technical requirements and it considers that no material present obligation is likely, there is a possible risk that any eventual outcome may differ.

Furthermore, as a financial services firm, Aldermore Bank PLC is subject to extensive and comprehensive regulation. Aldermore Bank PLC must comply with numerous laws and regulations, including the Consumer Credit Act, which significantly affect the way it does business. Whilst the Group believes there are no unidentified areas of failure to comply with these laws and regulations which would have a material impact on the financial statements, there can be no guarantee that all issues have been identified.

(b) Working Time Directive

A recent ruling by the European Court of Justice indicated that under the European Working Time Directive, 'normal pay' for the purposes of calculating statutory holiday pay, includes contractual commission rather than being limited to basic salary. A UK Employment Tribunal is now considering the implications for UK employers under the Working Time Regulations 1998, and a decision is expected later in 2014.

Meanwhile, the UK Employment Tribunal has ruled that non-guaranteed overtime payments should be included for the purposes of calculating how much holiday pay a worker should receive. It is therefore expected that the UK Employment Tribunal will conclude on a similar basis for certain commissions.

Based on information and advice to date, the Group does not expect the impact to be material; however, in the event that analysis, judgements and/or appeals are determined to ultimately be different, the Group expects the likely impact to be immaterial.

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Notes to the financial statements (continued)

37 Related Parties

(a) Controlling parties

The Group is controlled by AnaCap Financial Partners, II L.P. (52.3 per cent. of voting rights) and AnaCap Financial Partners, L.P. (47.7 per cent. of voting rights) who are the sole voting shareholders of Aldermore Group PLC. The following agreements are in place with a company under their common control:

- The Group provides £5 million of block discounting facilities to Syscap Limited. The facilities commenced in September 2009 and are secured by underlying receivables of short term loans, primarily to solicitors' practices which are funded at a discount to the face value of the loans. The facilities contain appropriate conditions relating to performance, non-performing deal substitution rights and default provisions in line with the Group's standard commercial policies. Pricing on the facilities is subject to normal commercial terms.
- During the six months ended 30 June 2014 Syscap Limited introduced business of £9.3 million (30 June 2013 (unaudited): £14.2 million, 31 December 2013: £27.7 million, 31 December 2012: £32.3 million, 31 December 2011: £49.2 million) and received commission of £0.1 million (30 June 2013 (unaudited): £0.2 million, 31 December 2013: £0.3 million, 31 December 2012: £0.4 million, 31 December 2011: £0.4 million) of which £nil is outstanding as at 30 June 2014 (31 December 2013, 31 December 2012 and 31 December 2011: £nil).
- In addition, the Group has been charged investment monitoring fees and capital raising costs by funds related to AnaCap Financial Partners of £75,000 for the period ended 30 June 2014 (30 June 2013 (unaudited): £38,000, 31 December 2013: £150,000, 31 December 2012: £75,000, 31 December 2011: £825,000). The balance outstanding at 30 June 2014 is £17,000 (31 December 2013: £195,000, 31 December 2012: £120,000, 31 December 2011: £75,000).

(b) Key management personnel compensation

Key management personnel comprise the Directors of the Group. Details of the compensation paid to key management personnel are:

	6 months ended 30 June		Year ended 31 December		
	2014	2013	2013	2012	2011
	(unaudited)				
	(£'000)				
Directors' emoluments.....	880	845	2,747	2,072	2,164
Compensation for loss of office.....	20	152	195	348	—
Group contributions to money purchase scheme	35	24	60	61	61
Share based payments.....	280	41	162	140	—
	1,215	1,062	3,164	2,621	2,225

Compensation for loss of office for the period ended 30 June 2014 of £20,000, (30 June 2013 (unaudited): £152,000, 31 December 2013: £195,000, 31 December 2012: £348,000, 31 December 2011: £nil) relates to two Directors (30 June 2013 (unaudited): one Director, 31 December 2013: two Directors, 31 December 2012: one Director, 31 December 2011: none) and includes a £nil (30 June 2013 (unaudited): £nil, 31 December 2013: £nil, 31 December 2012: £75,000, 31 December 2011: £nil) pension plan contribution.

In addition, the Group's controlling party repurchased shares in the Group undertaking for an amount which was £nil (30 June 2013 (unaudited): £34,000, 31 December 2013: £94,000, 31 December 2012: £34,000, 31 December 2011: £nil) in excess of the initial purchase price.

The Group made payments of £14,000, in aggregate in respect of two Directors' individual personal pension arrangements during the period ended 30 June 2014 (30 June 2013 (unaudited): £11,000, 31 December 2013: £25,000, 31 December 2012: £22,000, two Directors, 31 December 2011: £21,000, two Directors).

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Notes to the financial statements (continued)

37 Related Parties (continued)

(b) Key management personnel compensation (continued)

Share based payments represents the excess of fair value over amounts paid for the shares granted to Directors during the period. The charge for these awards is recognised in the income statement of the Group over the period in which service conditions are fulfilled.

During the period ended 30 June 2014, one Director was given the option to purchase B ordinary shares of £0.10 and two Directors were given the option to purchase C ordinary shares of £0.0001 in Aldermore Group PLC, at a discount to market value. 455,021 discounted B ordinary shares were purchased (30 June 2013 (unaudited): no Directors, no shares, 31 December 2013: one Director, 303,347 B ordinary shares, 31 December 2012: five Directors, 1,104,568 B ordinary shares, 31 December 2011: five Directors, 557,813 B ordinary shares). The shares issued in the period give rise to a benefit of £408,000, (30 June 2013 (unaudited): £nil, 31 December 2013: £61,000, 31 December 2012 £174,000, 31 December 2011: £97,000).

Directors' emoluments includes £nil of deferred bonus (30 June 2013 (unaudited): £nil, 31 December 2013 and 31 December 2012: £nil, 31 December 2011: £122,000).

(c) Transactions with key management personnel

The aggregate value of transactions and outstanding balances related to key management personnel and close family members were as follows:

	Transaction values for the period ended			
	30 June 2014	31 December 2013	31 December 2012	31 December 2011
			(£'000)	
Loans advanced	32	2	74	39
Deposits received.....	465	1,570	821	193
			Maximum balance during the period ended	
	30 June 2014	31 December 2013	31 December 2012	31 December 2011
			(£'000)	
Loans advanced	147	115	113	39
Deposits received.....	468	1,862	844	253
			Balance outstanding as at	
	30 June 2014	31 December 2013	31 December 2012	31 December 2011
			(£'000)	
Loans advanced	147	115	113	39
Deposits received.....	423	1,067	937	249

The table above includes transactions and balances relating to key management personnel in post at the end of the period. Interest rates charged on loan balances outstanding from related parties are lower than the rates that would be charged in arm's length transactions. During the period ended 30 June 2014 interest was charged on these loans at an annual rate of 0.8 per cent. above 1 month LIBOR. These loan balances are not secured. All deposit arrangements have been operated by the Group on commercial terms and conditions.

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Notes to the financial statements (continued)

38 Financial instruments and fair values

The following tables summarise the classification and carrying amounts of the Group's financial assets and liabilities.

	Loans and receivables	Available for sale	Designated at fair value through profit or loss	Fair value through profit or loss (required) (£'000)	Fair value hedges	Liabilities at amortised cost	Total
30 June 2014							
Cash and balances at central banks	30,768	—	—	—	—	—	30,768
Loans and advances to banks	119,324	—	—	—	—	—	119,324
Debt securities	—	393,314	164,918	—	—	—	558,232
Derivatives held for risk management	—	—	—	9,586	—	—	9,586
Fair value adjustment for portfolio hedged risk	—	—	—	—	(1,570)	—	(1,570)
Loans and advances to customers	4,008,920	—	—	—	—	—	4,008,920
Other assets	783	—	—	—	—	—	783
Total financial assets..	4,159,795	393,314	164,918	9,586	(1,570)	—	4,726,043
Amounts due to banks .	—	—	—	—	—	192,153	192,153
Customers' accounts	—	—	—	—	—	3,858,533	3,858,533
Derivatives held for risk management	—	—	—	25,709	—	—	25,709
Fair value adjustment for portfolio hedged risk	—	—	—	—	(1,592)	—	(1,592)
Other liabilities	—	—	—	—	—	10,844	10,844
Debt securities in issue	—	—	—	—	—	332,295	332,295
Subordinated notes	—	—	—	—	—	36,095	36,095
Total financial liabilities	—	—	—	25,709	(1,592)	4,429,920	4,454,037

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Notes to the financial statements (continued)

38 Financial instruments and fair values (continued)

	Loans and receivables	Available for sale	Designated at fair value through profit or loss	Fair value through profit or loss (required)	Liabilities at amortised cost	Total
				(£'000)		
31 December 2013						
Cash and balances at						
central banks	192,844	—	—	—	—	192,844
Loans and advances to						
banks	237,544	—	—	—	—	237,544
Debt securities	—	192,755	162,898	—	—	355,653
Derivatives held for risk management	—	—	—	8,872	—	8,872
Loans and advances to customers	3,373,844	—	—	—	—	3,373,844
Other assets	159	—	—	—	—	159
Total financial assets.....	3,804,391	192,755	162,898	8,872	—	4,168,916
Amounts due to banks	—	—	—	—	385,951	385,951
Customers' accounts	—	—	—	—	3,464,018	3,464,018
Derivatives held for risk management	—	—	—	17,867	—	17,867
Other liabilities	—	—	—	—	10,304	10,304
Subordinated notes	—	—	—	—	35,571	35,571
Total financial liabilities.	—	—	—	17,867	3,895,844	3,913,711

	Loans and receivables	Available for sale	Designated at fair value through profit or loss	Fair value through profit or loss (required)	Liabilities at amortised cost	Total
				(£'000)		
31 December 2012						
Cash and balances at						
central banks	1,654	—	—	—	—	1,654
Loans and advances to						
banks	105,019	—	—	—	—	105,019
Debt securities	—	168,748	173,616	—	—	342,364
Derivatives held for risk management	—	—	—	10,262	—	10,262
Loans and advances to customers	2,056,560	—	—	—	—	2,056,560
Other assets	80	—	—	—	—	80
Total financial assets.....	2,163,313	168,748	173,616	10,262	—	2,515,939
Amounts due to banks	—	—	—	—	115,079	115,079
Customers' accounts	—	—	—	—	2,161,649	2,161,649
Derivatives held for risk management	—	—	—	31,612	—	31,612
Other liabilities	—	—	—	—	7,073	7,073
Subordinated notes	—	—	—	—	34,600	34,600
Total financial liabilities.	—	—	—	31,612	2,318,401	2,350,013

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Notes to the financial statements (continued)
38 Financial instruments and fair values (continued)

	Loans and receivables	Available for sale	Designated at fair value through profit or loss	Fair value through profit or loss (required)	Liabilities at amortised cost	Total
	(£'000)					
31 December 2011						
Cash and balances at central banks	125	—	—	—	—	125
Loans and advances to banks	61,773	—	—	—	—	61,773
Debt securities	—	200,863	120,216	—	—	321,079
Derivatives held for risk management	—	—	—	8,596	—	8,596
Loans and advances to customers	1,156,598	—	—	—	—	1,156,598
Other assets	1,101	—	—	—	—	1,101
Total financial assets.....	1,219,597	200,863	120,216	8,596	—	1,549,272
Customers' accounts	—	—	—	—	1,358,855	1,358,855
Derivatives held for risk management	—	—	—	21,520	—	21,520
Other liabilities	—	—	—	—	6,330	6,330
Total financial liabilities.	—	—	—	21,520	1,365,185	1,386,705

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the statement of financial position at fair value:

	30 June 2014		31 December 2013		31 December 2012		31 December 2011	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	(£'000)							
Cash and balances at central banks	30,768	30,768	192,844	192,844	1,654	1,654	125	125
Loans and advances to banks	119,324	119,324	237,544	237,544	105,019	105,019	61,773	61,773
Loans and advances to customers	4,008,920	3,984,325	3,373,844	3,351,249	2,056,560	2,048,457	1,156,598	1,153,711
Other assets	783	783	159	159	80	80	1,101	1,101
Total financial assets.....	4,159,795	4,135,200	3,804,391	3,781,796	2,163,313	2,155,210	1,219,597	1,216,710
Amount due to banks	192,153	192,153	385,951	385,951	115,079	115,079	—	—
Customers' accounts	3,858,533	3,869,037	3,464,018	3,473,176	2,161,649	2,183,207	1,358,855	1,367,628
Other liabilities	10,844	10,844	10,304	10,304	7,073	7,073	6,330	6,330
Debt securities in issue	332,295	335,431	—	—	—	—	—	—
Subordinated notes	36,095	47,325	35,571	44,219	34,600	41,600	—	—
Total financial liabilities	4,429,920	4,454,790	3,895,844	3,913,650	2,318,401	2,346,959	1,365,185	1,373,958

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Notes to the financial statements (continued)
38 Financial instruments and fair values (continued)

Key considerations in the calculation of the disclosed fair values for those financial assets carried at amortised cost include the following:

Cash and balances at central banks

These represent amounts with an initial maturity of less than 3 months and as such their carrying value is considered a reasonable approximation of their fair value.

Loans and advances to banks

These represent either amounts with an initial maturity of less than 3 months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly the carrying value of the assets is considered to be not materially different from their fair value.

Loans and advances to customers

For fixed rate lending products the Group has estimated the fair value of the fixed rate interest cash flows by discounting those cash flows by the current appropriate market reference rate used for pricing equivalent product plus the credit spread attributable to the borrower. For standard variable rate lending products, and fixed rate products when they revert to the Group's standard variable rate, the interest rate on such products is considered equivalent to a current market product rate and as such the Group considers the discounted future cash flows of these mortgages to be equal to their carrying value. The fair value estimations do not incorporate adjustments for future credit risk, however, incurred loss provisions are deducted from the fair value amounts.

Other assets and liabilities

These represent short term receivables and payables and as such their carrying value is not considered to be materially different from their fair value.

Customers' accounts

The fair value of fixed rate customers' accounts have been determined by discounting estimated future cash flows based on rates currently offered by the Group for equivalent deposits. Customers' accounts at variable rates are at current market rates and therefore the Group regards the fair value to be equal to the carrying value. The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

Debt securities in issue

Where securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having Level 1 fair values.

Subordinated notes

The estimated fair value of the subordinated notes is based on discounted cash flows using interest rates for similar liabilities with the same remaining maturity, credit ranking and rating. The calculated fair value takes no account of the warrants issued separately to the holders of the subordinated notes, which have been separately accounted for as a capital contribution within equity (see Note 33).

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Notes to the financial statements (continued)
38 Financial instruments and fair values (continued)

Fair value measurement—financial assets / liabilities held at fair value

The following table provides an analysis of financial assets and liabilities held on the consolidated statement of financial position at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(£'000)			
30 June 2014				
Financial assets:				
Derivatives held for risk management	—	9,586	—	9,586
Debt securities:				
Asset backed securities	—	106,578	—	106,578
UK Gilts and Treasury Bills and Supranational bonds	451,474	—	—	451,474
	<u>451,474</u>	<u>116,164</u>	<u>—</u>	<u>567,638</u>
Financial liabilities:				
Derivatives held for risk management	—	25,709	—	25,709
	<u>—</u>	<u>25,709</u>	<u>—</u>	<u>25,709</u>

Level 1: Fair value determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value determined using directly or indirectly observable inputs other than unadjusted quoted prices included within level 1 that are observable.

Level 3: Fair value determined using one or more significant inputs that are not based on observable market data.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(£'000)			
31 December 2013				
Financial assets:				
Derivatives held for risk management	—	8,872	—	8,872
Debt securities:				
Asset backed securities	—	77,844	—	77,844
UK Gilts and Treasury Bills and Supranational bonds	277,809	—	—	277,809
	<u>277,809</u>	<u>86,716</u>	<u>—</u>	<u>364,525</u>
Financial liabilities:				
Derivatives held for risk management	—	17,867	—	17,867
	<u>—</u>	<u>17,867</u>	<u>—</u>	<u>17,867</u>
31 December 2012				
Financial assets:				
Derivatives held for risk management	—	10,262	—	10,262
Debt securities:				
Asset backed securities	—	68,698	—	68,698
UK Gilts and Treasury Bills and Supranational bonds	273,666	—	—	273,666
	<u>273,666</u>	<u>78,960</u>	<u>—</u>	<u>352,626</u>
Financial liabilities:				
Derivatives held for risk management	—	31,612	—	31,612
	<u>—</u>	<u>31,612</u>	<u>—</u>	<u>31,612</u>

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Notes to the financial statements (continued)

38 Financial instruments and fair values (continued)

Fair value measurement—financial assets / liabilities held at fair value (continued)

31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets:			(£'000)	
Derivatives held for risk management	—	8,596	—	8,596
Debt securities:				
Corporate bonds	5,489	—	—	5,489
Asset backed securities	—	60,935	—	60,935
UK Gilts and Treasury Bills and Supranational bonds	254,655	—	—	254,655
	260,144	69,531	—	329,675
Financial liabilities:				
Derivatives held for risk management	—	21,520	—	21,520
	—	21,520	—	21,520

The fair values of UK Gilts and Supranational Bonds are based on quoted bid prices in active markets.

The fair values of asset backed securities are based on prices provided by third party pricing services, but before relying on these prices, the Group has obtained an understanding of how the prices were obtained to ensure that each investment is assigned an appropriate classification within the fair value hierarchy.

The fair values of derivative assets and liabilities are determined using widely recognised valuation models for determining the fair values of common derivative financial instruments such as interest rate swaps that use only observable market data that require little management judgement and estimation. Credit value and debt value adjustments have not been applied as the derivative assets and liabilities are largely collateralised.

Fair value measurement—financial assets and liabilities held at amortised cost

All the fair values of financial assets and liabilities carried at amortised cost are considered to be Level 2 valuations which are determined using directly or indirectly observable inputs other than unadjusted quoted prices, except for debt securities in issue which are Level 1.

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Notes to the financial statements (continued)

39 Risk Management

A key component of the Group's business strategy is the effective management of risk in order to ensure that the Group maintains sufficient capital, liquidity and controls at all times, and acts in a reputable way, taking into account the interests of customers, regulators and shareholders.

Given the nature of the activities undertaken, the principal risks that the Group faces are strategic risk, credit risk, capital risk, liquidity risk, interest rate risk, market risk, operational risk and conduct risk. The Group has not defined regulatory risk as a single category of risk, owing to the broad nature of regulation. Prudential regulatory risks are covered as part of capital risk, liquidity risk and operational risk. Conduct regulatory risks are covered under conduct risk.

The Group's risk management framework, policies and procedures are subject to on-going improvement, and are regularly reviewed and updated to ensure that they accurately identify the risks that the Group faces in its business activities. In addition, the Group continues to invest in and develop its risk management systems and resources to ensure that the risk management function, governance and infrastructure are appropriate for the nature, scale and complexity of the business, which has and continues to experience growth.

All these risks arise as a result of the Group's normal operations. The Group does not enter into transactions for speculative purposes. The Group uses derivatives such as interest rate swaps to manage interest rate and other market risks.

The risk management structure has developed over the current and comparative periods presented. In prior periods the governance structure operated primarily at an Aldermore Bank PLC level. While it has continued to operate at the Aldermore Bank PLC level during the six months ended 30 June 2014, the intention is for the structure to operate equally at the Aldermore Group PLC and Aldermore Bank PLC level. The following section describes the risk management framework in operation at 30 June 2014.

Further details regarding the Group's capital management is provided in Note 40.

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)
39 Risk Management (continued)

(a) Risk management framework

A core objective for the Group is the effective management of risk. The responsibility for identifying and managing the principal risks ultimately rests with the Group's Board of Directors. The Board has ultimate responsibility for setting the Group's strategy, risk appetite and control framework. The risk management framework is outlined below, indicating the relevant governance and control structure for each principal risk.

(i) Principal risks

The principal risks faced by the Group are listed below:

- Strategic risk—the risks which can affect the Group's ability to achieve its corporate and strategic objectives;
- Credit risk—the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Group in accordance with agreed terms;
- Capital risk—the risk that the Group has insufficient capital to cover regulatory requirements and growth plans;
- Liquidity risk—the risk that the Group is not able to meet its financial obligations as they fall due, or can do so only at excessive cost;
- Interest rate risk—the risk of financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates;
- Market risk—the financial impact from movements in market prices on the value of assets and liabilities;
- Operational risk—the risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events including financial crime; and
- Conduct risk—the risk of detriment caused to the Group's customers due to the inappropriate execution of its business activities and processes.

The risk management framework is designed to ensure that each risk is managed, monitored and overseen through a dedicated risk-individual committee. Each risk has a defined risk appetite which is controlled through documented policies and frequent reporting, and is overseen by a governance process.

The Group's risk management framework is outlined below, indicating the relevant governance and control structure for each principal risk.

The risk management framework includes the following components:

- Policy and control documents—the overarching document which sets out the overall appetite and how each principal risk is managed;
- Risk reporting—the primary reporting document relating to the risk;
- Stress testing—the primary means to understand how the risk area behaves under stressed conditions, and the implication for capital and liquidity resources; and
- Monitoring committees—the principal committee responsible for monitoring risk is the Risk Committee. This is supported by further oversight by the Group Risk function, board level governance committees and internal audit.

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

39 Risk Management (continued)

(a) Risk management framework (continued)

“ALCO” is the Asset and Liability Committee.

Escalation procedures exist which seek to ensure that issues are reported and addressed at the right level.

A detailed analysis of all key risks has been considered as part of the capital adequacy assessment and is documented in the Internal Capital Adequacy Assessment Process (“ICAAP”) report, which is approved by the Board. Liquidity risk is individually assessed through the Individual Liquidity Adequacy Assessment (“ILAA”), also approved by the Board. Operational risk is managed through the Operational Risk Policy and Key Risks Registers.

(iii) Risk oversight, monitoring and reporting

The Group has a Chief Risk Officer (“CRO”) who is responsible for ensuring each risk is adequately monitored, managed and mitigated. Through the Group Risk function, the CRO is responsible for providing assurance to the Board and the Directors that the principal risks are adequately managed and that the Group is operating within its risk appetites.

The below diagram presents the functional focus of the risk department:



Prudential risk management covers liquidity, market and capital risk. Strategic risk is managed collectively by the Board and the Executive Committee.

Group Risk is an independent risk management function, and is separate from the operational and sales side of the Group. Group Risk is responsible for ensuring that appropriate risk management processes, techniques and controls are in place, and that they are sufficiently robust.

The Group Risk function provides periodic independent reports on risk positions, risk management and performance against the risk appetite statements for all principal risks faced by the Group. Risk reports are provided to the Management Credit Committee, Operating Committee, Executive Committee, Risk Committee, Audit Committee and Board.

The reporting and oversight process is designed to ensure the committees which form the governance structure are informed and aware of the principal risks and that there are adequate controls in place for these risks. Reports are produced on each principal risk and the frequency ranges from daily to monthly, according to what is appropriate for the risk.

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Notes to the financial statements (continued)

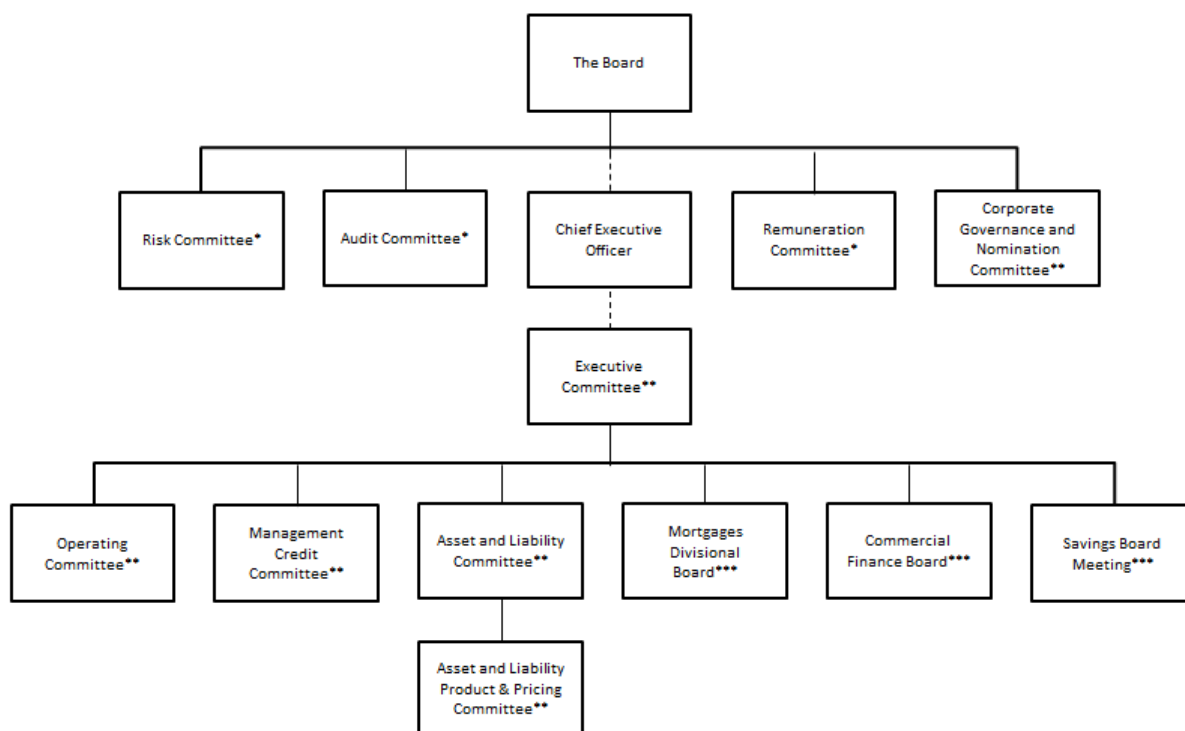
39 Risk Management (continued)

(a) *Risk management framework (continued)*

(iv) *Committee structure*

The responsibility for managing the principal risks ultimately rests with the Board of Directors.

The Group's committee structure with regard to risk management is outlined below:



* Non-Executive oversight

** Executive / Second line oversight

*** First line

Set out below are the details of the Board and principal committees which enable high-level controls to be exercised over the Group's activities. The frequency of meetings is detailed below, although these committees will meet more frequently as circumstances require.

In prior periods the risk management structure operated primarily at an Aldermore Bank PLC level. While it has continued to operate at the Aldermore Bank PLC level during the six months ended 30 June 2014, the intention is for the structure to operate equally at the Aldermore Group PLC and Aldermore Bank PLC level. The following section describes the risk management framework as at the date of approval of the financial statements.

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Notes to the financial statements (continued)

39 Risk Management (continued)

(a) Risk management framework (continued)

Committee	Risk focus
<i>The Board</i>	<p>The Board is the primary governing body and has ultimate responsibility for setting the Group's strategy, corporate objectives and risk appetite. The strategy and risk appetites take into consideration the interests of depositors, borrowers and shareholders.</p> <p>The Board defines and approves the level of risk which the Group is willing to accept and is responsible for maintaining a sufficient control environment to manage the principal risks. The Board is also responsible for ensuring the capital and liquidity resources are adequate to achieve the Group's objectives without taking undue risk. The Board also maintains a close oversight of current and future activities, through a combination of monthly board reports including financial results, operational reports, budgets and forecasts and reviews of the main risks set out in the ICAAP and ILAA reports.</p>
<i>Audit Committee</i>	<p>The Audit Committee is responsible for reviewing the Group's internal control environment and monitors the financial integrity of the financial statements, and involves internal and external auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained.</p>
<i>Risk Committee</i>	<p>The Board has delegated responsibility for oversight of the Group's principal risks to the Risk Committee, which includes reviewing the performance against risk appetites and the effectiveness of the Group's internal controls and risk management processes. This committee oversees the development, implementation and maintenance of the Group's risk management framework, ensuring that its strategy, principles, policies and resources are aligned to the Group's risk appetite, as well as to regulatory and industry best practices.</p>
<i>Remuneration Committee</i>	<p>The Remuneration Committee reviews remuneration matters, employee benefits and performance related pay structures for the Group. It is also responsible for considering and determining the Group's remuneration policy and reviewing its adequacy and effectiveness.</p>
<i>Corporate Governance and Nomination Committee</i>	<p>The Corporate Governance and Nomination Committee reviews the structure and composition of the Board, succession planning and material appointments, in particular Board appointments.</p>
<i>Executive Committee</i>	<p>The Executive Committee takes day-to-day responsibility for the running of the business. The Executive Committee implements the strategy and financial plan which is approved at the Board and ensures the performance of the business is conducted in accordance with the Board's instructions. The Executive Committee interacts with the Board via the CEO.</p>
<i>Management Credit Committee</i>	<p>This committee meets monthly and is responsible for monitoring portfolio performance and reviewing and maintaining credit and lending policies. It is also responsible for approving credit proposals that have been presented to it by the business lines pursuant to its delegated authority.</p> <p>Detailed credit reports are produced covering each specific business line. These reports are reviewed by the Management Credit Committee and Group Risk. The credit packs report on the quality of new lending, credit performance, arrears and non-performing loans and also provides detail on the composition of the credit portfolios.</p>
<i>Asset & Liability Committee ("ALCO")</i>	<p>The Executive Committee has delegated responsibility for managing the Group's exposure to capital, liquidity, interest rate and market risk to the ALCO.</p> <p>The ALCO meets monthly and ensures that the firm adheres to the market risk, interest rate risk and liquidity policies and objectives set down by the Board. It also has responsibility for ensuring that the policies that are implemented are adequate to meet prudential and regulatory targets. The committee is also responsible for the effective management of the Group's assets and liabilities and the impact on capital and liquidity of future business activity and management actions.</p>
<i>Operating Committee</i>	<p>The Operating Committee reviews IT, operational and compliance matters to ensure appropriate systems and controls exist which are able to support the needs of the Group including any projects and change programmes.</p> <p>The committee monitors operational risk, including regulatory, compliance and conduct risk, implements the operational risk management policy and reviews operational performance, including key risk indicator reports.</p>

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Notes to the financial statements (continued)

39 Risk Management (continued)

(a) *Risk management framework (continued)*

<i>Asset and liability: Product and Pricing Committee</i>	The committee meets monthly to review, approve and set the pricing for new products proposals, and reviews product performance as well as on-going pricing initiatives and strategic directions on product launch. The committee is also responsible for the effective oversight of the Group's conduct risk processes for new products.
<i>Divisional Boards (Mortgages, Commercial Finance and Savings).....</i>	The Divisional Boards meet on a monthly basis and provide a forum for open discussion and decisions on key issues affecting the relevant business segment. Specific responsibilities include the delivery of strategic objectives, budget formulation and financial delivery, recruitment, training, implementing and maintaining effective controls, product review and performance and management of conduct risk.

(v) *Risk appetite*

The risk appetite framework is the means through which risks are identified, communicated and monitored. The Group has a defined risk appetite for each of the principal risks and performance against the risk appetite statements is monitored and reported on a regular basis. The risk appetites are set by the Board and implemented by the Executive Committee. The Group Risk function is responsible for ensuring the Group operates within the stated risk appetites.

The risk appetite framework has the following components:

- Risk appetite statement: the articulation of the level and types of risk that the Group is willing to accept in order to achieve its business objectives;
- Risk capacity: the maximum level of risk the Group can assume before breaching constraints determined by regulatory capital and liquidity needs and its obligations, also from a conduct perspective to depositors, borrowers and shareholders;
- Risk limits: quantitative measures that allocate the Group's aggregate risk appetite statement to individual activities. Where possible this should be based on forward looking measures; and
- Risk profile: the point in time assessment of the Group's net risk exposure.

The following section provides details of the Group's risk appetite for each of the principal risks:

Strategic risk appetite

The strategic risk appetite is measured in terms of the deviation against key performance indicators which form part of the Group's business plan. Performance against the strategic risk appetite is measured every quarter and reported to the Risk Committee.

Credit risk appetite

The Group operates a business line individual credit risk appetite, as well as an overall credit risk appetite for its lending activities. Expected losses are factored into the budgeting and forecast process and reflect the Group's expected view of lending performance, taking into account recent performance data and the prevailing economic environment.

The Group recognises that actual losses may differ from forecasted or budgeted values. The credit risk appetites are set as an upper limit on losses from credit and credit related fraud and so this limit is set above the budgeted value for each business.

Capital risk appetite

Capital Risk is the risk that the Group has insufficient capital to cover regulatory requirements and/or growth plans. The Group maintains sufficient capital to cover regulatory requirements, including any capital planning buffers, and maintains an operational capital buffer.

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

39 Risk Management (continued)

(a) Risk management framework (continued)

Liquidity risk appetite

The Board has set a liquidity risk appetite which aims to ensure that a prudent level of liquidity is held to cover an unexpected liquidity outflow such that the Group will be able to meet its financial commitments during an extended period of stress. Additionally, reputational risks are kept low through honouring pipeline commitments expected to complete during a three month period.

Market and interest rate risk appetite

The Group aims to minimise interest rate risk and has a policy of matching fixed or variable rate assets with liabilities of a comparable interest rate basis, supplemented by derivatives such as interest rate swaps.

The Group does not seek to take or expose itself to market risk, and does not carry out proprietary trading, although certain liquid asset investments which form part of the liquid asset buffer carry mark to market risk which is regularly monitored.

Operational risk appetite

The Group aims to maintain operational systems and controls and seeks to operate within a defined level of operational risk. The operational risk appetite considers risk events, the assessment of internal controls, as well as holding additional capital for certain operational risks.

Conduct risk appetite

The Group has a zero appetite for systemic unfair outcomes, which may result in significant detriment to the Group's customers. Systemic unfair outcomes may arise from poor product design, poor sale processes or unacceptable operational practices which risk repeated or continual outcomes which are detrimental to customers.

(b) Credit risk

(i) Overview

Credit risk is the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Group in accordance with agreed terms. This risk arises from the Group's lending activities as a result of defaulting mortgage, lease and loan contracts and is the most significant risk faced by the Group. Although credit risk arises from the Group's loan book it can also arise from off balance sheet activities. The Group does not actively trade in financial instruments, other than for liquidity management purposes.

Credit risks associated with lending are managed through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. The Group maintains a dynamic approach to credit management and aims to take necessary steps if individual issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to economic or sector-specific weaknesses.

The Group seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and through limiting concentrated exposures on larger loans, certain sectors and other factors which can represent higher risk. The Group also seeks to obtain security cover, and where appropriate, personal guarantees from borrowers.

Due to the retail and small and medium enterprise ("SME") markets the Group operates in, external rating agency ratings for borrowers are not typically available. However, credit risk is assessed through applying a combination of due diligence, reviewing credit reference agency reports, reviewing financial information, credit scores and the use of underwriters.

Group Risk, the Management Credit Committee and Risk Committee have oversight responsibility for credit risk.

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Notes to the financial statements (continued)

39 Risk Management (continued)

(b) *Credit risk (continued)*

(ii) *Credit exposure*

Maximum exposure to credit risk

The following table presents the Group's maximum exposure to credit risk of financial instruments on the balance sheet and commitments to lend before taking into account any collateral held or other credit. The maximum exposure to credit risk for loans, debt securities, derivatives and other on balance sheet financial instruments is the carrying amount and for loan commitments the full amount of any commitment to lend that is irrevocable or is revocable only in response to material adverse change.

		30 June	31 December		
	Note	2014	2013	2012	2011
		(£'000)			
Included in the statement of financial position					
Cash and balances at central banks		30,768	192,844	1,654	125
Loans and advances to banks		119,324	237,544	105,019	61,773
Debt securities		558,232	355,653	342,364	321,079
Derivatives held for risk management		9,586	8,872	10,262	8,596
Loans and advances to customers		4,034,007	3,394,872	2,069,009	1,168,919
Other assets		783	159	80	1,101
		4,752,700	4,189,944	2,528,388	1,561,593
Commitments to lend	36	415,552	343,652	213,639	190,555
Gross credit risk exposure		5,168,252	4,533,596	2,742,027	1,752,148
Less: allowance for impairment losses		(25,087)	(21,028)	(12,449)	(12,321)
Net credit risk exposure		5,143,165	4,512,568	2,729,578	1,739,827

(iii) *Credit risk management*

Credit risk—lending

The Group targets SME and mortgage customers. Credit risk is managed in accordance with lending policies, the risk appetite and the risk management framework. Lending policies and performance against risk appetites are reviewed regularly. This section provides further detail on the specific areas where the Group is exposed to credit risk.

Residential Mortgages

The Group's residential mortgage lending focuses on owner occupied residential and buy-to-let mortgage loans.

All applications are reviewed by a team of underwriters who assess each application. Applications are underwritten in accordance with a residential mortgage lending policy and each loan has to undergo an affordability assessment, which takes into account the specific circumstances of each borrower. Information is obtained on all loan applications from credit reference agencies which provide a detailed insight on the applicant's credit history and indebtedness, which is reviewed by the underwriters.

The Group aims to take a conservative approach to lending, lending up to a maximum of 85 per cent. loan-to-value ("LTV") on a single dwelling without further guarantees and undertakes a full valuation on all properties which act as security. Valuation reports are produced by a panel of qualified external valuers. The Group does offer some mortgages with a LTV between 85 per cent. and 95 per cent. via the Help to Buy scheme. This lending has an associated government guarantee which reduces the credit risk to the Group.

The Group does offer limited advice to mortgage borrowers but does not sell payment protection insurance policies.

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Notes to the financial statements (continued)

39 Risk Management (continued)

(b) Credit risk (continued)

SME Commercial Mortgages

The Group provides commercial mortgages to businesses who own their own property and to commercial and residential property investors. Loans are typically to SMEs and secured on smaller properties, with limits in place for loans over £1.5 million. A team of underwriters review all applications.

Properties are individually valued and a detailed report produced to ensure the property represents suitable security. Consideration is given to whether the property has an alternate use and/or can be disposed of within a reasonable period in the event of default, where the asset acting as security has to be recovered and sold. Valuations are performed by qualified external surveyors. The valuation reports also provide commentary on the tenancy/letting of properties where the commercial mortgages are connected to an investment property transaction. An in-house valuation team approve the panel of qualified external valuers and perform ongoing quality monitoring.

Affordability assessments are performed on all loans and other forms of security are often obtained, such as a personal guarantee.

Loans to commercial mortgage customers are secured on properties solely located in the UK, although there are various sectors within the UK to which the Group is not currently lending. Concentration risks are monitored and credit exposures are diversified by sector and geography. Regular reviews are performed on loans in the portfolio, with particular attention paid to larger exposures.

Property Development

The Group has a small portfolio of property development loans, which are predominantly for the purpose of building and developing residential property.

Although the UK property sector is showing signs of recovery, the Group continues to be cautious about property development financing. The Group has maintained a conservative approach to lending since re-entering the market in 2009 and facilities are regularly inspected by the Group and quantity surveyors.

Invoice Finance

The invoice financing activity provides working capital finance for SME clients. This activity may also include credit control and collection services for clients.

The approval process includes a review of the management, financial and operational strength of the client's business and careful consideration is given to the quality and contractual collectability of the underlying receivables which act as security. Information on the business and the individuals behind the business are reviewed and financial and credit information is obtained from external credit reference agencies.

During the term of the facility, in-life monitoring, audits and reconciliations are performed to ensure the risk of fraud and default associated with client failure are carefully managed. There is significant diversification at the invoice level which heavily mitigates concentration risk.

Asset Finance

The asset finance business line originates loan and lease contracts to a diversified range of end users and finances a range of assets. Exposures range from public sector organisations to corporates, SMEs and sole traders. Asset finance and leasing to smaller businesses can represent a higher risk, although the majority of contracts will have tangible assets acting as security which can be recovered and sold in the event of default.

A team of underwriters assess all applications with smaller lower risk applications being processed using a credit scorecard. Information on the business and the individuals behind the business are carefully reviewed and financial and credit information is obtained from external credit reference agencies. Assets which act as security are valued and the future resale value of assets is also considered where appropriate. Audits and site visits are used to ensure the Group maintains an awareness of the location, use and condition of assets being financed where considered necessary.

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

39 Risk Management (continued)

(b) Credit risk (continued)

At the balance sheet date the Group does not have any direct residual value risk.

Impaired and past due loans

The table below provides information on the payment due status of loans and advances to customers:

Details of the methodologies and estimates used to determine the allowances for loan impairments are provided in Note 3.

	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Total
	(£'000)				
30 June 2014					
Neither past due nor individually impaired.....	2,027,671	884,447	868,242	205,263	3,985,623
Past due but not individually impaired	8,197	4,386	4,373	—	16,956
Individually impaired.....	5,504	13,536	2,853	9,535	31,428
	<u>2,041,372</u>	<u>902,369</u>	<u>875,468</u>	<u>214,798</u>	<u>4,034,007</u>
31 December 2013					
Neither past due nor individually impaired.....	1,654,324	752,387	715,971	213,749	3,336,431
Past due but not individually impaired	23,715	4,733	5,228	—	33,676
Individually impaired.....	3,634	9,979	3,238	7,914	24,765
	<u>1,681,673</u>	<u>767,099</u>	<u>724,437</u>	<u>221,663</u>	<u>3,394,872</u>
	Residential Mortgages	SME Commercial Mortgages	Asset Finance	Invoice Finance	Total
	(£'000)				
31 December 2012					
Neither past due nor individually impaired.....	943,895	525,698	375,217	179,232	2,024,042
Past due but not individually impaired	9,949	15,162	1,691	—	26,802
Individually impaired.....	1,398	9,184	3,992	3,591	18,165
	<u>955,242</u>	<u>550,044</u>	<u>380,900</u>	<u>182,823</u>	<u>2,069,009</u>
31 December 2011					
Neither past due nor individually impaired.....	451,513	340,930	188,825	149,718	1,130,986
Past due but not individually impaired	5,635	9,321	2,024	—	16,980
Individually impaired.....	725	11,645	5,847	2,736	20,953
	<u>457,873</u>	<u>361,896</u>	<u>196,696</u>	<u>152,454</u>	<u>1,168,919</u>

Past due but not individually impaired loans are further analysed as follows:

	30 June 2014	31 December		
		2013	2012	2011
	(£'000)			
Past due but not individually impaired				
—Up to 2 months past due	13,244	27,318	21,464	14,734
—2 to 3 months past due	3,712	6,358	5,338	2,246
Total	<u>16,956</u>	<u>33,676</u>	<u>26,802</u>	<u>16,980</u>

Collateral held and other enhancements

The principal indicators used to assess the credit quality of performing loans are loan-to-value ratios for commercial and retail mortgages. Loan-to-collateral value on indexed origination information on the Group's residential mortgage portfolio is set out below:

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Notes to the financial statements (continued)

39 Risk Management (continued)

(b) Credit risk (continued)

Residential Mortgages

	30 June	31 December		
	2014	2013	2012	2011
		(£'000)		
100 per cent+	13,308	39,201	12,492	10,296
90 - 100 per cent	84,804	49,782	8,753	7,809
80 - 90 per cent	106,433	82,694	81,466	39,971
75 - 80 per cent	238,788	225,312	269,099	118,821
70 - 75 per cent	422,818	419,468	210,590	99,099
65 - 70 per cent	379,704	280,608	118,459	60,003
0 - 65 per cent	793,376	582,621	252,913	120,731
	2,039,231	1,679,686	953,772	456,730
Capital repayment	533,905	425,316	266,686	124,882
Interest only	1,505,326	1,254,370	687,086	331,848
	2,039,231	1,679,686	953,772	456,730
Average Loan to Value per cent.- all residential mortgages	65.73	66.80	68.44	69.12
Average Loan to Value per cent.- buy to let	66.87	68.19	69.82	70.98

SME Commercial Mortgages

Loan-to-collateral value on indexed origination information on the Group's commercial mortgage portfolio is set out below:

	30 June	31 December		
	2014	2013	2012	2011
		(£'000)		
100 per cent+	177	1,099	672	706
90 - 100 per cent	2,660	146	2,861	2,048
80 - 90 per cent	944	4,684	2,994	2,627
75 - 80 per cent	29,937	18,398	18,018	5,415
70 - 75 per cent	43,444	39,224	36,980	20,289
65 - 70 per cent	136,711	88,125	119,161	89,346
0 - 65 per cent	681,004	610,322	365,068	236,118
	894,877	761,998	545,754	356,549
Average Loan to Value per cent.- all commercial mortgage	54.86	56.82	58.72	59.02
Average Loan to Value per cent.- buy to let	58.98	60.72	61.18	60.81

Invoice Finance

In respect of invoice finance, collateral is provided by the underlying loans and advances (e.g. trade invoices). As at 30 June 2014, the average prepayment (advance) rate against the fair value of assigned sales ledger balances, net of amounts considered to be irrecoverable, is 66.16 per cent. (31 December 2013: 69.34 per cent., 31 December 2012: 66.01 per cent., 31 December 2011: 68.94 per cent).

In addition to the value of the underlying sales ledger balances, the Group will, wherever possible, obtain additional security before offering invoice finance facilities to a client. These include limited personal guarantees from major shareholders, charges over personal and other business property, cross guarantees from associated companies and unlimited warranties in the case of frauds. These additional forms of security are impracticable to value given their nature.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

39 Risk Management (continued)

(b) Credit risk (continued)

Asset Finance

In respect of asset finance, collateral is provided by the Group's ownership of the underlying leased assets, which the Group is able to repossess in the event of default. Where appropriate the Group will also obtain additional security. Given the nature of the collateral provided it is not practical to determine a current value of the asset collateral provided. Asset finance also undertakes some unsecured lending where it has obtained an understanding of the ability of the borrower's business to generate cash flows to service and repay the facilities provided. As at 30 June 2014 the total amount of such unsecured lending was £23 million.

Concentration of credit risk

The Group monitors concentration of credit risk by product type, geographic location and sector. Analyses of concentrations are shown below. Details of the Group's lending by product type are as follows:

	30 June	31 December		
	2014	2013	2012	2011
		(£'000)		
Finance lease receivables	871,119	720,198	378,325	193,709
Invoice financing	203,693	211,962	178,709	149,610
SME Commercial Mortgage loans.....	894,877	761,998	545,754	356,549
Residential Mortgage loans	2,039,231	1,679,686	953,772	456,730
	4,008,920	3,373,844	2,056,560	1,156,598
Including:				
Value of buy to let residential mortgages	1,413,774	1,172,213	587,643	253,133
Value of buy to let commercial mortgages	491,353	411,262	295,768	195,867

An analysis of the Group's geographical concentration is shown in the table below:

	30 June	31 December		
	2014	2013	2012	2011
		(%)		
East Anglia	9.4	8.8	8.7	8.5
East Midlands	6.1	6.2	6.3	6.9
Greater London	20.9	19.2	18.3	18.1
North East	1.7	1.9	3.3	4.3
North West	12.4	13.2	13.9	15.3
Northern Ireland.....	0.1	0.1	—	—
Scotland	4.2	4.3	3.0	3.4
South East	19.3	18.7	18.3	9.7
South West	9.8	9.9	9.2	12.3
Wales	3.2	3.3	3.2	6.5
West Midlands	8.0	8.3	7.9	6.5
Yorkshire and Humberside	4.9	6.1	7.9	8.5
	100.0	100.0	100.0	100.0

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Notes to the financial statements (continued)

39 Risk Management (continued)

(b) Credit risk (continued)

An analysis of the Group's loans and advances to customers by sector is shown in the table below:

	30 June	31 December		
	2014	2013	2012	2011
		(%)		
Agriculture, hunting and forestry.....	1.3	0.9	0.3	0.1
Construction.....	3.7	3.2	3.8	2.9
Education	—	—	0.2	—
Electricity, gas and water supply	0.6	0.6	0.1	—
Financial intermediation	1.3	1.2	1.4	—
Health and social work	0.2	0.3	0.3	0.3
Hotels and restaurants	0.3	0.4	0.4	1.0
Manufacturing.....	5.5	5.9	12.9	11.7
Mining and quarrying	0.2	0.2	0.2	—
Private households with employed persons	1.0	1.0	2.1	1.5
Public administration and defence; compulsory social security	0.1	0.2	0.8	0.1
Real estate, renting and business activities	18.1	18.5	16.9	20.5
Residential	60.1	59.1	46.4	57.3
Transport, storage and communication	4.0	4.4	6.8	1.1
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal household goods	3.6	4.1	7.4	3.5
	100.0	100.0	100.0	100.0

Credit risk—treasury

Credit risk exists with treasury assets where the Group has acquired securities or placed cash deposits with other financial institutions. The credit risk of treasury assets is considered to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of the Group's liquidity buffer.

The table below sets out information about the credit quality of financial assets held by Treasury:

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

39 Risk Management (continued)

(b) Credit risk (continued)

	<u>30 June</u>	<u>31 December</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(£'000)			
Cash and balances at central banks and Loans and Advances to banks				
– Rated AAA	—	—	1,654	756
—Rated AA+ to AA–	30,768	192,844	—	20,001
—Rated A+ to A–	119,324	237,544	105,018	41,140
—Rated BBB+ and below	—	—	1	1
	<u>150,092</u>	<u>430,388</u>	<u>106,673</u>	<u>61,898</u>
Debt securities: UK Government Gilts and Treasury Bills and				
Supranational Bonds				
—Rated AAA	305,925	144,794	273,666	260,144
—Rated AA+ to AA–	145,550	133,015	—	—
—Rated A+ to A–	—	—	—	—
—Rated BBB+ and below	—	—	—	—
Debt securities: Asset backed securities				
—Rated AAA	99,052	68,837	35,837	44,743
—Rated AA+ to AA–	7,416	8,609	32,861	16,192
—Rated A+ to A–	289	398	—	—
—Rated BBB+ and below	—	—	—	—
	<u>558,232</u>	<u>355,653</u>	<u>342,364</u>	<u>321,079</u>
Derivatives held for risk management purposes				
—Rated AAA	—	—	—	—
—Rated AA+ to AA–	590	651	—	—
—Rated A+ to A–	8,996	8,221	10,262	8,596
—Rated BBB+ and below	—	—	—	—
	<u>9,586</u>	<u>8,872</u>	<u>10,262</u>	<u>8,596</u>
	<u>717,910</u>	<u>794,913</u>	<u>459,299</u>	<u>391,573</u>

As at 30 June 2014 and at 31 December 2013, 31 December 2012 and 31 December 2011, none of the treasury assets were past due or impaired.

Cash placements

Credit risk of Group and treasury counterparties is controlled through the counterparty placements policy which limits the maximum exposure by entity where the Group can place cash deposits. All institutions need a sufficiently high long term and short term rating at inception.

Gilts and supranational bonds

As part of the liquidity buffer, the Group holds a portfolio of Gilts and Supranational Bonds. These instruments are AAA or AA+ to AA– rated, and typically carry sovereign risk.

Asset backed securities (“ABS”)

The Group has a portfolio of asset backed securities (“ABS”). The majority of these investments are in AAA or AA+ to AA– rated bonds secured on UK originated assets. All investments are in Sterling; no foreign currency bonds were bought. The portfolio has credit enhancement, providing principal protection against losses.

Derivatives

Credit risk on derivatives is controlled through a policy of only entering into contracts with a small number of UK credit institutions, with a credit rating of at least AA– at inception. Most derivative contracts are collateralised through the receipt/payment of daily cash margin calls to cover the mark to market asset/liability.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

39 Risk Management (continued)

(b) *Credit risk (continued)*

(iv) *Offsetting financial assets and liabilities*

For derivatives it is the Group's policy to enter into master netting and margining agreements with all counterparties. In general, under master netting agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, all outstanding transactions under the agreement are terminated.

Under the margining agreements where the Group has a net asset position valued at current market values, in respect of its derivatives with a counterparty, then that counterparty will place collateral, usually cash, with the Group in order to cover the position. Similarly, the Group will place collateral, usually cash, with the counterparty where it has a net liability position.

As the Group's derivatives are under master netting and margining agreements as described above, they do not meet the criteria for offsetting in the statement of financial position.

The following tables detail amounts of financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements including the Funding for Lending Scheme as detailed in Notes 19 and 27.

30 June 2014

Type of financial instrument	Gross amount of recognised financial instruments	Gross amount of recognised financial instrument offset in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
			(£'000)			
Assets						
Loans and advances to customers (amounts pre-positioned as collateral under the FLS)	796,900	—	796,900	(189,438)	—	607,462
Derivatives held for risk management ...	9,586	—	9,586	(5,801)	(2,115)	1,670
	<u>806,486</u>	<u>—</u>	<u>806,486</u>	<u>(195,239)</u>	<u>(2,115)</u>	<u>609,132</u>
Liabilities						
Amount due to banks—repurchase agreements	(189,438)	—	(189,438)	189,438	—	—
Derivatives held for risk management ...	(25,709)	—	(25,709)	5,801	19,530	(378)
	<u>(215,147)</u>	<u>—</u>	<u>(215,147)</u>	<u>195,239</u>	<u>19,530</u>	<u>(378)</u>

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Notes to the financial statements (continued)

39 Risk Management (continued)

(b) *Credit risk* (continued)

31 December 2013

Type of financial instrument	Gross amount of recognised financial instruments	Gross amount of recognised financial instrument offset in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
			(£'000)			
Assets						
Loans and advances to customers (amounts pre-positioned as collateral under the FLS)	822,900	—	822,900	(383,071)	—	439,829
Derivatives held for risk management...	8,872	—	8,872	(6,163)	(1,675)	1,034
	<u>831,772</u>	<u>—</u>	<u>831,772</u>	<u>(389,234)</u>	<u>(1,675)</u>	<u>440,863</u>
Liabilities						
Amounts due to banks—repurchase agreements	(383,071)	—	(383,071)	383,071	—	—
Derivatives held for risk management...	(17,867)	—	(17,867)	6,163	11,350	(354)
	<u>(400,938)</u>	<u>—</u>	<u>(400,938)</u>	<u>389,234</u>	<u>11,350</u>	<u>(354)</u>

Aldermore Group PLC
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Notes to the financial statements (continued)

39 Risk Management (continued)

(b) *Credit risk* (continued)

31 December 2012

Type of financial instrument	Gross amount of recognised financial instruments	Gross amount of recognised financial instrument offset in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
			(£'000)			
Assets						
Loans and advances to customers (amounts pre-positioned as collateral under the FLS)	647,600	—	647,600	(114,579)	—	533,021
Derivatives held for risk management...	10,262	—	10,262	(9,542)	—	720
	<u>657,862</u>	<u>—</u>	<u>657,862</u>	<u>(124,121)</u>	<u>—</u>	<u>533,741</u>
Liabilities						
Amounts due to banks—repurchase agreements	(114,579)	—	(114,579)	114,579	—	—
Derivatives held for risk management...	(31,612)	—	(31,612)	9,542	21,830	(240)
	<u>(146,191)</u>	<u>—</u>	<u>(146,191)</u>	<u>124,121</u>	<u>21,830</u>	<u>(240)</u>

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Notes to the financial statements (continued)

39 Risk Management (continued)

(b) Credit risk (continued)

31 December 2011

Type of financial instrument	Gross amount of recognised financial instruments	Gross amount of recognised financial instrument offset in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
			(£'000)			
Assets						
Loans and advances to customers, (amounts pre-positioned as collateral under the FLS)	—	—	—	—	—	—
Derivatives held for risk management...	8,596	—	8,596	(8,541)	—	55
	8,596	—	8,596	(8,541)	—	55
Liabilities						
Amounts due to banks—repurchase agreements	—	—	—	—	—	—
Derivatives held for risk management...	(21,520)	—	(21,520)	8,541	12,857	(122)
	(21,520)	—	(21,520)	8,541	12,857	(122)

(c) Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due, or can do so only at excessive cost.

To protect the Group and its depositors against liquidity risks, the Group maintains a liquidity buffer which is based on the Group's liquidity needs under stressed conditions. The liquidity buffer is monitored on a daily basis to ensure there are sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding and to enable the Group to meet all financial obligations and to support anticipated asset growth.

Through the ILAA process, the Group has assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks and the ILAA process determines the appropriate liquidity buffer, taking into account the specific nature of the deposit base.

The ILAA requires the Group to consider all material liquidity risks in detail and the ILAA has documented the Group's analysis of each key liquidity risk driver and set a liquidity risk appetite against each of these drivers. Liquidity risks are specifically considered by the ALCO each month.

Based on the business model of funding primarily via retail and SME deposits, the board has set a liquidity risk appetite which it considers to be appropriate to provide it with the assurance that the relevant liquidity risk drivers should be considered and appropriately stressed and that the Group is able to meet liabilities beyond the targeted survival period.

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Notes to the financial statements (continued)

39 Risk Management (continued)

(c) *Liquidity risk (continued)*

The components of the Group's liquidity buffer were as follows:

	30 June	31 December		
	2014	2013	2012	2011
		(£'000)		
Bank of England reserve account and unencumbered cash and bank balances	86,496	390,369	67,912	34,014
UK Gilts and Treasury Bills and Supranational Bonds	448,109	275,817	271,632	236,875
Treasury bills held under the FLS scheme	294,938	99,784	89,801	—
Total liquidity buffer	829,543	765,970	429,345	270,889
As a per cent. of funding liabilities	17.87%	19.56%	19.00%	20.15%

An overview of the Group's key liquidity risk drivers is provided below:

Deposit funding risk

The deposit funding risk is the primary liquidity risk driver for the Group and this could occur if there was a concern by depositors over the current or future creditworthiness of the Group. Although the Group seeks to operate in such a way as to protect depositors, an extremely high proportion of deposits are protected by the government Financial Services Compensation Scheme ("FSCS"). The increase in the FSCS to £85,000 has provided further protection to depositors.

Wholesale funding

The Group mainly finances its operations through retail and SME deposit-taking. It does not have long term wholesale funding lines in place with the exception of drawings under the Funding for Lending Scheme, repo facilities to help manage liquid assets, and debt securities issued by the Group securitisation vehicle in April 2014. The Group does have relationship banking facilities in place which are used to hedge against currency and interest rate exposures as well as repo facilities for short term liquidity management.

Payments systems

The Group does not form part of the UK payment system. However, in the event there are problems with one of the payment systems, the Group has access to other facilities with which to make payments if needed.

Pipeline loan commitments

The Group needs to maintain liquidity to cover the outstanding pipeline of loan offers. Although certain pipeline offers may not be legally binding, the failure to adhere to an expression of intent to finance a loan contract brings reputational risk, therefore liquidity is held for such pipeline offers.

Cash collateral requirements

The swap Credit Support Annex ("CSA") agreement requires the Group or a swap counterparty to hold cash in a deposit account, depending on whether the swap is in or out of the money. As the Group is unrated, the swap agreements are not credit rating sensitive in relation to the Group, which removes the impact from a downgrade risk.

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

39 Risk Management (continued)

(c) *Liquidity risk (continued)*

Contingency funding plan

As a regulated firm, the Group is required to maintain a Contingency Funding Plan (“CFP”). The plan (which is now part of the Group’s Recovery and Resolution Plan (“RRP”)) involves a two stage process, covering preventative measures and curative measures to be invoked when there is a potential or actual risk to the Group’s liquidity or capital position. The CFP/RRP provides a plan for managing a liquidity or capital situation or crisis within the Group, caused by internal events, external events or a combination thereof. The plan outlines what actions the Group could take to ensure it complies with the liquidity adequacy rule, maintains sufficient capital and operates within its risk appetite and limits, as set and approved by the Board.

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities:

Gross contractual cash flows

	Payable on demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	(£'000)					
30 June 2014						
<i>Non derivative liabilities</i>						
Amounts due to banks	2,145	140,076	50,728	125	—	193,074
Customers’ accounts	1,090,353	994,172	915,450	931,296	—	3,931,271
Other liabilities	3,461	7,383	—	—	—	10,844
Debt securities in issue	—	36,424	57,369	260,203	—	353,996
Subordinated notes	—	—	5,150	50,300	—	55,450
Unrecognised loan commitments....	415,552	—	—	—	—	415,552
	1,511,511	1,178,055	1,028,697	1,241,924	—	4,960,187
<i>Derivative liabilities</i>						
Derivatives held for risk management—settled net	—	928	6,013	13,295	6,795	27,031
Derivatives held for risk management settled gross:						
Amounts received	(6,768)	(6,977)	—	—	—	(13,745)
Amounts paid	6,768	6,977	—	—	—	13,745
	—	928	6,013	13,295	6,795	27,031
31 December 2013						
<i>Non derivative liabilities</i>						
Amounts due to banks	1,685	174,938	109,934	99,806	—	386,363
Customers’ accounts	944,724	668,323	1,138,897	775,581	—	3,527,525
Other liabilities	3,583	6,793	—	—	—	10,376
Subordinated notes	—	—	5,150	52,875	—	58,025
Unrecognised loan commitments....	343,652	—	—	—	—	343,652
	1,293,644	850,054	1,253,981	928,262	—	4,325,941
<i>Derivative liabilities</i>						
Derivatives held for risk management—settled net	—	978	3,179	11,158	3,118	18,433
Derivatives held for risk management settled gross:						
Amounts received	(13,849)	—	—	—	—	(13,849)
Amounts paid	13,849	—	—	—	—	13,849
	—	978	3,179	11,158	3,118	18,433

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

39 Risk Management (continued)

(c) *Liquidity risk (continued)*

31 December 2012	Payable on demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
<i>Non derivative liabilities</i>						
Amounts due to banks	—	25,004	69,968	19,950	—	114,922
Customers' accounts	449,602	397,955	1,037,748	303,932	—	2,189,237
Other liabilities	2,822	3,990	—	—	—	6,812
Subordinated notes.....	—	—	5,150	58,025	—	63,175
Unrecognised loan commitments....	213,640	—	—	—	—	213,640
	666,064	426,949	1,112,866	381,907	—	2,587,786
<i>Derivative liabilities</i>						
Derivatives held for risk management—settled net.....	—	617	5,765	21,274	8,133	35,789
	—	617	5,765	21,274	8,133	35,789
31 December 2011						
<i>Non derivative liabilities</i>						
Amounts due to banks	—	—	—	—	—	—
Customers' accounts	134,303	140,786	762,731	377,744	—	1,415,564
Other liabilities	2,824	3,450	—	—	—	6,274
Subordinated notes.....	—	—	—	—	—	—
Unrecognised loan commitments....	190,555	—	—	—	—	190,555
	327,682	144,236	762,731	377,744	—	1,612,393
<i>Derivative liabilities</i>						
Derivatives held for risk management—settled net.....	—	675	2,754	14,144	4,788	22,361
Derivatives held for risk management settled gross:						
Amounts received	(2,477)	—	—	—	—	(2,477)
Amounts paid.....	2,478	—	—	—	—	2,478
	1	675	2,754	14,144	4,788	22,362

(d) *Market and interest rate risk*

The main market risk faced by the Group is interest rate risk which primarily arises from retail and commercial assets and liabilities, liquidity holdings, funding through FLS, debt securities issued by the Group securitisation vehicle and subordinated notes. Interest rate risk is the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates. Interest rate risk is reviewed by ALCO on a monthly basis. Interest rate risk consists of asset-liability gap risk and basis risk.

Asset-liability gap risk

Where possible the Group seeks to match the interest rate structure of assets with liabilities, or deposits, creating a natural hedge. Where this is not possible the Group will enter into swap agreements to convert fixed interest rate liabilities into variable rate liabilities, which are then matched with variable interest rate assets. The swap agreements transform fixed interest rate liabilities into three month LIBOR liabilities.

Given timing differences and the price of hedging small gaps, it is not cost effective to have an absolute match of variable rate assets and liabilities. The risk exposure of the overall asset-liability interest rate profile is monitored against approved limits using two main measures:

- The sensitivity of projected pre-tax earnings to a 2 per cent. parallel shift of the yield curve; and
- Simulated Value at Risk (“VaR”).

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

39 Risk Management (continued)

(d) Market and interest rate risk (continued)

For each period the risk measures reported were as follows (note: potential losses are shown as negative numbers):

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	(£'000)			
2% shift up of the yield curve:				
As at period ended	(5,414)	(1,459)	(2,121)	(2,570)
Average of month end positions reported to ALCO	(3,641)	(1,463)	(3,104)	(2,320)
2% shift down of the yield curve:				
As at period ended	4,130	3,206	1,450	2,797
Average of month end positions reported to ALCO	4,231	1,722	2,523	2,504
Simulated VaR:				
As at period ended	1,801	1,106	1,485	—
Average of month end positions reported to ALCO	1,481	1,652	2,075	—

Simulated VaR measures the monthly maximum potential gain or loss in the net fair value of interest bearing assets and liabilities due to market volatility within a statistical confidence level of 99 per cent. The VaR methodology employed is a Monte Carlo simulation based on 30 day average movements in LIBOR. The VaR methodology has inherent limitations in that past market volatility may not be a reliable predictor of the future, and may not reflect the time required to hedge or dispose of the position, hence VaR is not used as the sole measure of risk.

Monthly sensitivity figures for the 2 per cent. parallel shifts of the yield curve were calculated from June 2011 onwards and month end simulated VaR were calculated from August 2012 onwards. Prior to the introduction of those risk measures interest rate risk was managed by comparing interest rate mismatch amounts for defined interest rate re-pricing bands against specified limits.

Basis risk

Basis risk is where there is a mismatch in the interest rate reference base for assets and liabilities. When the Group enters into derivative contracts to swap fixed rate assets and liabilities into variable rate liabilities, the reference base is usually three month LIBOR. Certain lending products have interest rates which are based on the prevailing Bank of England Base Rate (“BBR”) and this different basis reference can lead to basis risk.

The Group has a basis risk policy in place which places limits on the net mismatch between base rates linked assets and liabilities and the sensitivity of pre-tax earnings to a 0.50 per cent. change for six months in the differential between LIBOR and BBR; and seeks to manage the overall level of basis risk exposure by entering into basis swap agreements. As at 30 June 2014 the amount of the basis risk sensitivity measure, as described above, was (£120,000), (31 December 2013: £260,000, 31 December 2012: £430,000, 31 December 2011: £90,000).

Other market risks

The Group does not carry out proprietary trading or hold any positions in assets or equity which are actively traded.

The Group does, however, hold a portfolio of asset backed securities and a portfolio of liquid assets (Gilts, Treasury bills and Supranational Bonds) which are used for liquidity buffer purposes. The interest rate risk on these liquid assets is considered as part of the asset—liability gap risk described above. The instruments are also exposed to other forms of market risk e.g. credit spread risk. Prices are monitored on a day to day basis to ensure that the Group is aware of any material diminution in value. Formal monthly prices are subject to independent review and are reported to ALCO. The Group has repo facilities in place which will be used in the first instance to obtain liquidity when necessary, which will avoid the need to sell the liquidity buffer assets and so crystallise any price gain or loss due to market price movements.

Notes to the financial statements (continued)

40 Capital Management

The European Union Capital Requirements Directive came into effect on 1 January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord. This was replaced by Capital Requirements Regulation (“**CRR**”) and Capital Requirements Directive (together referred to as “**CRD IV**”) which came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulatory Authority (“**PRA**”).

The Group operated under CRD III framework for periods up to 31 December 2013 and under the CRD IV framework from 1 January 2014.

As part of the Internal Capital Adequacy Assessment Process (“**ICAAP**”) applicable to CRD IV firms, the Board is required to consider all material risks which the Group faces and determine whether additional capital is required in order to provide additional protection to depositors and borrowers and to ensure the Group is sufficiently well capitalised to withstand a severe economic downturn.

The Board manages its internal capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP.

The ICAAP represents the aggregated view on risk for the Group and is used by the Board, management and shareholders to understand the levels of capital required to be held over the near and medium term and to assess the resilience of the Group against failure. The Group submitted its last ICAAP to the PRA in February 2014 and was subject to a Supervisory Review Evaluation Process (“**SREP**”) by the PRA.

The Group is required to maintain a certain level of capital to meet several requirements:

- To meet minimum regulatory capital requirements;
- To ensure the Group can meet its objectives, including growth objectives;
- To ensure the Group can withstand future uncertainty, such as a severe economic downturn; and
- To provide assurance to depositors, customers, shareholders and other third parties.

The Group presents regular reports on the current and forecasted level of capital, as well as the results of stress scenarios, to the Board and to the Risk Committee.

The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported and any material deviation from the forecast and risk profile of the Group would mean the ICAAP would need to be reviewed.

The Group complied with all externally imposed capital requirements throughout the six months ended 30 June 2014 and the years ended 31 December 2013, 2012 and 2011, when its reporting to regulators was based on its books and records maintained under UK GAAP.

As at 30 June 2014, the Group’s capital base was made up of £256.6 million of Tier 1 capital and £43.6 million of Tier 2 capital. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the CRR and audited/verified reserves. Tier 2 capital relates to issued subordinated loan notes and collective impairment allowances. The Group does not hold any Tier 3 capital.

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Notes to the financial statements (continued)
40 Capital Management (continued)

The Group's regulatory capital position as at the period end was as follows:

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	(£'000)			
Tier 1				
Share capital	23,737	23,737	19,918	19,807
Share premium account	237,305	237,305	177,959	177,891
Capital contribution reserve	2	2	2	—
Warrant reserve	2,200	2,200	2,200	—
Retained earnings	16,055	1,531	(24,337)	(25,691)
Less: Intangible assets	(22,698)	(22,657)	(22,427)	(18,801)
Total Tier 1 capital (all Core Tier 1)	256,601	242,118	153,315	153,206
Tier 2				
Subordinated notes	36,095	35,571	34,600	—
Collective impairment allowance	7,512	6,314	3,131	2,444
Total Tier 2 capital	43,607	41,885	37,731	2,444
Total regulatory capital	300,208	284,003	191,046	155,650

The figures have been recalculated on an IFRS basis; those previously reported to the Prudential Regulatory Authority ("PRA") and its predecessor the Financial Services Authority were based on the Group's UK GAAP accounts. Regulatory capital has increased in previous years as a result of the issuance of subordinated notes, the issuance of share capital and retained earnings.

The Group has elected to use the standardised approach for credit risk. Under CRD III and CRD IV, the Group must set aside capital equal to 8 per cent. of its total risk weighted assets to cover its "Pillar 1" capital requirements. The Group must also set aside additional "Pillar 2" capital to provide for additional risks. This is calculated by multiplying the Pillar 1 capital by the Individual Capital Guidance ("ICG") ratio.

The ICG ratio is based on the various risks which the Group faces and is agreed by the PRA. The Group's capital base was in excess of the minimum required under the ICG.

Reconciliation of equity per statement of financial position to regulatory capital

	30 June 2014	31 December 2013	31 December 2012	31 December 2011
	(£'000)			
Total equity per statement of financial position	280,383	265,357	178,890	171,781
Regulatory adjustments:				
Add: subordinated notes	36,095	35,571	34,600	—
Add: collective impairment allowance	7,512	6,314	3,131	2,444
Less: available for sale reserve	(1,084)	(582)	(3,148)	226
Less: intangible assets	(22,698)	(22,657)	(22,427)	(18,801)
Total regulatory capital	300,208	284,003	191,046	155,650

41 Controlling party information

Aldermore Group PLC (the parent company) is controlled by AnaCap Financial Partners II, LP (52.3 per cent. of voting rights) and AnaCap Financial Partners, L.P. (47.7 per cent. of voting rights).

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

42 Post balance sheet events

On 21 September 2014, by resolution of the members of the Company, the share premium was reduced from £237,305,000 to £nil, with a corresponding transfer to retained earnings.

On 25 September 2014, the Company's subsidiary, Aldermore Holdings Limited, declared a dividend in specie to the Company of its entire shareholding less one ordinary share in Aldermore Bank PLC, and transferred the remaining ordinary share to the Company. Consequently, the Company holds the entire issued share capital of Aldermore Bank PLC.

On 30 September 2014, the Company was re-registered as a plc and its name changed from AC Acquisitions Limited to Aldermore Group PLC.

43 IFRS Reconciliations

The Group previously prepared its primary financial statements under UK GAAP, which differs in certain significant respects from IFRSs.

(a) Effect of IFRS adoption for the statement of financial position

The statements of financial position below show the adjustments made to transition from UK GAAP to IFRSs. The UK GAAP balances are displayed after the following adjustments to the previously reported statutory amounts:

- An adjustment of £662,000 to increase shareholder funds as at 31 December 2011 (1 January 2011: an increase of £350,000) to reflect the adoption of the principles of IFRIC 21 in the UK GAAP accounts following its publication on 20 May 2013. IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, has been applied by the Group with respect to the Financial Services Compensation Scheme levy and was first applied in the Group's 2013 UK GAAP accounts, with comparatives in respect of 2012 being restated. IFRIC 21 was endorsed for use in the EU on 13 June 2014.
- A reclassification of £350,000 to display provisions as a separate line item on the statement of financial position as at 31 December 2011 (1 January 2011: £76,000). This amount was previously reported as accruals and deferred income.
- A reclassification of £74,838,000 as at 31 December 2011 (1 January 2011: a reclassification of £99,767,000) to increase debt securities and to reduce loans and advances to banks in respect of UK Treasury Bills that were previously reported within loans and advances to banks.

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

43 IFRS Reconciliations (continued)

(a) *Effect of IFRS adoption for the statement of financial position (continued)*

As at date of transition to IFRS—1 January 2011	(Notes re adjustments)	UK GAAP	Effect of transition to IFRSs (£'000)	Opening IFRS statement of financial position
Assets				
Loans and advances to banks		120,062	—	120,062
Debt securities	C	135,570	1,297	136,867
Derivatives held for risk management	B	—	5,153	5,153
Loans and advances to customers	A,B,D	474,952	(4,059)	470,893
Other assets		4,360	—	4,360
Prepayments and accrued income	A	5,771	(4,551)	1,220
Property, plant and equipment	H	3,782	(2,743)	1,039
Intangible assets	H	12,654	2,743	15,397
Total assets		757,151	(2,160)	754,991
Liabilities				
Customers' accounts	A,B	633,719	6,007	639,726
Derivatives held for risk management	B	—	634	634
Other liabilities		7,883	—	7,883
Accruals and deferred income	B	17,679	(9,480)	8,199
Provisions		76	—	76
Total liabilities		659,357	(2,839)	656,518
Share capital		12,517	—	12,517
Share premium account		109,620	—	109,620
Available for sale reserve		—	1,297	1,297
Retained earnings		(24,343)	(618)	(24,961)
Shareholders' funds		97,794	679	98,473
Total liabilities and shareholders' funds		757,151	(2,160)	754,991

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

43 IFRS Reconciliations (continued)

(a) *Effect of IFRS adoption for the statement of financial position (continued)*

As at 31 December 2011, end of comparative period presented under UK GAAP	(Notes re adjustments)	UK GAAP	Effect of transition to IFRSs (£'000)	IFRS statement of financial position
Assets				
Cash and balances at central banks.....		125	—	125
Loans and advances to banks.....	G	48,915	12,858	61,773
Debt securities	C	302,796	18,283	321,079
Derivatives held for risk management	B	—	8,596	8,596
Loans and advances to customers	A,B,D	1,160,435	(3,837)	1,156,598
Other assets	G	14,311	(12,857)	1,454
Prepayments and accrued income	A	12,894	(11,585)	1,309
Property, plant and equipment	H	7,366	(6,147)	1,219
Intangible assets	H	11,975	6,826	18,801
Total assets		1,558,817	12,137	1,570,954
Liabilities				
Customers' accounts	B,A	1,346,470	12,385	1,358,855
Derivatives held for risk management	B	—	21,520	21,520
Other liabilities	F	8,468	386	8,854
Accruals and deferred income	B	31,052	(21,458)	9,594
Provisions		350	—	350
Total liabilities		1,386,340	12,833	1,399,173
Share capital		19,807	—	19,807
Share premium account		177,891	—	177,891
Available for sale reserve		—	(226)	(226)
Retained earnings.....		(25,221)	(470)	(25,691)
Shareholders' funds.....		172,477	(696)	171,781
Total liabilities and shareholders' funds.....		1,558,817	12,137	1,570,954

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

43 IFRS Reconciliations (continued)

(a) *Effect of IFRS adoption for the statement of financial position (continued)*

As at 31 December 2012, end of comparative period presented under UK GAAP	(Notes re adjustments)	UK GAAP (as previously reported)	Effect of transition to IFRSs (£'000)	IFRS statement of financial position
Assets				
Cash and balances at central banks		1,654	—	1,654
Loans and advances to banks	G	83,188	21,831	105,019
Debt securities	C	312,156	30,208	342,364
Derivatives held for risk management	B	—	10,262	10,262
Loans and advances to customers	A,B,D	2,059,603	(3,043)	2,056,560
Other assets	G	22,397	(21,830)	567
Prepayments and accrued income	A	21,841	(18,681)	3,160
Property, plant and equipment	H	11,386	(9,774)	1,612
Intangible assets	H	11,295	11,132	22,427
Total assets		2,523,520	20,105	2,543,625
Liabilities				
Amounts due to banks		115,079	—	115,079
Customers' accounts	A,B	2,141,198	20,451	2,161,649
Derivatives held for risk management	B	—	31,612	31,612
Other liabilities	F	10,417	903	11,320
Accruals and deferred income	B	45,872	(35,973)	9,899
Provisions		576	—	576
Subordinated notes	A	34,148	452	34,600
Total liabilities		2,347,290	17,445	2,364,735
Share capital		19,918	—	19,918
Share premium account		177,959	—	177,959
Capital contribution reserve		2	—	2
Warrant reserve		2,200	—	2,200
Available for sale reserve		—	3,148	3,148
Retained earnings		(23,849)	(488)	(24,337)
Shareholders' funds		176,230	2,660	178,890
Total liabilities and shareholders' funds		2,523,520	20,105	2,543,625

Aldermore Group PLC
Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

43 IFRS Reconciliations (continued)

(a) *Effect of IFRS adoption for the statement of financial position (continued)*

As at 31 December 2013, end of last period presented under UK GAAP	(Notes re adjustments)	UK GAAP (as previously reported)	Effect of transition to IFRSs (£'000)	IFRS statement of financial position
Assets				
Cash and balances at central banks		192,844	—	192,844
Loans and advances to banks	G	226,194	11,350	237,544
Debt securities	C	339,445	16,208	355,653
Derivatives held for risk management	B	—	8,872	8,872
Loans and advances to customers	A,B,D	3,370,798	3,046	3,373,844
Other assets	G	11,662	(11,350)	312
Prepayments and accrued income	A	32,508	(27,399)	5,109
Deferred tax		3,452	(153)	3,299
Property, plant and equipment	H	12,863	(10,005)	2,858
Intangible assets	H	10,612	12,045	22,657
Total assets		4,200,378	2,614	4,202,992
Liabilities				
Amounts due to banks	G	384,276	1,675	385,951
Customers' accounts	A,B	3,444,392	19,626	3,464,018
Derivatives held for risk management	B	—	17,867	17,867
Other liabilities	F,G	14,707	(364)	14,343
Accruals and deferred income	B	55,540	(39,304)	16,236
Current tax		2,492	—	2,492
Provisions		1,157	—	1,157
Subordinated notes	A	35,119	452	35,571
Total liabilities		3,937,683	(48)	3,937,635
Share capital		23,737	—	23,737
Share premium account		237,305	—	237,305
Capital contribution reserve		2	—	2
Warrant reserve		2,200	—	2,200
Available for sale reserve		—	582	582
Retained earnings		(549)	2,080	1,531
Shareholders' funds		262,695	2,662	265,357
Total liabilities and shareholders' funds		4,200,378	2,614	4,202,992

Aldermore Group PLC
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Notes to the financial statements (continued)
43 IFRS Reconciliations (continued)

(b) Reconciliation of shareholders' funds

	(Notes re adjustments)	As previously reported at 31 December 2013	As previously reported at 31 December 2012	As at 31 December 2011	As at 1 January 2011 date of transition
(£'000)					
Total shareholders' funds under UK GAAP		262,695	176,230	172,477	97,794
Measurement of financial instruments at amortised cost using the EIR method	A	(423)	(708)	(647)	6
Calculation of impairment provisions in accordance with IAS 39	D	(1,684)	(949)	(1,098)	(666)
Re-recognition of financial liabilities for unallocated cash	F	(1,310)	(904)	(385)	—
Accounting for derivatives at fair value through profit or loss apart from those derivatives which are economic hedges of debt securities designated at fair value ..	B	4,116	4,588	2,283	1,339
Designation of certain debt securities at fair value through profit or loss, net of impact of derivatives which are economic hedges of the interest rate risk on those securities	C,B	75	(725)	(1,527)	—
Goodwill no longer amortised as from the date of transition	E	2,061	1,358	678	—
		2,835	2,660	(696)	679
Tax effect of the above		(173)	—	—	—
Total adjustment to shareholders' funds		2,662	2,660	(696)	679
Total shareholders' funds under IFRSs		265,357	178,890	171,781	98,473

Aldermore Group PLC
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Notes to the financial statements (continued)

43 IFRS Reconciliations (continued)

- (c) *Effect of IFRS adoption on the profit or loss account and the statement of comprehensive income for the years ended 31 December 2011, 2012 and 2013*

The profit or loss accounts below show the adjustments made to transition from UK GAAP to IFRSs. The UK GAAP balances are displayed after the following adjustments to the previously reported statutory amounts:

- An adjustment to increase profit after taxation for the year ended 31 December 2011 by £312,000 following the publication of IFRIC 21 on 20 May 2013. IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, has been applied by the Group with respect to the Financial Services Compensation Scheme levy and was first applied in the Group's 2013 UK GAAP accounts, with comparatives in respect of 2012 being restated.
- A reclassification of the provision for liabilities charge per the published UK GAAP financial statements of £2,111,000 (2012: £483,000, 2011: £nil) into administrative expenses so that the classification of expenses is consistent with that required by IFRSs.

	(Notes re adjustments)	Per UK GAAP	Effect of transition to IFRSs (£'000)	IFRSs
Income statement for the year ended 31 December 2011				
Interest income.....	A,B,D	53,190	228	53,418
Interest expense	A,B	(30,555)	838	(29,717)
Net interest income		22,635	1,066	23,701
Fee and commissions income	A	18,184	(2,617)	15,567
Fee and commissions expense	A	(6,657)	2,492	(4,165)
Net income from derivatives and other financial instruments at fair value through profit or loss	B,C	—	(48)	(48)
Other operating income	F	8,476	(385)	8,091
Total operating income.....		42,638	508	43,146
<i>FSCS Levy.....</i>		(312)	—	(312)
<i>Other administrative expenses.....</i>		(40,125)	—	(40,125)
Administrative expenses		(40,437)	—	(40,437)
Depreciation and amortisation	E	(2,084)	679	(1,405)
Operating profit before impairment losses.....		117	1,187	1,304
Impairment losses on loans and advances to customers	D	(1,005)	(1,036)	(2,041)
Loss before taxation.....		(888)	151	(737)
Taxation		7	—	7
Loss after taxation		(881)	151	(730)

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)

43 IFRS Reconciliations (continued)

(c) *Effect of IFRS adoption on the profit or loss account and the statement of comprehensive income for the years ended 31 December 2011, 2012 and 2013 (continued)*

	(Notes re adjustments)	Per UK GAAP	Effect of transition to IFRSs (£'000)	IFRSs
Statement of comprehensive income for the year ended				
31 December 2011				
Loss after taxation		(881)	151	(730)
Other comprehensive expense:				
<i>Items that may subsequently be transferred to the income statement</i>				
Available for sale debt securities:	C	—	(1,523)	(1,523)
Fair value movements taken to equity		—	(1,523)	(1,523)
Amounts transferred to the income statement.....		—	—	—
Taxation		—	—	—
Other comprehensive expense		—	(1,523)	(1,523)
Total comprehensive expense attributable to equity holders of the Group.....		(881)	(1,372)	(2,253)

	(Notes re adjustments)	Per UK GAAP as previously reported	Effect of transition to IFRSs (£'000)	IFRSs
Income statement for the year ended 31 December				
2012				
Interest income.....	A,B,D	97,849	1,428	99,277
Interest expense	A,B	(63,327)	44	(63,283)
Net interest income		34,522	1,472	35,994
Fee and commissions income	A	24,167	(4,733)	19,434
Fee and commissions expense	A	(10,238)	4,845	(5,393)
Net income from derivatives and other financial instruments at fair value through profit or loss	B,C	—	(1,934)	(1,934)
Gains on disposal of debt securities.....		3,231	—	3,231
Other operating income	F	7,102	(519)	6,583
Total operating income.....		58,784	(869)	57,915
<i>FSCS Levy.....</i>		(483)	—	(483)
<i>Other administrative expenses.....</i>		(49,424)	—	(49,424)
Administrative expenses		(49,907)	—	(49,907)
Depreciation and amortisation	E	(2,999)	680	(2,319)
Operating profit before impairment losses.....		5,878	(189)	5,689
Impairment losses on loans and advances to customers ..	D	(4,644)	(772)	(5,416)
Profit before taxation		1,234	(961)	273
Taxation		—	941	941
Profit after taxation		1,234	(20)	1,214
Other comprehensive income:				
<i>Items that may subsequently be transferred to the income statement</i>				
Available for sale debt securities:	C	—	3,374	3,374
Fair value movements taken to equity		—	7,546	7,546
Amounts transferred to the income statement.....		—	(3,231)	(3,231)
Taxation		—	(941)	(941)
Other comprehensive income		—	3,374	3,374
Total comprehensive income attributable to equity holders of the Group.....		1,234	3,354	4,588

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Notes to the financial statements (continued)

43 IFRS Reconciliations (continued)

(c) *Effect of IFRS adoption on the profit or loss account and the statement of comprehensive income for the years ended 31 December 2011, 2012 and 2013 (continued)*

	(Notes re adjustments)	Per UK GAAP as previously reported	Effect of transition to IFRSs (£'000)	IFRSs
Income statement for the year ended 31 December 2013				
Interest income.....	A,B,D	155,954	487	156,441
Interest expense	A,B	(75,867)	68	(75,799)
Net interest income		80,087	555	80,642
Fee and commissions income	A	31,149	(7,594)	23,555
Fee and commissions expense	A	(16,221)	8,692	(7,529)
Net income from derivatives and other financial instruments at fair value through profit or loss	B,C	—	3,277	3,277
Gains on disposal of debt securities.....		1,869	—	1,869
Other operating income	F	6,937	(406)	6,531
Total operating income.....		103,821	4,524	108,345
<i>FSCS Levy.....</i>		(1,661)	—	(1,661)
<i>Other administrative expenses.....</i>		(65,702)	—	(65,702)
Administrative expenses		(67,363)	—	(67,363)
Depreciation and amortisation	E	(4,504)	682	(3,822)
Operating profit before impairment losses.....		31,954	5,206	37,160
Impairment losses on loans and advances to customers	D	(9,777)	(1,691)	(11,468)
Profit before taxation.....		22,177	3,515	25,692
Taxation		960	(946)	14
Profit after taxation		23,137	2,569	25,706
Other comprehensive income expense:				
<i>Items that may subsequently be transferred to the income statement</i>				
Available for sale debt securities:	C	—	(2,566)	(2,566)
Fair value movements taken to equity		—	(1,490)	(1,490)
Amounts transferred to the income statement.....		—	(1,869)	(1,869)
Taxation		—	793	793
Other comprehensive expense		—	(2,566)	(2,566)
Total comprehensive income attributable to equity holders of the Group.....		23,137	3	23,140

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Consolidated financial statements for the period ended 30 June 2014

Notes to the financial statements (continued)
43 IFRS Reconciliations (continued)

(d) *Reconciliation of profit or loss and comprehensive income/(expense)*

	(Notes re adjustments)	Profit after tax		Loss after tax
		Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
			(£'000)	
As previously reported under UK GAAP		23,137	1,234	(881)
Measurement of financial instruments at amortised cost using the EIR method	A	285	(61)	(654)
Calculation of impairment provisions in accordance with IAS 39	D	(734)	149	(432)
Re-recognition of financial liabilities for unallocated cash	F	(406)	(519)	(385)
Accounting for derivatives at fair value through profit or loss apart from those derivatives which are economic hedges of debt securities designated at fair value	B	2,888	(2,011)	2,471
Designation of certain debt securities at fair value through profit or loss, net of impact of derivatives which are economic hedges of the interest rate risk on those securities	C,B	800	802	(1,527)
Goodwill no longer amortised as from the date of transition	E	682	679	678
		3,515	(961)	151
Tax effect of the above		(946)	941	—
Total adjustments to profit or loss		2,569	(20)	151
Total profit or (loss) under IFRSs		25,706	1,214	(730)
Other comprehensive (expense)/ income	C	(2,566)	3,374	(1,523)
Total comprehensive income/ (expense) under IFRSs		23,140	4,588	(2,253)

Note: No statement of comprehensive income was produced under UK GAAP. Therefore the reconciliation starts with profit/(loss) after tax under UK GAAP.

(e) *Effect of IFRS adoption for statement of cash flows*

The Group previously prepared its cash flow statement in accordance with UK Financial Reporting Standard 1 'Cash Flow Statements'. Its objectives and principles are similar to those set out in IAS 7 'Statement of Cash flows', the standard under IFRSs dealing with cash flow statements.

FRS 1 defines cash as cash and balances at central banks and advances to banks payable on demand. IAS 7 in addition includes "cash equivalents", which are defined as short-term highly liquid investments, held for the purpose of meeting short-term cash commitments rather than investment, that are both convertible to known amounts of cash, and so near their maturity that they present an insignificant risk of changes in value. Balances held at central banks which are not readily convertible to cash in hand or demand deposits are excluded from the IAS 7 definition of 'cash and cash equivalents'. The inclusion of cash equivalents in the definition of reported cash flows had no significant effect on the reported net cash flows for the periods to 31 December 2011 and 2012.

Under UK GAAP, the Group presented its cash flows by operating activities; returns on investments and servicing of finance; taxation; capital expenditure and financial investments; acquisitions and disposals; and financing. Under IFRSs, only three categories are required. These are operating; investing; and financing.

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Notes to the financial statements (continued)
43 IFRS Reconciliations (continued)

(f) Notes to the reconciliations

The transition to IFRSs has resulted in the following changes in accounting policies:

- (i) Interest income was previously recognised in the profit or loss account as it was added to clients' borrowings on an accruals basis. The policy is now that interest income is recognised in profit or loss using the EIR method.
- (ii) Derivatives were previously held off-balance sheet with interest or expense recognised consistently with the item being hedged. The Group's policy now is that derivatives are carried at fair value with movements in fair values recorded in the profit or loss account.
- (iii) Debt securities which under UK GAAP were all previously carried at cost. The policy is now that debt securities are all carried as available for sale securities, apart from a portfolio of securities which were designated as at fair value through profit or loss. The designation of the portfolio of securities as at fair value through profit or loss on transition to IFRSs was to avoid an accounting mismatch arising as result of the requirement to value at fair value through profit or loss the derivatives which were held to economically hedge the interest rate risk exposure on those debt securities.
- (iv) Goodwill was previously amortised on a straight line basis over its useful economic life, but is now tested annually for impairment instead.
- (v) Internally developed computer systems costs were previously recognised as a tangible fixed asset and depreciated on a straight line basis over their useful economic lives. The policy is now that these costs are capitalised as intangible assets and amortised over their useful economic lives.
- (vi) In accordance with IAS 39, the Group has established a new policy to classify all financial assets (excluding derivatives) as loans and receivables, available for sale or fair value assets designated at fair value through profit or loss.
- (vii) The Group's policy for providing for loan losses has changed. The most significant change is that impairment provisions on financial assets identified as impaired are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted using the asset's EIR.

Summary of significant UK GAAP to IFRS adjustments

The following is a summary of the main differences between UK GAAP and IFRSs applicable to the Group:

- (A) Accounting for interest income and expense using the EIR method ("EIR"). Previously under UK GAAP interest income and expense on financial assets and liabilities were accounted for on an accruals basis, with any accrued interest receivable or payable being presented as separate assets and liabilities from the financial assets and liabilities to which they related. Similarly, fee income and expense directly attributable to the origination of the financial assets or liabilities were recognised on a straight line basis over fixed specified periods to which they were considered to relate, with any unamortised amounts at a period end being presented as separate assets and liabilities. Under IFRSs, the main change in accounting relates to the recognition of fees and costs that are incremental to the acquisition or issue of financial assets or liabilities that are included as part of the interest income or expense recognised on those assets and liabilities, with interest then being reflected at the EIR on the amortised cost balance of the asset or liability over their expected lives.

Financial assets and liabilities held at amortised cost under IFRSs include the amount of any cumulative amortisation calculated using the EIR method of any fees and costs which are included as part of interest income or expense under EIR.

Any discounts received on the acquisition of loan portfolios were under UK GAAP accounted for on a basis that was consistent with the EIR method, and accordingly no adjustment was necessary on transition.

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Notes to the financial statements (continued)

43 IFRS Reconciliations (continued)

- (B) Derivatives held for risk management purposes — Under UK GAAP, off-balance sheet derivatives were entered into by the Group for hedging purposes. The income and expense arising from these instruments was recognised in the accounts in accordance with the accounting treatment of the underlying transactions being hedged, and interest was included in profit or loss as an adjustment to the interest income or expense on the hedged asset or liability.

IAS 39 requires that all derivatives be recognised at fair value in the statement of financial position as assets or liabilities. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and its resulting designation, as described in Note 3 above.

The treatment of all existing derivatives which were held under UK GAAP hedges which did not meet the requirements of IAS 39 for hedge accounting, was to adopt the approach set out in IFRS 1.B6. This required the gain recognised on initial recognition of the derivatives at fair value (£2,417,000) to be recorded as an adjustment to the assets and liabilities hedged by the derivatives, which was then released to profit or loss over the original hedging period under UK GAAP.

- (C) Debt securities — Under UK GAAP all the Group's debt securities were accounted for at cost less provision for any permanent diminution in value. Under IFRSs the Group debt securities are all carried at fair value and are either classified as available for sale assets or designated at fair value through profit or loss. As at 1 January 2011, the transition date to IFRS, all of the Group's debt securities were classified as available for sale assets, the resulting adjustment to restate those assets at their fair value was reflected in the available for sale reserve within shareholders' funds. After the transition date all debt securities were accounted for in accordance with the accounting policies for available for sale and designated at fair value through profit or loss assets, as described in Note 3 f) iii) and iv) above.
- (D) Impairment of financial assets — The principal difference in the measurement of impairment provisions on the Group's loans and advances to customers under IFRSs is that the estimated future cash flows used to determine the provisions are discounted at the loans' original EIRs, while under UK GAAP the future cash flows used are undiscounted. The additional initial provisions recognised under IFRSs represented by the discount are then unwound as additional interest income over the period that the future cash flows are realised.
- (E) Goodwill — Under UK GAAP, goodwill was amortised on a straight line basis over its useful economic life. Goodwill is not amortised under IAS 38, but is tested at least annually for impairment instead. As permitted by IFRS 1 the deemed cost of goodwill at the date of transition has been taken as its carrying amount.
- (F) Unallocated cash — Under UK GAAP, the liability for receipts of unallocated cash by the Group's Invoice Finance business was derecognised as a liability and recognised in profit or loss at the expiry of a six year period. Under IFRSs, from the date of transition, derecognition of the liability in respect of unallocated cash is not permitted as it continues to meet the definition of a financial liability as there is no discharge, cancellation or expiration of the contractual liability.
- (G) Cash collateral held against derivatives — A balance sheet reclassification from other assets to loans and advances to banks, or from other liabilities to amounts due to banks, has been undertaken to align the Group with common practice under IFRSs regarding the disclosure of cash collateral held against derivatives. The amounts reclassified as at 31 December 2013 were £11,350,000 of assets and £1,675,000 of liabilities (2012: £21,830,000 of assets and £nil of liabilities, 2011: £12,857,000 of assets and £nil of liabilities).
- (H) Computer systems — IAS 38 requires costs incurred in the development phase of a project to produce application software for internal use to be capitalised and amortised over the software's estimated useful life if the software will generate probable future economic benefits, and such costs can be measured reliably. Under UK GAAP these costs were capitalised with computer hardware as tangible fixed assets, under IFRSs they are required to be reclassified as intangible assets. This policy change resulted in £11,560,000 of software being reclassified as at 31 December 2013 (2012: £10,539,000, 2011: £6,835,000).

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Notes to the financial statements (continued)

43 IFRS Reconciliations (continued)

Transition elections and designations

The Group has made the following elections and designations as permitted by IFRS 1:

1. IFRS 3 will not be applied respectively to business combinations occurring before the date of transition to IFRS. It was considered unlikely that it would be possible or practical to now obtain sufficient information to undertake an exercise to identify the fair value of specific intangible assets acquired through business combinations prior to transition.
2. Certain debt securities have been designated at fair value through profit or loss in order to avoid the accounting mismatch that would otherwise arise as a result of the derivatives used to hedge the interest rate risk on the securities being required to be carried at fair value through profit or loss.
3. The assessment as to whether arrangements may contain a lease as per IFRIC 4 has been based upon the fact and circumstances existing at the date of transition rather than retrospectively as at the date the arrangement was entered into. It is considered unlikely that the Group has entered into the type of arrangements which, although not having the legal form of a lease, may be considered as containing a lease when assessed in accordance with IFRIC 4, but for the sake of convenience this assessment will be performed based upon fact and circumstances as at the IFRS date of transition (1 January 2011) rather than at earlier dates when the documentation may not be readily available.

Other transition elections and designations permitted by IFRS 1, such as the re-recognition of financial liabilities which have been derecognised under the previous GAAP or the deemed cost election in respect of fixed and intangible assets, have not been taken.

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