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This document comprises a prospectus relating to Secure Trust Bank PLC (the "**Company**") prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (the "**FCA**") made under section 73A of the Financial Services and Markets Act 2000, as amended ("**FSMA**"). This document has been approved by the FCA in accordance with section 87A of FSMA and made available to the public as required by section 3.2 of the Prospectus Rules.

The Company's issued ordinary shares ("**Shares**") are currently admitted to trading on the AIM market ("**AIM**") operated by the London Stock Exchange plc ("**London Stock Exchange**"). Applications have been made to (i) the London Stock Exchange to cancel the admission of the Shares to trading on AIM; (ii) the FCA for the Shares to be admitted to the premium listing segment of the Official List of the FCA ("**Official List**"); and (iii) the London Stock Exchange for the Shares to be admitted to trading on its Main Market for listed securities (together, "**Admission**"). It is expected that Admission will become effective and that dealings in the Shares on the Main Market of the London Stock Exchange will commence at 8.00am on 12 October 2016. Trading of the Shares on AIM will be cancelled by no later than Admission. No application has been made or is currently intended to be made for the Shares to be admitted to listing or trading on any other exchange.

The Company and the Directors, whose names appear on page 32 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

Shareholders are not required to take any action upon receipt of this document. The Company is not issuing any new Shares nor is it seeking to raise any new money in connection with Admission. This document has been published solely to enable the Company to obtain admission of the Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities.

For a discussion of certain factors that should be considered in connection with the Group's business and the Shares see the section titled "Risk Factors".

SECURE TRUST BANK PLC

(Incorporated and registered in England and Wales under the Companies Act 2006 with registered no. 00541132)

Admission to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities

Sponsor

Stifel Nicolaus Europe Limited

Issued share capital immediately following Admission

Issued and fully paid

Nominal Value	Number
£0.40	18,191,894

Stifel Nicolaus Europe Limited ("**Stifel**"), which is regulated in the United Kingdom by the FCA, is acting exclusively for the Company and no one else in connection with Admission and will not regard any other person (whether or not a recipient of this document) as a client in relation to Admission and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for giving advice in relation to Admission or any transaction or arrangement referred to in this document.

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No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or Stifel. The publication or delivery of this document shall not, under any circumstances, create any implication that there has been no change in the Company's affairs since the date of this document or that the information in this document is correct as at any time subsequent to its date.

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This document does not constitute an offer to sell or a solicitation of an offer to purchase or subscribe for Shares in any jurisdiction. The distribution of this document into certain jurisdictions may be restricted by law. No action has been or will be taken to permit the possession or distribution of this document in the United States or any other jurisdiction where action for that purpose may be required. Accordingly, this document may not be distributed or published in any jurisdiction except in circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law or the laws of any such jurisdiction.

Date: 7 October 2016.

CONTENTS

PART 1
SUMMARY INFORMATION

Summaries are made up of disclosure requirements known as "Elements". These elements are numbered in Sections A-E (A.1-E.7).This summary contains all the Elements required to be included in a summary for this type of securities and Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

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

	Section A—Introduction and warnings
A.1	**Introduction**
	The following information should be read as an introduction to the more detailed information appearing elsewhere in this prospectus (the "**Prospectus**"). Any decision by an existing or prospective shareholder to invest in the ordinary shares of the Company (the "**Shares**") should be based on a consideration of the document as a whole. Existing and prospective shareholders should therefore read this entire document and not rely solely on this summary. Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the European Economic Area, no civil liability will attach to the Company and the Directors in any such member state in respect of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid existing or prospective shareholders when considering whether to invest in the Shares. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the European Economic Area, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.
A.2	**Consent to use of prospectus for subsequent resale**
	Not applicable. The Company is not engaging any financial intermediaries for any resale or final placement of securities requiring a prospectus after the publication of this Prospectus.
	Section B—Issuer
B.1	**Legal and Commercial Name**
	Secure Trust Bank PLC.
B.2	**Domicile / Legal Form / Legislation / Country of Incorporation**
	The Company is a public limited company, incorporated on 26 November 1954 in the United Kingdom with its registered office situated in England and Wales. The Company operates under the Companies Act 2006.
B.3	**Current operations/ principal activities and markets**
	Secure Trust Bank is an established, well funded and capitalised UK retail bank. The Group's strategy is to build on its current position as an established UK retail bank through a focus on carefully selected and attractively priced segments of the consumer and business markets, prudent underwriting and a prudent approach to capital and liquidity. It intends to continue growing its business through professional and responsible lending across existing and new lending segments and selective acquisitions of loan books and businesses, funded by capital and customer deposits. The Group, which has a 64 year trading track record, operates principally from its head office in Solihull, West Midlands, and had 630 employees (full-time equivalent) as at 30 June 2016. The Group's diversified lending portfolio currently focuses on Business Finance and Consumer Finance, almost entirely funded by customer deposits, with substantially no exposure to wholesale funding. The Group's fundamental strategic aims are: (i) to maximise shareholder value through strong lending growth by delivering positive customer outcomes in both its existing and new markets; (ii) to protect the reputation, integrity and sustainability of the Group for all of its customers and stakeholders via prudent balance sheet

	management, investment for growth and robust risk and operational control, with controlled growth as one of the Group's top strategic priorities; (iii) to ensure that the fair treatment of customers is central to corporate culture; and (iv) to ensure the Group provides a supportive environment for its employees to deliver good service levels for its customers. The Group's diversified lending portfolio focuses on two sectors (i) Business Finance through its Real Estate Finance, Asset Finance and Commercial Finance divisions and (ii) Consumer Finance through its Personal Lending, Motor Finance and Retail Finance divisions. Lending customers are primarily sourced through carefully selected business partners and through online channels. The Group has developed underwriting technology and processes in its Consumer division to enable it to make lending decisions quickly, often on an automated basis, and has high customer satisfaction scores. Through carefully targeted lending products, the absence of large fixed overheads in the form of a branch network and a policy of not cross-subsidising loss making products with profitable ones, the Group is able to offer competitive deposit interest rates and has been successful in attracting deposits from a wide range of customers. The Group's strategy is to broadly match customer loans and deposits of similar maturity. Deposit accounts offered to customers at any one time are therefore differentially promoted to broadly match the Group's funding needs and the desired maturity profiles of the Group and may include deposit accounts ranging from instant access to seven year bonds. This strategy seeks to help mitigate maturity transformation and interest basis risks. The Group's strong financial record is evidenced by the consistent growth in the Group's equity, profits and the payment of dividends since the beginning of 2013. As at 30 June 2016 the Group's total customer base exceeded 600,000, representing an increase of 35.3 per cent. from the position as at 30 June 2015.
B.4	**Recent Trends**
	Market trends The Group operates exclusively within the UK and its performance is influenced by the macroeconomic environment in the UK. The economy affects demand for the Group's products, margins that can be earned on lending assets and the levels of loan impairment. Following the outcome of referendum on the UK's membership of the EU held on 23 June 2016, the UK economy has experienced volatility in financial markets and the pound sterling fell to a 31 year-low against the US dollar of US$1.28 on 6 July 2016. This volatility has created increased uncertainty about the short to medium term outlook for the UK economy. Whilst stock markets have recently improved from immediate post-referendum falls, the initial post-referendum forecasts for the UK economy range in expectations from a slowdown in growth to recession. The Bank of England base rate which was reduced to (and since remained at) 0.5 per cent. in 2009 following the financial crisis was cut to 0.25 per cent. on 4 August 2016. Base rate falls have an impact on the net interest margins of lenders. The Group is less exposed to net interest margin compression than the systemically important banks and building societies, and is therefore well positioned to take advantage should these organisations curtail their lending. Also on 4 August 2016, the Bank of England also announced that it would extend its existing quantitative easing programme by £60 billion as well as a new Term Funding Scheme ("**TFS**"), to provide funding for banks at interest rates close to the Bank of England base rate. This scheme is intended to assist in the transmission of the base rate cut to 0.25 per cent. to the UK economy and to provide an effective source of funding to support additional lending. TFS exists alongside the Funding for Lending Scheme ("**FLS**") which was launched by the Bank of England alongside the Treasury in 2012, which provides funding to banks for an extended period, with both the price and quantity of funding provided linked to their lending performance, and is currently planned to run until January 2018. These measures are designed to ensure there is sufficient liquidity in the market. *Third quarter trading update* The Group has traded in line with the Directors' expectations during the third quarter of 2016. The Group's consumer lending activities in the Motor Finance, Retail Finance and Personal Lending divisions have continued to see strong demand. The Group has not seen any discernible shift in the behaviour of its customers following the EU referendum decision. Over the last twelve months, the non-prime sector of the motor finance market has seen significant competition from non-bank owned new market entrants and certain existing lenders who historically

	focused only on prime lending. These new entrants competed by charging relatively low rates of interest to borrowers, offering very high introducer commission rates and competing aggressively to attract staff. The Group considers this approach to growth to be unsustainable and chose not to compete for the segments of business being targeted on these terms. Notwithstanding this challenge, the Group has been able to achieve strong lending growth in its Motor Finance division reporting a 35 per cent. increase in customer lending balances for the twelve month period ending 30 June 2016 through a focus on originating across a broader spectrum of the market. More recently, the Directors believe that these competitors have been retrenching, with at least one completely withdrawing from the market. The retrenchment and withdrawal of these lenders may present organic opportunities for the Group to write additional business on a sustainable risk adjusted yield basis consistent with the Group's strategy. The Group continues to adopt a cautious approach to its SME lending activities. Exposures to Central London residential developers are being carefully managed and the balance of the Real Estate Finance division's portfolio continues to shift towards residential investment lending which has continued to grow in line with expectations. Recent new business origination in the Asset Finance division has been focused on lower loan to value lending. This is designed to protect the Group in the event that the 2017-18 economic slowdown forecast by the Organisation for Economic Co-operation and Development and Standard & Poor’s, amongst others, results in lower values of used assets. The Directors consider this approach to be prudent pending the emergence of greater clarity regarding macro-economic trends. The Directors are pleased to note that having commenced operations in September 2014, the Group’s Commercial Finance division has generated profitable growth in customer numbers during the third quarter of 2016. The Group continues to monitor developments in the housing market generally and the residential owner occupied mortgage market in particular. Though the rate of UK house price growth is slowing according to recent data, the Directors believe that the fundamental supply and demand dynamics continue to support the UK housing market even given the increased levels of uncertainty following the EU referendum decision. The Directors believe that the Group can enter the mortgage market and over time build a profitable and sustainable business. The Group’s residential mortgage proposition is expected to launch early next year. The Group completed the closure of its personal current account product, as planned, in September 2016. The closure of this product simplifies the Group’s operating model and removes the management challenges and risks associated with the product. This product generated less than 3 per cent. of the Group’s operating income in the year ended 31 December 2015 and its closure is not expected to have a material impact on earnings. The Group has continued to see strong demand for its deposit products. It has taken steps to reflect lower market prices whilst continuing to offer attractive market facing rates on savings. The implementation of a new digital deposit platform is progressing in line with expectations. *Dividends* On 27 July 2016, the Company paid a special dividend of 165 pence per Share, which was conditionally announced on 17 March 2016 and on 23 September 2016, the Company paid an interim dividend of 17 pence per Share.
B.5	**Description of Issuer's group**
	The Company is registered in England and Wales and is a UK deposit-taking institution, which is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the PRA and the FCA. The Company is also the holding company of the Group. The Group's original parent, Arbuthnot Banking Group PLC ("**Arbuthnot**"), sold a sizeable stake in the Company in June 2016 to existing and new institutional investors, following which, Arbuthnot's holding reduced to 18.9 per cent.

B.6	**Shareholders**
	As at 4 October 2016 (being the latest practicable date prior to the publication of this Prospectus) and in so far as is known to the Company, the shareholders identified below are or will, immediately following Admission, be directly or indirectly interested in 3 per cent. or more of the Company's issued share capital or voting rights:

	Immediately prior to and immediately following Admission	
Shareholder	**Number of Shares**	**Percentage of voting rights**
Arbuthnot Banking Group PLC	3,444,538	18.93
Columbia Threadneedle Investments	2,285,639	12.56
Invesco Perpetual Asset Management	1,831,308	10.07
Mr Steven A Cohen	1,510,412	8.30
Ruffer	1,244,979	6.84
Unicorn Asset Management	1,075,198	5.91
Wellington Management Company	1,000,000	5.49
Standard Life Investments	749,918	4.37
BAE Systems Pension Fund Investment Management	786,062	4.22
Wasatch Advisors	587,279	3.23

Save for the significant shareholders noted above, in so far as is known to the Company, there is no other person interested in 3 per cent. or more of the Company's issued share capital or any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over the Company.

None of the Company's shareholders has or will have, immediately following Admission, different voting rights with respect to the Shares that they hold in the Company.

B.7	**Selected historical key financial information**
	The selected historical financial information relating to the Group set out below has been extracted without material adjustment from the audited financial information of the Group for the years ended and as at 31 December 2013, 2014 and 2015 and the six months ended and as at 30 June 2015 and 2016. The historical financial information for the six months ended and as at 30 June 2015 is unaudited.

Consolidated statement of comprehensive income

	For the six months ended 30 June 2016			For the six months ended 30 June 2015 (unaudited)		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
			(£million)			
Interest receivable and similar income	62.7	11.1	**73.8**	45.7	18.5	**64.2**
Interest expense and similar charges	(13.2)	—	**(13.2)**	(9.8)	—	**(9.8)**
Net interest income	**49.5**	**11.1**	**60.6**	**35.9**	**18.5**	**54.4**
Fee and commission income	8.7	0.1	**8.8**	8.3	1.1	**9.4**
Fee and commission expense	(0.9)	(0.1)	**(1.0)**	(1.4)	(0.2)	**(1.6)**
Net fee and commission income	**7.8**	**—**	**7.8**	**6.9**	**0.9**	**7.8**
Operating income	**57.3**	**11.1**	**68.4**	**42.8**	**19.4**	**62.2**
Net impairment losses on loans and advances to customers	(13.3)	(2.6)	**(15.9)**	(8.0)	(3.2)	**(11.2)**
Gain from a bargain purchase	—	—	—	—	—	—
Costs arising from acquisitions	—	—	—	—	—	—
Operating expenses	(31.5)	(6.0)	**(37.5)**	(24.4)	(10.6)	**(35.0)**
Profit before income tax	**12.5**	**2.5**	**15.0**	**10.4**	**5.6**	**16.0**
Income tax expense	(2.2)	(0.5)	**(2.7)**	(2.0)	(1.1)	**(3.1)**
Profit after income tax	**10.3**	**2.0**	**12.3**	**8.4**	**4.5**	**12.9**
Gain recognised on disposal	—	116.8	**116.8**	—	—	—
Profit for the period	**10.3**	**118.8**	**129.1**	**8.4**	**4.5**	**12.9**
Other comprehensive income, net of income tax:						
Available-for-sale reserve—Net amount transferred to profit or loss	(2.1)	—	(2.1)	—	—	—
Cash flow hedging reserve—Net amount transferred to profit or loss	—	—	—	—	—	—
Other comprehensive income for the period, net of income tax	**(2.1)**	—	**(2.1)**	—	—	—
Total comprehensive income for the period	**8.2**	**118.8**	**127.0**	**8.4**	**4.5**	**12.9**
Profit attributable to:						
Equity holders of the Company	**10.3**	**118.8**	**129.1**	**8.4**	**4.5**	**12.9**
Total comprehensive income attributable to:						
Equity holders of the Company	**8.2**	**118.8**	**127.0**	**8.4**	**4.5**	**12.9**
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in pence per share);						
Basic earnings per share	57.0	652.9	**709.9**	46.3	24.5	**70.8**
Diluted earnings per share	55.9	640.8	**696.7**	45.5	24.0	**69.5**

	Year ended 31 December 2015			Year ended 31 December 2014			Year ended 31 December 2013		
	Cont.	Discont.	Total	Cont.	Discont.	Total	Cont.	Discont.	Total
					(£million)				
Interest receivable and similar income	100.5	39.2	139.7	63.4	30.2	93.6	51.6	22.2	73.8
Interest expense and similar charges	(21.6)	—	(21.6)	(14.2)	—	(14.2)	(12.9)	—	(12.9)
Net interest income	**78.9**	**39.2**	**118.1**	**49.2**	**30.2**	**79.4**	**38.7**	**22.2**	**60.9**
Fee and commission income	16.9	1.5	18.4	16.1	4.1	20.2	17.0	5.7	22.7
Fee and commission expense	(3.7)	(0.3)	(4.0)	(1.6)	(0.1)	(1.7)	(2.8)	(1.8)	(4.6)
Net fee and commission income	**13.2**	**1.2**	**14.4**	**14.5**	**4.0**	**18.5**	**14.2**	**3.9**	**18.1**
Operating income	**92.1**	**40.4**	**132.5**	**63.7**	**34.2**	**97.9**	**52.9**	**26.1**	**79.0**
Net impairment losses on loans and advances to customers	(16.8)	(7.5)	(24.3)	(8.7)	(6.6)	(15.3)	(9.6)	(6.0)	(15.6)
Gain from a bargain purchase	—	—	—	—	—	—	0.4	—	0.4
Costs arising from acquisitions	—	—	—	—	—	—	(0.9)	—	(0.9)
Operating expenses	(50.5)	(21.2)	(71.7)	(37.5)	(19.0)	(56.5)	(29.7)	(16.1)	(45.8)
Profit before income tax	**24.8**	**11.7**	**36.5**	**17.5**	**8.6**	**26.1**	**13.1**	**4.0**	**17.1**
Income tax expense	(5.5)	(2.3)	(7.8)	(3.6)	(2.0)	(5.6)	(2.9)	(1.9)	(4.8)
Profit after income tax	**19.3**	**9.4**	**28.7**	**13.9**	**6.6**	**20.5**	**10.2**	**2.1**	**12.3**
Gain recognised on disposal	—	—	—	—	—	—	—	—	—
Profit for the period	**19.3**	**9.4**	**28.7**	**13.9**	**6.6**	**20.5**	**10.2**	**2.1**	**12.3**
Other comprehensive income, net of income tax:									
Available-for-sale reserve—Net amount transferred to profit or loss	—	—	—	—	—	—	—	—	—
Cash flow hedging reserve—Net amount transferred to profit or loss	—	—	—	0.4	—	0.4	—	—	—
Other comprehensive income for the period, net of income tax	**—**	**—**	**—**	**0.4**	**—**	**0.4**	**—**	**—**	**—**
Total comprehensive income for the period	**19.3**	**9.4**	**28.7**	**14.3**	**6.6**	**20.9**	**10.2**	**2.1**	**12.3**
Profit attributable to:									
Equity holders of the Company	**19.3**	**9.4**	**28.7**	**13.9**	**6.6**	**20.5**	**10.2**	**2.1**	**12.3**
Total comprehensive income attributable to:									
Equity holders of the Company	**19.3**	**9.4**	**28.7**	**14.3**	**6.6**	**20.9**	**10.2**	**2.1**	**12.3**
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in pence per share);									
Basic earnings per share	106.1	51.7	**157.8**	82.8	39.5	**122.3**	64.9	13.4	**78.3**
Diluted earnings per share	104.1	50.7	**154.8**	81.2	38.7	**119.9**	63.6	13.1	**76.7**

Consolidated statement of financial position

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
		(£ million)		
ASSETS				
Cash and balances at central banks	141.8	131.8	81.2	—
Loans and advances to banks	19.1	9.8	39.8	110.0
Loans and advances to customers	1,128.3	960.6	622.5	391.0
Debt securities held-to-maturity	19.8	3.8	16.3	—
Equity instruments available for sale	13.7			
Property, plant and equipment	8.5	8.5	8.1	5.0
Intangible assets	7.0	7.0	8.2	9.9
Deferred tax assets	0.9	0.3	1.0	1.9
Other assets	6.2	7.1	5.2	8.1
Assets held for sale	—	118.5	—	—
Total assets	1,345.3	1,247.4	782.3	525.9
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	15.0	35.0	15.9	0.1
Deposits from customers	1,042.6	1,033.1	608.4	436.6.
Current tax liabilities	0.2	3.2	3.6	1.4
Deferred tax liabilities	—	—	—	0.4
Dividend payable	30.0	—	—	—
Other liabilities	29.1	26.2	29.5	25.8
Liabilities held for sale	—	8.7	—	—
Total liabilities	1,116.9	1,106.2	657.4	464.3
Equity attributable to owners of the parent				
Share capital	7.3	7.3	7.3	6.3
Share premium	79.3	79.3	79.3	28.2
Retained earnings	143.7	54.4	38.1	27.3
Available-for-sale reserve	(2.1)	—	—	—
Cash flow hedging reserve	—	—	—	(0.4)
Revaluation reserve	0.2	0.2	0.2	0.2
Total equity	228.4	141.2	124.9	61.6
Total liabilities and equity	1,345.3	1,247.4	782.3	525.9

Consolidated statement of cash flows

	For the six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Cash flows from operating activities					
Profit for the period	10.3	8.4	19.3	13.9	10.2
Adjustments for:					
Income tax expense	2.2	2.0	5.5	3.6	2.9
Depreciation of property, plant and equipment	0.3	0.2	0.5	0.4	0.3
Amortisation of intangible assets	0.7	0.8	1.3	1.2	1.1
Gain from a bargain purchase	—	—	—	—	(0.4)
Impairment losses on loans and advances to customers	13.3	8.0	16.8	8.7	9.6
Share based compensation	0.2	0.1	0.2	0.5	2.5
Cash flows from operating profits before changes in operating assets and liabilities	27.0	19.5	43.6	28.3	26.2
Changes in operating assets and liabilities:					
— net (increase)/decrease in debt securities held to maturity	(16.0)	—	12.5	—	—
— net (increase)/decrease in loans and advances to banks	(5.0)	24.3	15.0	(11.3)	54.9
— net increase in loans and advances to customers	(181.0)	(226.4)	(448.8)	(227.7)	(76.1)
— net decrease/(increase) in other assets	0.9	—	(2.6)	2.9	(2.8)
— net (decrease)/increase in amounts due to banks	(20.0)	(15.9)	19.1	15.8	0.1
— net increase in deposits from customers	9.5	226.7	424.7	171.8	37.7
— net increase/(decrease) in other liabilities	2.9	0.4	(6.0)	(1.3)	6.2
Income tax paid	(5.3)	(0.5)	(4.2)	(0.8)	(2.8)
Net cash (outflow)/inflow from operating activities	(187.0)	28.1	53.3	(22.3)	43.4
Cash flows from investing activities					
Borrowings repaid on acquisition of subsidiary undertakings	—	—	—	—	(36.9)
Cash acquired on purchase of subsidiary undertakings	—	—	—	—	1.6
Purchase of subsidiary undertakings	—	—	—	—	(3.9)
Sale of subsidiary undertaking	209.9	—	—	—	—
Purchase of property, plant and equipment	(0.3)	(0.7)	(1.1)	(3.5)	(0.1)
Purchase of computer software	(0.7)	(0.6)	(2.3)	(0.8)	(0.5)
Proceeds from sale of property, plant and equipment	—	—	—	—	0.3
Proceeds from sale of computer software	—	—	—	—	1.9
Net cash flows from investing activities	208.9	(1.3)	(3.4)	(4.3)	(37.6)
Cash flows from financing activities					
Net inflow on issue of share capital	—	—	—	52.1	—
Dividends paid	(10.0)	(9.5)	(12.6)	(10.2)	(9.1)
Net cash flows from financing activities	(10.0)	(9.5)	(12.6)	41.9	(9.1)
Net increase/(decrease) in cash and cash equivalents—Continuing operations	11.9	17.3	37.3	15.3	(3.3)
Net increase/(decrease) in cash and cash equivalents—Discontinued operations	0.7	(1.7)	—	0.7	(0.7)
Cash and cash equivalents at 1 January	143.3	106.0	106.0	90.0	94.0
Cash and cash equivalents at end of period	155.9	121.6	143.3	106.0	90.0

	The summary below presents certain significant changes to the Group's financial condition and results of operations in the years ended 31 December 2015, 2014 and 2013 and the six months ended 30 June 2016 and 2015. In December 2015, the Group announced the proposed sale of Everyday Loans Group plc ("**ELG**"), which was acquired in 2012. The ELG portfolio of loans totalled £81.4 million as at 31 December 2013, £93.9 million as at 31 December 2014 and £114.3 million as at 31 December 2015. This represented 51 per cent. of the Group's total Personal Lending portfolio as at 31 December 2013, 52 per cent. as at 31 December 2014 and 61 per cent. as at 31 December 2015. Following the sale of ELG, in order to present financial information in a manner that reflects its operations in the future, the financial disclosures relating to the Group's income statement and statement of financial position are stated for the continuing group, which excludes the operations of ELG. Interest income from the continuing Group increased from £51.6 million for the year ended 31 December 2013, to £63.4 million for the year ended 31 December 2014 and to £100.5 million for the year ended 31 December 2015. In the six months ended 30 June 2016 it was £62.7 million as compared to £45.7 million for the six months ended 30 June 2015. The most significant component of interest receivable and similar income relates to loans and advances to customers. The increase in interest receivable is proportionately lower than the increase in loans and advances to customers over the same period, reflecting the change in mix from predominantly Consumer Finance lending as at 31 December 2013 to the 30 June 2016 position, where lower interest-bearing Business Finance lending accounted for 46.9 per cent. of loans and advances to customers. Within Consumer Finance, the business has shifted its focus from the unsecured personal loan market and grown its Motor Finance and Retail Finance portfolios, by 79 per cent. and 288 per cent. respectively, between 31 December 2013 and 30 June 2016. Interest expense for the continuing Group increased from £12.9 million for the year ended 31 December 2013, by 10 per cent. to £14.2 million for the year ended 31 December 2014 and by 52 per cent. to £21.6 million for the year ended 31 December 2015. In the six months ended 30 June 2016 it was £13.2 million as compared to £9.8 million for the six months ended 30 June 2015, an increase of 35 per cent. The increase in interest expense and similar charges was proportionately lower than the increase in deposits from customers over the same period. This reflected the market for funding, in which the Group has been able to replace maturing term deposits with new deposits of the same tenor but at lower fixed rates. In the year from 30 June 2015 to 30 June 2016 the increase in interest expense and similar charges was slightly higher than the increase in balances due to the weighted average cost of funds being relatively flat over this period. Operating expenses for the continuing Group increased from £29.7 million for the year ended 31 December 2013, by 26 per cent. to £37.5 million for the year ended 31 December 2014 and by 35 per cent. to £50.5 million for the year ended 31 December 2015. In the six months ended 30 June 2016 they were £31.5 million as compared to £24.4 million for the six months ended 30 June 2015, an increase of 29 per cent. Staff costs represent the Group's most significant expense, and have increased in line with business growth. Staff costs were 52 per cent. of total operating expenses for the year ended 31 December 2013, growing to 58 per cent. for the year ended 31 December 2015 and the period ended 30 June 2016. These costs increased by 27 per cent. between the year ending 31 December 2013 to the year ending 31 December 2014, and 50 per cent. between the year ending 31 December 2014 and the year ending 31 December 2015, in line with the growth in the employee base over these periods. Staff costs increased by 33 per cent. between the six months ending 30 June 2015 and the six months ending 30 June 2016. Over the period under review, costs have increased at broadly the same rate as operating income. The cost to income ratio was 56.1 per cent. in the year to 31 December 2013, 58.9 per cent. in the year to 31 December 2014, 54.8 per cent. in the year to 31 December 2015 and 55.0 per cent. in the period to 30 June 2016. Save in respect of the special dividend of 165 pence per Share paid by the Company on 27 July 2016, the interim dividend of 17 pence per Share paid by the Company on 23 September 2016 and the trading update in relation to the Group's performance in the third quarter of 2016 as set out above, there has been no significant change in the financial or trading position of the Group since 30 June 2016.
B.8	**Pro forma financial information**
	Not applicable; there is no pro forma financial information included in this Prospectus.

B.9	**Profit forecast / estimate**
	Not applicable; there is no profit forecast or estimate included in this Prospectus.
B.10	**Audit Report—qualifications**
	Not applicable; there is no audit report contained in this Prospectus. There are no qualifications in the accountant's report on the historical financial information included in this Prospectus.
B.11	**Insufficient working capital**
	Not applicable. In the opinion of the Company, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this document.
	Section C—Securities
C.1	**Type and class of securities**
	The Company will apply for the admission of the Shares to: (i) the premium listing segment of the Official List of the FCA; and (ii) trading on the Main Market for listed securities of the London Stock Exchange. The Shares will continue to be registered with their existing ISIN number GB00B6TKHP66 and SEDOL number B6TKHP6. The Company's ticker symbol will continue to be STB. No new ordinary shares are being issued by the Company in connection with Admission. On Admission, the Shares will comprise the entire issued and to be issued share capital of the Company.
C.2	**Currency of Issue**
	British pound sterling.
C.3	**Issued Share Capital**
	At the date of this Prospectus, the Company has an issued share capital of £7.3 million divided into 18,191,894 ordinary shares with a nominal value of 40p each, which are issued fully paid.
C.4	**Rights attaching to the Shares**
	The rights attaching to the Shares are uniform in all respects and they form a single class for all purposes including: • the Shares rank equally for voting purposes. On a show of hands each shareholder has one vote and on a poll each shareholder has one vote per Share held; and • each Share ranks equally for any dividend declared. Each Share ranks equally for any distributions made on a winding up.
C.5	**Restrictions on transfer**
	Not applicable. The Shares are freely transferable and there are no restrictions on transfer.
C.6	**Admission to Trading**
	Applications have been made for all the Shares in the Company to be admitted to the premium listing segment of the Official List of the FCA and to trading on the London Stock Exchange's Main Market for listed securities.
C.7	**Dividend policy**
	The Directors have recently reviewed the dividend policy of the Company and have adopted a progressive dividend policy which takes into account the Company's capital requirements, earnings and cash flow in the long term. The Directors will have regard to current and projected capital, liquidity, earnings and market expectations in determining the amount of the dividend. On occasion, the Company may declare and pay a special dividend resulting from special circumstances, however no such special dividend is currently envisaged.

Section D—Risks	
D.1	**Risks that are specific to the Issuer or its industry**
	• The Group is subject to risks arising from the macroeconomic environment. As the Group's revenue is derived almost entirely from customers based in the UK, the Group is particularly exposed to the condition of the UK economy. • The Group faces risks associated with interest rate levels and volatility. Interest rates, which are impacted by factors outside of the Group's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect the Group's results, profitability and consequential return on capital in three principal areas: cost and availability of funding, margins and revenues, and impairment levels. • Regulatory and other changes resulting from the UK exit from the European Union could impact the Group's results. As a significant proportion of the current and anticipated regulatory regime applicable to the Group in the UK is derived from EU directives and regulations, the UK exiting the EU could materially change the legal and regulatory framework applicable to the Group's operations, including in relation to its regulatory capital requirements. • The Group is subject to prudential regulatory capital and liquidity requirements. The prudential regulatory capital and liquidity requirements applicable to banks have increased significantly over the last decade, largely in response to the financial crisis but also as a result of continuing work undertaken by national and supra-national regulatory bodies with jurisdiction over the financial sector and it is expected that further prudential and regulatory requirements will be implemented, including as a result of ongoing implementation of already announced regulatory changes. • The Group operates in a highly regulated industry that has come under increased regulatory scrutiny in recent years. The Group is subject to substantial and changing conduct regulations including prudential regulatory capital and liquidity requirements, recently implemented rules on deposit guarantee schemes and rules relating to regulatory action in the event of a bank failure. The Group must comply with data protection and privacy laws and anti-money laundering, anti-bribery and sanctions regulations. • The Group's recent significant loan book growth in new lending areas increases the difficulty it faces in predicting trends with respect to its loan book. While the Group conducts stress tests on its loan products, neither the ability of borrowers of loans to continue to meet their payment obligations, nor the overall demand by borrowers for the Group's lending products, has been tested in a full economic cycle or in a high interest rate environment. • The Group may not realise the anticipated benefits from future acquisitions. The Group has completed a number of acquisitions and may make further strategic and bolt-on acquisitions in the future. The success of future acquisitions depends on, among other things, the Group's ability to integrate the businesses of the acquired companies in a manner that permits growth without materially disrupting customer relationships or diverting management's attention. If the Group is not able to achieve these objectives, the anticipated benefits of acquisitions may take longer to realise than expected or may not be realised fully or at all. • The Group's business is subject to risks relating to the cost and availability of liquidity and funding. The availability of retail deposits, the Group's primary source of funding, may be impacted by increased competition from other deposit-takers or factors that constrain the volume of liquidity in the market. • The Group faces risks from competition. The market for financial services in the UK is competitive, and competition may intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The Group faces competition from established providers of financial services, including banks and building societies, some of which have substantially greater scale and financial resources, broader product offerings and more extensive distribution networks than the Group. • The Group depends on a number of third-party service providers for a variety of functions whose failure to perform could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. • The Group is subject to risks concerning customer and counterparty credit quality. The Group has exposures to counterparties and obligors whose credit quality can have a significant adverse impact on the Group's earnings and the value of assets on the Group's balance sheet. As part of the ordinary

	course of its operations, the Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. • Concentration of credit risk could increase the Group's potential for losses. As at 30 June 2016, loans and advances to customers comprising the Group's continuing operations totalled £1,128.3 million, of which £365.7 million were loans and advances to customers located in the London region. • The Group's risk management framework, systems and processes, and related guidelines and policies, may prove inadequate to manage its risks, and any failure to properly assess or manage such risks could harm the Group. The Group faces a wide range of risks in its core business activities, including credit risk and liquidity risk, conduct risk and interest rate risk.
D.3	**Risks relating to the Shares**
	• Following Admission, the value of the Shares may fluctuate significantly as a result of period-to-period variations in operating results or changes in revenue or profit estimates by the Group, industry participants or financial analysts. The value of the Shares could also be affected by developments unrelated to the Group's operating performance such as, amongst other things, the operating and share price performance of other companies that shareholders may consider comparable or changes in market conditions and/or regulatory changes. • Any decision to declare and pay dividends will be made at the discretion of the Board of Directors and there can be no assurance that the Company will pay dividends in the future. The issue of additional shares in the Company may dilute existing shareholdings. • Securities laws of certain jurisdictions may restrict the Company's ability to allow participation by shareholders outside the United Kingdom from participating in future equity offerings. • After Admission, Arbuthnot will remain the most significant shareholder. Arbuthnot will, through the votes it will be able to exercise at general meetings of the Company, be able to influence the decision of shareholders on matters put to shareholders for approval. In particular, any matter proposed to be approved by special resolution (being at least 75 per cent. of the votes cast) may not be passed if Arbuthnot exercises its vote against such resolution and a significant proportion of the Company's other shareholders do not vote on the resolution.
	Section E—Offer
E.1	**Net Proceeds / Expenses**
	Not applicable. This Prospectus relates to the application for listing of the Shares on the Official List and admission to trading on the Main Market only. No new Shares are being issued by the Company in connection with Admission. The total costs, charges and expenses payable by the Company in connection with or incidental to Admission, including FCA and LSE fees, are estimated to be approximately £1.2 million (exclusive of VAT).
E.2	**Reasons for the Global Offer / Use of Proceeds**
	Not applicable. This Prospectus relates to the application for admission to listing of the Shares to the premium listing segment of the Official List and admission to trading on the London Stock Exchange's Main Market for listed securities only. No new Shares are being issued by the Company in connection with Admission and the Group is not raising any new capital. The Directors believe that Admission will help unlock substantial potential by providing the Group with a more liquid market and a greater range of potential investors for its Shares as well as raise its corporate profile and brand awareness. The Directors believe that, as the Group has increased in scale, a premium listing is more appropriate for the Group.
E.3	**Terms and Conditions of the Global Offer**
	Not applicable. This Prospectus relates to the application for listing of the Shares on the Official List and admission to trading on the Main Market only. No new Shares are being issued by the Company in connection with Admission.

E.4	**Material Interests**
	Not applicable. This Prospectus relates to the application for listing of the Shares on the Official List and admission to trading on the Main Market only. No new Shares are being issued by the Company in connection with Admission.
E.5	**Selling Shareholder / Lock-up Arrangements**
	Not applicable. This Prospectus relates to the application for listing of the Shares on the Official List and admission to trading on the Main Market only. No new Shares are being issued by the Company in connection with Admission. In connection with the sale by Arbuthnot of 6,000,000 Shares in June 2016, Arbuthnot agreed to a 180 day lock-up period from the date of completion of the sale (being 15 June 2016), during which time it has agreed not to dispose of any further Shares without the prior agreement of Stifel.
E.6	**Dilution**
	Not applicable. This Prospectus relates to the application for admission to listing of the Shares to the premium listing segment of the Official List and admission to trading on the London Stock Exchange's Main Market for listed securities only. No new Shares are being issued by the Company in connection with Admission.
E.7	**Estimated expenses charged to investor**
	Not applicable. There are no commissions, fees or expenses to be charged to investors by the Company in connection with Admission.

PART 2
RISK FACTORS

The Group's business, financial condition and results of operations are subject to a number of risks and accordingly existing and prospective Shareholders should consider carefully the factors and risks associated with any investment in the Shares, the Group's business and the industry in which it operates, together with all other information contained in this Prospectus, including, in particular, the risk factors described below.

Existing and prospective Shareholders should note that the risks relating to the Group, its business and industry and the Shares below are the risks that the Directors believe to be the most essential to an assessment by an existing or prospective Shareholder. However, the following is not an exhaustive list or explanation of all risks which existing or prospective Shareholders may face in relation to the Shares and should be used as guidance only.

Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, prospects, results of operations and financial condition and, if any of these risks should occur, the price of the Shares may decline and Shareholders could lose all or part of their investment.

1. RISKS RELATING TO THE MACROECONOMIC ENVIRONMENT IN WHICH THE GROUP OPERATES

1.1 The Group is subject to risks arising from the macroeconomic environment

As the Group's revenue is derived almost entirely from customers based in the UK, the Group is particularly exposed to the condition of the UK economy. During the global financial crisis that started in mid-2008, the UK economy experienced significant turbulence and periods of recession, adversely affecting, among other things, the state of the housing market, market interest rates, levels of unemployment, the cost and availability of credit and the liquidity of the financial markets.

While economic indicators in the UK have improved considerably since the peak of the financial crisis, economic recovery remains sluggish and, following the result of the referendum on EU membership in June 2016, the outlook for the UK economy remains uncertain, with some forecasts predicting a fall in gross domestic product ("**GDP**") growth and continued low or falling interest rates over the near to medium term. If UK economic conditions weaken, or if financial markets exhibit uncertainty or volatility, including, as a result of a further downgrade in the credit rating of the UK Government or the outlook for the UK banking sector, the Group's ability to grow its business could be materially adversely impacted.

In addition, deterioration in the economic conditions in the Eurozone and globally, including instability in financial markets, may pose a risk to the Group's business, despite the fact that the Group has no direct financial exposure outside of the UK. In recent years, the UK financial markets have been at times negatively impacted by a number of global macroeconomic events, including ongoing concerns surrounding the large sovereign debts and fiscal deficits of several countries in Europe, a weakening of the Chinese economy, a decline in global commodity prices such as crude oil and, most recently, concerns around the withdrawal of monetary stimulus by central banks, such as the US Federal Reserve. The effects of these events have been felt in the UK economy and by UK financial institutions in particular, and it has placed strains on funding markets at times when many financial institutions had material funding needs. Furthermore, given the interdependence between financial institutions, the Group is and will continue to be subject to the risk of deterioration, or perceived deterioration, of the commercial and financial soundness of other financial services institutions, both in the UK and beyond.

The Group's business performance is influenced by the economic condition of its customers. With respect to its retail customer base, weak economic conditions in the UK could lead to higher levels of unemployment, which have historically resulted in a decrease in new borrowing and reduced or deferred levels of spending, as well as an increase in arrears, impairment provisions and defaults. Worsening economic and market conditions may also lead to lower levels of business investment in the UK, which could result in reduced demand for the Group's products from its commercial customers, which could have a material adverse effect on the Group's business, financial condition and results of operations. Weak economic conditions in the UK could also lead to the Group's business customers being unable to meet their obligations resulting in an increase in arrears, charges provisions and defaults.

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

Real Estate Finance

The Group's Real Estate Finance division provides finance to enable real estate development and property investment. As at 30 June 2016, the Real Estate Finance division had a loan book of £361.7 million, of which £161.4 million (44.6 per cent.) related to residential development, £169.1 million (46.8 per cent.) related to residential investment and £31.2 million (8.6 per cent.) related to commercial investment. As of 30 June 2016, £6.4 million, or 1.8 per cent., of the Real Estate Finance division's loans were more than 90 days past due or impaired.

Disruptions in the UK credit markets or general economic conditions in the UK could have a negative impact on the financial circumstances of borrowers to whom the Real Estate Finance division provides loans, such as through reduced demand for real estate development, lower sales prices, higher interest rates, reduced revenues from sales of real estate developments or increased inability of tenants to pay rents, which may, in each case, require borrowers to defer interest and/or principal payments on loans which may result, upon expiry of the loan term, in the outstanding loan amount exceeding the value of the collateral provided by the property. Lower valuations for real estate developments may affect the underlying value of security, which could increase the Group's impairment charges and losses in the event of customer defaults. Higher impairment charges could reduce the Group's profitability, capital and ability to engage in lending activities. Adverse economic and market conditions could also reduce potential investors' willingness or ability to complete new property developments thereby reducing demand for the Group's loan products. Any of the foregoing results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Asset Finance

The Group's Asset Finance division provides financing for plant, machinery and commercial vehicle purchases by small and medium-sized enterprises ("**SMEs**"). As at 30 June 2016, the Asset Finance division had a loan book of £112.3 million. As of 30 June 2016, £0.6 million, or 0.5 per cent., of the Asset Finance division's loans were more than 90 days past due or impaired.

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

Adverse economic and market conditions could also negatively affect the value of the underlying assets provided as collateral for loans granted by the Asset Finance division, which means the Group may not be able to recover the estimated value of the collateral assets upon repossession following an event of default by the borrower. Any such reduction may result in increased impairments for the Group which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Commercial Finance

The Group's Commercial Finance division provides SMEs with invoice financing solutions, including invoice discounting, factoring and credit management services. As at 30 June 2016, the Commercial Finance division had a loan book of £54.5 million with a weighted average advance rate (calculated as the average loan balance divided by average gross collateral/receivables) of 57.5 per cent. As of 30 June 2016, £0.3 million, or 0.5 per cent., of the Commercial Finance division's loans were impaired.

Adverse economic and market conditions could negatively impact the businesses of the Commercial Finance division's customers. This impact may affect borrowers' revenue and viability and result in more borrowers breaching loan covenants and entering administration. In the event of a default by a borrower, the Group may enforce its rights under the loan agreement and collect the borrower's receivables directly from the borrower's debtors. Where a borrower's debtors have also been negatively impacted by adverse economic and market conditions, they may also default on their payment obligations, and the Group may not be able to realise the full value of the invoices over which it has security, which could lead to an increase in impairment charges. Any of the foregoing results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Consumer Finance

The Group's Consumer Finance division comprises the following: (i) Personal Lending, by which the Group offers fixed rate, fixed term loans through its Moneyway brand, (ii) Motor Finance, which is arranged by the Group through motor dealerships, traditional motor finance brokers and internet brokers and involves fixed rate, fixed term hire purchase arrangements, predominantly on used cars, and (iii) Retail Finance, which comprises lending products for in-store and online retailers to enable consumer purchases. As at 30 June 2016, the Consumer Finance division had a loan book of £541.9 million. As of 30 June 2016, £22.2 million, or 3.9 per cent., of the Consumer Finance division's loans were more than 90 days past due or impaired.

Adverse economic conditions in the UK could have a negative impact on the financial circumstances of borrowers to whom the Consumer Finance division provides loans, such as through increased unemployment, which may affect borrowers' ability to repay their loans, increasing the likelihood that they could default, which could in turn lead to an increase in non-payment, arrears and forbearance as well as an increase in the Group's impairment charges. Adverse economic conditions could also result in a fall in the value of used cars reducing the value of security available should a motor finance customer default on a loan, which in turn, could result in an increase in the Group's impairment charges with respect to that product. Higher impairment charges across any of the Group's products could reduce the Group's profitability, capital and ability to engage in lending activities.

In addition, prospective customers may be less likely to borrow to fund discretionary purchases such as consumer items and motor vehicles, reducing the Consumer Finance division's new lending opportunities. Any of the foregoing results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.2 **The Group faces risks associated with interest rate levels and volatility**

Interest rates, which are impacted by factors outside of the Group's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect the Group's results, profitability and consequential return on capital in three principal areas: cost and availability of funding, margins and revenues, and impairment levels.

In recent years, the UK has experienced historically low, sustained interest rates. As at 30 June 2016, 96.7 per cent. of the Group's deposit accounts consisted of fixed term fixed rate and variable rate notice accounts. Low interest rates reduce incentives for consumers to save and, therefore, could reduce the Group's customer deposits, its principal source of funding.

Notwithstanding that the majority of the Group's deposits are fixed rate, increases in interest rates could also adversely affect the Group. As at 30 June 2016, 3.3 per cent. of the Group's deposits from customers were variable rate instant access. In the event of sudden large or frequent increases in interest rates, the Group 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 its net income.

Changes in interest rates also impact the Group's loan impairment levels and customer affordability. As at 30 June 2016, £1,067.6 million (94.6 per cent.) of the Group's loans and advances to customers were fixed rate. A rise in interest rates, without sufficient improvement in customer earnings or employment levels, could, for example, lead customers with residential mortgage borrowings at variable rates to prioritise those payments over fixed rate loan repayments on the Group's consumer finance products, which in turn could lead to increased impairment charges and lower profitability for the Group. In addition, although, as at 30 June 2016, only £60.7 million (5.4 per cent.) of the Group's loans and advances to customers were variable rate, this proportion may increase in the future. A rise in interest rates, without sufficient improvement in customer earnings or employment levels, could, for example, lead to an increase in default rates among customers with variable rate loans who can no longer afford their repayments, which could in turn lead to increased impairment charges and lower profitability for the Group. A high interest rate environment also reduces demand for loan products generally, as individuals are less likely or less able to borrow when interest rates are high, thereby reducing the Group's revenue. High levels of movement between products in a concentrated time period could put considerable strain on the Group's business and operational capability, and the Group may not be willing or able to price its fixed rate products as competitively as others in the market. This could lead to high levels of customer attrition and, consequently, a negative impact on the Group's profitability.

In addition, changes in interest rates can affect the Group's net interest income and margins. The Bank of England base rate had remained at 0.5 per cent. since March 2009, having fallen from 5.5 per cent. in December 2007, and has in August 2016 been cut further to 0.25 per cent. In the 30 years preceding December 2007, the lowest level of the base rate was 3.5 per cent. This low interest rate environment has put pressure on interest margins throughout the UK banking industry. The sustained period of low interest rates has resulted in relatively low spreads being realised by the banks between the rate they pay on customer deposits and the rate received on loans. The Group's business and financial performance and net interest income and margin may continue to be adversely affected by the continued low interest rate environment.

Currently the Group's loan book is largely matched to the tenor of its fixed term deposits but in future the Group may be required to manage mismatches in the maturity profiles of its deposit and loan products arising from a growing and developing loan book. The ability of the Group to successfully manage such maturity profiles would be more difficult in a volatile interest rate environment and may lead to inefficiencies in the Group's funding plans, giving rise to additional funding costs.

The inability of the Group to manage its exposure to interest rate volatility, whether through hedging, product pricing and maintenance of borrower credit quality or other means, could have a material adverse effect on the Group's business, financial condition and results of operations.

1.3 Regulatory and other changes resulting from the UK exit from the European Union could impact the Group's results

The process of negotiation relating to the UK exit from the EU could result in uncertainty in relation to the eventual outcome of those negotiations which may result in delays or deferrals of investment decisions by businesses during the period of uncertainty which may affect demand for the Group's products.

In addition, as a significant proportion of the current and anticipated regulatory regime applicable to the Group in the UK is derived from EU directives and regulations, the UK exiting the EU could materially change the legal and regulatory framework applicable to the Group's operations, including in relation to its regulatory capital requirements, which could result in higher operating costs and could have a material adverse effect on the Group's business, financial condition and results of operations.

2. REGULATORY RISKS

2.1 The Group operates in a highly regulated industry that has come under increased regulatory scrutiny in recent years

The Group, in common with other financial services firms, has in recent years faced increased levels of regulation in respect of the conduct of its business. Following the financial crisis, additional powers intended to protect consumers and ensure redress have been granted to regulators. The Group's principal regulators are the PRA (which is responsible for prudential regulation) and the FCA (which is responsible for conduct regulation). The PRA and FCA can apply a wide range of sanctions to firms (and individuals working for firms) found to be operating in breach of their regulations, or in a manner deemed to pose a significant risk to their statutory obligations, including public or private censure, fines, regulatory proceedings and, in extreme cases, suspension or withdrawal of authorisation to operate particular parts of their business or prosecution.

The FCA, the Group's conduct regulator, has undertaken a series of thematic reviews, including in relation to the cash savings market, credit card market, early arrears management in unsecured lending and a "Responsible Lending Review" and continues to make strengthening consumer protection a key priority, as set out in its Business Plan for 2016 and 2017. Since April 2014, the FCA has also been charged with oversight of regulated consumer credit activities, providing it with broad regulatory authority over a wide range of aspects of the Group's lending business, such as the format and content of its customer communications and its terms of business. The FCA is empowered to require firms to operate a consumer redress scheme, under which the firm is required to make redress to customers where it has failed to carry on its activities in accordance with its legal or regulatory obligations. The FCA also has temporary product intervention powers, which enable it to restrict certain products, product features or their promotion for up to 12 months without consultation. Certain consumer bodies have the power to refer so-called "super-complaints" to the FCA for further investigation as well. Most banking customers are also entitled to refer complaints to the Financial Ombudsman Service (the "**FOS**"), and recent years have seen an increase both in the number of cases referred to the FOS and general public awareness regarding the ability to challenge firms.

Investigating and dealing with regulatory proceedings, providing redress and the cost of any regulatory sanctions may involve significant expense. The use of product intervention powers by the FCA may restrict the Group's operations and its ability to offer new products to its customers. In any case, adverse publicity relating to regulator action could undermine customer confidence in the Group and reduce demand for its products and services, which could have a material adverse effect on the Group's business, financial condition and results of operations.

2.2 The Group is subject to substantial and changing conduct regulations

The Group is exposed to many forms of conduct risk, which may arise in a number of ways. In particular:

- certain aspects of the Group's business may be determined by its regulators, including the FCA, the PRA, HM Treasury, the Competition and Markets Authority ("**CMA**") or the courts, as not being conducted in accordance with applicable local or, potentially, overseas laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion. If the Group fails to comply with any relevant regulations, there is a risk of an adverse impact on its business and reputation due to sanctions, fines or other actions imposed by the regulatory authorities;
- the Group may be subject to allegations of mis-selling of financial products, or of having sales practices and/or reward structures in place that are determined to have been inappropriate, which may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide

restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the Group's financial statements and could adversely impact future revenues from affected products; and

- the Group may be liable for damages to third parties harmed by the manner in which the Group has conducted one or more aspects of its business.

The Group is subject to the consumer credit regime under the FSMA, which regulates a wide range of credit agreements. The regulation of consumer credit pursuant to the Consumer Credit Act 1974 and its retained secondary legislation (the "**CCA**") was transferred from the Office of Fair Trading (the "**OFT**") to the FCA in April 2014. Certain pieces of secondary legislation, made pursuant to the CCA, as well as OFT guidance, have been replaced by FCA rules and guidance set out within the FCA Handbook, although some pieces of secondary legislation remain. The FCA has greater powers of enforcement than the OFT did previously and is anticipated to take a more proactive and intrusive approach to the regulation of consumer credit. Along with other credit providers who are required to comply with the FCA requirements applicable to the provision of consumer credit, the Group may come under a greater degree of scrutiny from the FCA, incur additional compliance costs and be subject to potential penalties and other sanctions for noncompliance.

Failure to manage these risks adequately could lead to significant liabilities or reputational damage to the Group's brands, which could have a material adverse effect on its business, financial condition, results of operations and relations with customers.

2.3 The Group is subject to prudential regulatory capital and liquidity requirements

The Group is subject to prudential regulatory capital and liquidity requirements. The prudential regulatory capital and liquidity requirements applicable to banks have increased significantly over the last decade, largely in response to the financial crisis but also as a result of continuing work undertaken by national and supra-national regulatory bodies with jurisdiction over the financial sector and it is expected that further prudential and regulatory requirements will be implemented, including as a result of ongoing implementation of already announced regulatory changes.

The prudential regulatory capital and liquidity requirements to which the Group is subject are primarily set out in the Capital Requirements Directive IV 2013/36/EU (as implemented in the UK through applicable regulatory rules which, in relation to, the Group are set out in the PRA Rulebook and other PRA publications) and the Capital Requirements Regulation ("**CRR**" and together "**CRD IV**"). In addition the Group is subject to additional requirements imposed by the PRA to the extent not inconsistent with CRD IV (see paragraph 1.1 of Part 9: "*Supervision and Regulation*" for more details of the prudential regime applicable to the Group).

Although many of the measures in CRD IV took effect in the UK from 1 January 2014, some of the measures are to be phased in over a transitional period ending on 31 December 2018, although such phased implementation is in some cases subject to the PRA's right (which it has largely exercised) to apply an expedited timeframe. In particular, the liquidity regime is being phased in, although a significant part of it (the Net Stable Funding Ratio which is not expected to apply until 2018) is subject to further review and more detailed development.

In addition, CRD IV requirements adopted in the United Kingdom or the way those requirements are interpreted or applied may change, including as a result of binding regulatory or implementing technical standards or guidance developed by the European Banking Authority, changes to the way in which the PRA interprets and applies these requirements to UK banks or further changes to CRD IV agreed by EU legislators. Similarly there may be changes to national prudential requirements which apply to banks. These changes, either individually or in aggregate, may lead to further unexpected enhanced prudential requirements in relation to the Group's capital, leverage, liquidity and funding ratios and requirements. It is noted that there are a number of initiatives underway which, if implemented, could also affect prudential capital and liquidity requirements in the future. For example, the Basel Committee has proposed changes to the market risk framework and is also considering revisions to the calculation of credit risk under the standardised approach and the calculation of interest rate risk in the banking book.

The Group sets its internal target amount of capital and liquidity based on PRA guidance and following an assessment of its risk profile, market expectations and regulatory requirements in relation to both capital and liquidity. The Group may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of risks including any of the other risks described elsewhere in this Part 2: "*Risk Factors*". If, for example, market expectations as to capital levels increase, driven by, for example, the capital levels or targets among peer banks, or if new regulatory requirements are introduced, the Group may experience pressure to increase its capital ratios. Similarly, if regulatory requirements for liquidity increase, market expectations as to liquidity coverage ratios increase or peer banks' own liquidity targets increase the Group may be required to increase its own liquidity levels to levels beyond those it would otherwise hold in the ordinary course of business.

Due to its growth, the Group's capital requirements are subject to increase. If the Group fails to meet its minimum regulatory capital or liquidity requirements, it may be subject to administrative actions or sanctions. In addition, a shortage of capital or liquidity could affect the Group's ability to pay liabilities as they fall due, pay future dividends and distributions, and could affect the implementation of its business strategy, impacting future growth potential. If, in response to any capital shortage, the Group raises additional capital through the issuance of share capital or capital instruments, existing shareholders may experience a dilution of their holdings or reduced profitability and returns. Any inability of the Group to maintain its regulatory capital or liquidity requirements, or any legislative changes that limit the Group's ability to manage its capital effectively may have a material adverse effect on the Group's business, financial condition and results of operations.

2.4 The Group must comply with data protection and privacy laws

The Group's operations are subject to a number of laws relating to data privacy, including the Data Protection Act 1998 and the Privacy and Electronic Communications (EC Directive) Regulations 2003. The requirements of these laws may affect the Group's ability to collect and use personal data, transfer personal data to countries that do not have adequate data protection laws and also to utilise cookies in a way that is of commercial benefit to the Group. UK data protection law is likely to be subject to material change in the medium term. In 2012 the European Commission published a proposal for a new General Data Protection Regulation ("**GDPR**"), which would replace the Data Protection Act 1998 (and the equivalent laws in other EU and EEA Member States) with an EU regulation having direct effect in the UK and all other EU and EEA Member States. The European Commission, European Parliament and the Council of Ministers agreed the GDPR on 15 December 2015. The GDPR is likely to increase compliance requirements and includes significant financial penalties of up to 4 per cent. of the annual worldwide turnover of company groups. Firms will have two years from the adoption of the GDPR to implement all the necessary changes to their systems and operations in order to meet the new compliance requirements. The GDPR is likely to increase the regulatory burden on the Group in processing personal customer, employee and other data in the conduct of its business and may also increase the potential sanctions for breach.

Enforcement of data privacy legislation has become increasingly frequent and could result in the Group being subjected to claims from its customers that it has infringed their privacy rights, and it could face administrative proceedings (including criminal proceedings) initiated by the Information Commissioner's Office in the UK. In addition, any enquiries made, or proceedings initiated by, individuals or regulators may lead to negative publicity and potential liability for the Group. The Group must also comply with the Payment Card Industry Data Security Standards in respect of any data collected, transferred, processed or stored in respect of any customer payments from branded payment cards. Non-compliance with these standards may lead to the Group facing fines, increased costs or withdrawal of payment processing services in the future and may also increase its exposure to cybercrime.

The secure transmission of confidential information over the internet and the security of the Group's systems are essential to its maintaining customer confidence and ensuring compliance with data privacy legislation. If the Group or any of its third-party suppliers fails to transmit customer information and payment details online securely, or if they otherwise fail to protect customer privacy in online transactions, or if third parties obtain and/or reveal the Group's confidential information, the Group may suffer reputational damage, lose customers and potential customers may be deterred from using the Group's products and services, which could expose the Group to liability and could have a material adverse effect on its business, financial condition and results of operations.

2.5 The Group must comply with anti-money laundering, anti-bribery and sanctions regulations

The Group is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit the Group, its staff or intermediaries from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery laws creates a significant financial and operational burden for banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has become more aggressive, resulting in several landmark fines against UK financial institutions. The FCA, in particular, has made financial crime a key topic to be addressed under its 2016/17 Business Plan. Furthermore, following the entry into force of the EU AML Directive and Transfers of Funds Regulation on 25 June 2015, new regulations will come into force before the deadline for national implementation of 26 June 2017, which will affect the scope of the regulatory requirements the Group must comply with. While the Group monitors its regulatory environment, it is not always possible to predict the nature, scope or effect of future regulatory requirements to which it might be subject, and in particular, the manner in which existing laws might be administered, interpreted or enforced. Although the Group believes that its current policies, processes and procedures are adequate and effective, and therefore, comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that these policies eliminate the risk of money laundering, sanctions breaches or bribery, including actions by the Group's staff, for which the Group might be held responsible. Any of these events may have severe consequences, including criminal sanctions, fines, restrictions on its business operations and reputational damage, which could have a material adverse effect on the Group's business, financial condition and results of operations.

2.6 The Group is subject to recently implemented rules on deposit guarantee schemes

In Europe, the EU Deposit Guarantee Scheme Directive ("**EU DGSD**") required Member States to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD was reviewed and a new legislative proposal was published by the European Commission in July 2010 to recast and replace the current EU DGSD. The main aims of the recast EU DGSD are to restrict the definition of "deposit", to exclude deposits made by certain financial institutions and certain public authorities, to reduce time limits for payments of verified claims to depositors and to make provisions on how deposit guarantee schemes should be funded. In addition, the recast EU DGSD allows for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a private residential property. The rules on depositor protection rules and supervisory statements took effect in the UK from 3 July 2015.

It is possible, as a result of the new directive and subsequent UK implementation, that future Financial Services Compensation Scheme ("**FSCS**") levies on the Group may differ from those at present, and such reforms could result in the Group incurring additional costs and liabilities. In particular, the Group may have to update its information technology ("**IT**") systems to comply with the PRA's proposals for new system requirements, including requirements on firms to have systems that will allow accounts that do not contain eligible deposits to be frozen at the point of resolution while leaving marked deposits accessible and will be able to separate FSCS-covered and uncovered balances. This may have a material adverse effect on the Group's business, financial condition and results of operations.

2.7 The Group is subject to rules relating to regulatory action in the event of a bank failure

Under the Banking Act 2009 (the "**Banking Act**"), substantial powers were granted to HM Treasury, the Bank of England, the PRA and the FCA (together the "**Authorities**") as part of the special resolution regime (the "**SRR**"). These powers enable the Authorities to engage with and stabilise UK-incorporated institutions authorised to accept deposits that are failing or are likely to fail.

As discussed in more detail in Part 9: "*Supervision and Regulation*", the Banking Act was recently amended to give effect to aspects of the recently adopted EU-wide framework for the recovery and resolution of credit institutions and investment firms, commonly known as the Banking Recovery and Resolution Directive (the "**BRRD**"), including expanding the powers available to the Authorities thereunder. As a result, the SRR now consists of the following five stabilisation options, which could be imposed on any bank, including the Group: (i) transfer of all or part of the business of the relevant bank entity or the shares of the relevant bank entity to a third-party private sector purchaser; (ii) transfer of all or part of the business of the relevant bank entity to a "bridge bank" established and wholly owned by the Bank of England; (iii) transfer of the assets, rights and liabilities of the relevant bank entity to an asset management vehicle created and part owned by the Bank of England or Treasury; (iv) temporary public ownership of the relevant bank entity; and (v) bail-in, which effectively allows the relevant bank entity to be recapitalised through the writing down or conversion of debt liabilities to equity (the "**general bail-in**" tool). In relation to the transfer stabilisation options in (i) to (iv) above, the Authorities also would have the ability to modify certain contractual arrangements of the relevant entity in certain circumstances.

In addition, as a result of the BRRD, the Banking Act was amended to require that loss absorbing capital instruments are written down or converted before or at the same time as any of the stabilisation options are implemented (the "**mandatory bail-in**" tool).

Subject to certain protections for limited liabilities, the mandatory bail-in tool and the general bail-in tool enable the Authorities to write down the claims of shareholders and unsecured creditors of a failing institution and to convert unsecured debt claims to equity. The bail-in rules were designed to help ensure that the shareholders and unsecured creditors of a failed institution (rather than taxpayers) meet the costs of an institution's failure. In the UK, a bail-in would be effected by the Bank of England as resolution authority with no need for court approval, and a bail-in order cannot be challenged in court (although it is subject to judicial review). The BRRD rules were largely implemented in the UK with effect from January 2015 (except in relation to certain requirements relating to the contractual recognitions of bail-in and a minimum requirement for own funds and eligible liabilities ("**MREL**") referred to below which came into force in January 2016). If the Group were to become subject to bail-in or resolution powers, existing shareholders may experience a dilution or cancellation of their holdings. Some provision is made in the Banking Act for compensation orders to be made in certain specified circumstances but the extent of the compensation will be determined having regard to the particular facts and the principles set out in the Banking Act. These require that no shareholder or creditor should be worse off under a SRR process than it would have been under a hypothetical insolvency, which means that it is not certain that compensation would be received in a particular case.

Institutions subject to BRRD will also be required to meet a MREL capable of being bailed-in. The MREL requirement will be equal to a percentage of total liabilities and own funds to be set by the Bank of England. The PRA is currently consulting on new rules in connection with the MREL requirements. The implementation of the MREL requirements may require the Group to raise additional capital or adjust its current capital levels, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Finally, the BRRD requires that certain claims of certain depositors and the FSCS (to the extent it covers claims of depositors in a bank insolvency) are given preferential status in the bank insolvency. Where the Group has large numbers of depositors entitled to Financial Services Compensation Scheme protection, this means those depositors and the FSCS will get preferential treatment ahead of other unsecured creditors generally, but this will not affect amounts distributable to shareholders which rank last on any insolvency in any event.

3. RISKS RELATING TO THE OPERATION OF THE GROUP'S BUSINESS

3.1 The Group's recent significant loan book growth in new lending areas increases the difficulty it faces in predicting trends with respect to its loan book

The Group's Real Estate Finance, Commercial Finance and Asset Finance divisions were established relatively recently (in June 2013, September 2014 and December 2014, respectively) and have grown in relatively benign economic conditions in a low interest rate environment. Through steady and controlled growth in originations, the size of these divisions' loan books has increased significantly in recent years. The Real Estate Finance division's loan book increased from £1.8 million as at 31 December 2013 to £361.7 million as at 30 June 2016, the Commercial Finance division's loan book increased from £5.0 million as at 31 December 2014 to £54.5 million as at 30 June 2016 and the Asset Finance division's loan book increased from £4.5 million as at 31 December 2014 to £112.3 million as at 30 June 2016. As the loan books for these divisions are relatively unseasoned, estimating loan losses is more difficult.

While the Group conducts stress tests on its loan products, neither the ability of borrowers of loans to continue to meet their payment obligations, nor the overall demand by borrowers for the Group's lending products, has been tested in a full economic cycle or in a high interest rate environment.

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

3.2 The Group faces risks associated with the implementation of its business strategy, which includes entering the residential mortgage lending market

The implementation of the Group's strategy is subject to a number of risks, including operational, financial, macroeconomic, market, pricing and technological challenges, see Part 7: "*Information on the Group*". Implementing the Group's strategy will require management to make complex judgements, including anticipating customer trends and needs across a range of financial products, identifying suitable borrowers for the expansion of its loan book, and structuring and pricing its products competitively. There can also be no guarantee that the Group's technological infrastructure will be adequate to support its planned growth, or that the Group will be able to successfully augment its systems if required in a timely manner, or at all.

As part of its strategy, the Group has indicated an intention to enter the residential mortgage lending market which would expose it to additional risks, including, amongst other things, volatility in UK house prices and the supply and affordability of property in the UK. A decrease in property prices could result in borrowers having insufficient equity to refinance their mortgage loans or being unable to sell the mortgaged property at a price sufficient to repay the amounts outstanding on the mortgage loan, which could lead to an increase in customer defaults, which in turn, could result in an increase in the Group's impairment charges. Higher impairment charges could reduce the Group's profitability, capital and ability to engage in lending activities. Alternatively, a significant increase in house prices in the UK could also have a negative impact on the Group by reducing the affordability of homes for first-time buyers or those looking to purchase more expensive properties and, if such increases were to result in a decrease in the number of customers that could afford to purchase houses, a reduction in demand for new mortgages. In addition, the Group's ability to lend on residential mortgages would depend on transaction volumes within the market for existing property being at a sufficiently high level and, in part, on a supply of newly built or developed property coming to the market that relies on mortgage lending for financing, to support a profitable level of mortgage lending and income from mortgage fees. A significant increase in UK house prices or a decrease in housing transaction volumes could lead to a reduction in demand for residential mortgages and a fall in related mortgage fees which could have a material adverse effect on the Group's ability to execute its strategic goals. The Group's potential expansion into the residential mortgage sector will also expose the Group to a significant amount of new regulation. Ensuring the Group's compliance with new regulations and requirements may incur costs which may reduce the Group's profitability, capital and ability to engage in lending activities.

Moreover, in recent years, there has been an increased focus by UK regulators on the appropriateness and sustainability of the business models and growth strategies of regulated firms such as the Group. Regulators no longer focus exclusively on the financial strength of regulated firms but also consider non-financial resources, including governance and infrastructure, available to the firm in assessing the sustainability of the business model and whether it continues to meet regulatory requirements. In addition, certain regulators have the power to restrict regulated firms' ability to develop products or make material acquisitions. If the Group's regulators believe that it does not have a sustainable business model or does not meet any of the regulatory conditions, they could remove or restrict the Group's operating licences and/or the way in which it conducts its business.

The inability of the Group to implement its business strategy for any of these reasons could have a material adverse effect on its business, financial condition and results of operations.

3.3 The Group may not realise the anticipated benefits from future acquisitions

The Group has completed a number of acquisitions and may make further strategic and bolt-on acquisitions in the future. The success of future acquisitions depends on, among other things, the Group's ability to integrate the businesses of the acquired companies in a manner that permits growth without materially disrupting customer relationships or diverting management's attention. If the Group is not able to achieve these objectives, the anticipated benefits of acquisitions may take longer to realise than expected or may not be realised fully or at all. Additionally, if the integration efforts following the Group's acquisitions are not successfully managed, including the occurrence or assumption of unknown or unanticipated liabilities or contingencies with respect to, among other things, customers, employees, suppliers, government authorities or other third parties, such acquisitions could result in loan losses, liabilities, loss of key employees, a loss of focus on business strategy, disruption of the Group's ongoing business and management attention or inconsistencies in standards, controls, procedures and policies which could negatively impact the Group's ability to maintain relationships with customers and employees or to achieve the anticipated benefits of acquisitions. Should the Group be unable to successfully complete any acquisition in the future, the Group may be required to pay aborted deal costs, which may include break fees, advisers' expenses and/or the transaction costs, failure by the Group to achieve its strategic objectives and disruption of the Group's ongoing business. Any of these results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

3.4 The Group's business is subject to risks relating to the cost and availability of liquidity and funding

The availability of retail deposits, the Group's primary source of funding, may be impacted by increased competition from other deposit-takers or factors that constrain the volume of liquidity in the market. The Group's ability to access retail funding sources on satisfactory economic terms is also subject to a variety of factors, a number of which are outside its control, including interest rates, liquidity constraints, general market conditions, increased competition, regulatory requirements and a loss of confidence in the UK banking system. In addition, as the Group does not offer current accounts, which typically are a low-cost source of funding, it may have more exposure to changes in the competitive environment or macro-economic factors that alter the supply of deposits. A loss in customer confidence in the Group could also significantly increase deposit withdrawals or make it more difficult to raise new funds from depositors on satisfactory terms.

While the Group does not rely on wholesale funding, if access to deposit funding were constrained, the Group may need to make use of the wholesale funding markets. If the wholesale funding markets were to be fully or partially closed, it is likely that funding would prove more difficult to obtain on commercially attractive terms. In addition, as the Group is funded by retail deposits rather than institutional funding or wholesale capital markets funding, it does not currently hold a credit rating, which, particularly in a period where liquidity may be scarce, could exacerbate its difficulty in obtaining funding from the wholesale or capital markets at attractive prices.

In addition, the Group's access to the FLS funding and the new Term Funding Scheme may be restricted if it fails to comply with their terms and conditions.

Liquidity constraints may impair the Group's ability to meet regulatory liquidity requirements or financial and lending commitments. Failure to manage these or any other risks relating to the cost and availability of liquidity and funding may have a material adverse effect on the Group's business, financial condition and results of operations.

3.5 The Group faces risks from competition

The market for financial services in the UK is competitive, and competition may 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 the Group operates are mature, and growth by any bank typically requires obtaining market share from competitors.

The Group faces competition from established providers of financial services, including banks and building societies, some of which have substantially greater scale and financial resources, broader product offerings and more extensive distribution networks than the Group. In addition, while the Group utilises the "standardised" approach for assessing credit risk, which tends to overestimate credit risk of lending portfolios, leading to higher risk-weighted assets, certain competitors may utilise the internal ratings-based approach, which allows them to hold less capital against their lending than the standardised approach, thus freeing up additional capital that could be used to lend to customers.

Due to their scale, many of the Group's established competitors cross-subsidise their product offerings, as profits in certain businesses allow them to absorb losses for longer periods to develop other business lines. In addition, as a result of their large established deposit and asset base, established banks are often better positioned to offer cash incentives to attract new customers, as well as higher temporary "teaser" interest rates for deposits or lower temporary rates for loans to attract new customers. Furthermore, as established banks manage their legacy conduct issues and more effectively administer their loan books, they may look to re-enter or expand into markets in which the Group operates, thereby increasing competition within those markets. In particular, the Group faces extensive competition from both established banks and specialist finance providers in certain of its niche segments, such as motor finance. Increased competition within the markets in which the Group operates could result in a loss of customers for the Group and increased pressure on the Group's pricing which may lead to narrower margins. The inability of the Group to retain market share, particularly in niche segments, could have a material adverse effect on its business, financial condition and results of operations.

The Group also faces potential competition from new banks in the UK, such as Metro Bank and One Savings Bank, from banking businesses developed by large non-financial companies, such as Tesco and Virgin Money, from "challenger bank" entrants, such as Aldermore and Shawbrook, and from fundamentally new entrants into the UK banking sector, such as peer-to-peer lending platforms.

As technology evolves and customer needs and preferences change, there is an increased risk of disruptive innovation or a failure by the Group to introduce new products and services to keep pace with industry developments and meet customer expectations. The Group is also subject to the risk of not appropriately responding to innovation in financial technologies and the industry-wide risk of traditional banking information technology infrastructure and digital technologies becoming obsolete. The Group's financial and operational performance may be materially adversely affected by an inability to keep pace with industry trends and customer expectations.

Any failure to manage the competitive dynamics to which the Group is exposed could have a material adverse effect on its business, financial condition and results of operations.

3.6 The Group is reliant on third party service providers

The Group depends on a number of third-party service providers for a variety of functions whose failure to perform could have a material effect on the Group's business, financial condition, results of operations and prospects. In particular, the Group's Asset Finance business is operated via a partnership with Haydock Finance Limited ("**Haydock**"), an asset finance company which operates across the UK and which provides a full business process outsourcing service to the Group and also assists the Group in sourcing new business and providing support to the Group's clients on an ongoing basis.

The Group relies on the continued availability and reliability of these service providers. If the Group's contractual arrangements with any of these providers are terminated for any reason or any third-party service provider becomes otherwise unavailable or unreliable in providing the service to the required standard, the Group may need to identify and implement alternative arrangements. Although the Group would likely be able to find an alternative third-party provider or supplier for the services on equivalent terms, it may not be able to do so on a timely basis and in doing so may incur additional costs which could cause a disruption in the Group's operations and could have a material financial or reputational impact on the Group. In addition, the Group relies on certain institutions to provide important payment clearing services, and these institutions could impose significant fees or restrictions on the Group to access these systems or the quality of the service provided by them could be unsatisfactory leading to reputational damage for the Group.

The Group's reliance on third-party providers exposes it to the risk of deterioration of the commercial, financial or operational soundness of those organisations. The Group is also exposed to the risk that its relationships with one or more third-party service providers may deteriorate for a variety of reasons, including competitive factors. Reputational damage to the Group's brands caused by the failure of a third-party supplier may also adversely impact the Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities.

3.7 The Group is exposed to risks relating to relationships with intermediaries

The Group is reliant on a network of intermediaries, for example, the Group derived approximately 97 per cent. of its Consumer Finance portfolio and 90 per cent. of its Commercial Finance loan book from intermediaries in 2015, with the top 10 introducers accounting for approximately 35 per cent. of all intermediary-originated Consumer Finance loans in the same year. In particular, the Group's Motor Finance division relies entirely on a network of specialist motor intermediaries, including motor dealers, traditional motor finance brokers and internet introducers, to distribute its products.

The Group has limited direct oversight of intermediaries' interactions with prospective customers, outside of the Group's regulatory responsibilities, and if intermediaries violate applicable regulations or standards when selling the Group's products, the Group's reputation could be harmed. In addition, the Group may fail to develop products that are attractive to intermediaries or otherwise not succeed in developing relationships with intermediaries. Furthermore, the Group could lose the services of intermediaries with whom it does business, for example, as a result of market conditions causing their closure or intermediaries switching to the Group's competitors due to higher commissions or other incentives. The loss or deterioration of the Group's relationships with its intermediaries could have a material adverse effect on the Group's business, financial condition and results of operations.

3.8 The Group could be subject to reputational harm that could damage its brands

The Group's brands, such as Moneyway and V12 Group Finance Limited and its wholly owned subsidiaries, V12 Retail Finance Limited and V12 Personal Finance Limited (together, "**V12**"), could be damaged by reputational harm, which could arise by failing to address, or appearing to fail to address, a variety of issues, such as:

- poor customer service;
- technology failures;
- breaching, or facing allegations of having breached, legal and regulatory requirements;
- committing, or facing allegations of having committed, or being associated with those who have or are accused of committing, unethical practices, including with regard to sales and trading practices;
- the failure of intermediaries and other third parties on whom the Group relies, such as clearing banks, third-party service providers or partners, to provide necessary services; and
- poor business performance.

An inability to manage risks relating to its brands for any reason could have a material adverse effect on the Group's business, financial condition and results of operations.

3.9 The Group is subject to risks concerning customer and counterparty credit quality

The Group has exposures to counterparties and obligors whose credit quality can have a significant adverse impact on the Group's earnings and the value of assets on the Group's balance sheet. As part of the ordinary course of its operations, the Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to the Group's results and financial condition, requires expert judgements, including forecasts of how changing macroeconomic conditions might impair the ability of customers to repay their loans. The Group may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors. In addition, certain macro-economic events, such as the UK's exit from the EU, can be difficult to accurately assess and the impact of, and any forecast in relation to such events, may evolve quickly relative to the reporting cycles of the Group.

Furthermore, there is a risk that, despite the Group's belief that it conducts an accurate assessment of customer credit quality, customers are unable to meet their commitments as they fall due as a result of customer-specific circumstances, macroeconomic disruptions or other external factors. 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 the Group's lending portfolio. Deterioration in customer credit quality and a resulting increase in impairments could have a material adverse effect on the Group's business, financial condition and results of operations.

3.10 Concentration of credit risk could increase the Group's potential for losses

As at 30 June 2016, loans and advances to customers comprising the Group's continuing operations totalled £1,128.3 million, of which £365.7 million were loans and advances to customers located in the London region. If a disruption to the credit markets or an adverse change in economic or political conditions were to have a disproportionate effect on London, the Group could be exposed to greater potential losses than would be the case if the Group had less reliance on customers in the London region, which could have a material adverse effect on its business, financial condition and results of operations.

3.11 The Group is exposed to risks relating to the credit quality and business performance of NSF plc

In April 2016, the Group sold its branch based non-standard consumer lending business, ELG, which comprises ELG and subsidiary companies Everyday Lending Limited and Everyday Loans Limited, to Non-Standard Finance plc ("**NSF**") for £235 million including £20 million of NSF ordinary shares as valued at the date of the agreement, which comprises approximately 7.4 per cent. of NSF's issued share capital (the "**NSF Shareholding**"). Any deterioration in NSF's financial performance could negatively impact the price of NSF's shares and reduce the value of the Group's holding in NSF exposing the Group to potential losses, which could have a material adverse effect on its business, financial condition and results of operations.

In addition, while NSF also repaid certain inter-company liabilities to the Company, to assist in the financing for the acquisition, the Group provided a £30 million three year term loan to NSF, which is secured on ELG's assets. Consequently, if NSF defaulted on such loan, the Group would be exposed to the credit quality of the ELG unsecured lending portfolio. The failure by NSF to meet its commitments under the loan as they fall due may result in an impairment charge or a negative impact on fair value in the Group's lending portfolio. Deterioration in the credit quality of ELG's loan portfolio and any resulting impairment could have a material adverse effect on the Group's business, financial condition and results of operations.

3.12 The Group is exposed to operational risks in the event of a failure of its IT systems, and the Group relies on third parties for significant elements of its IT and other middle and back office processes

The Group's business is dependent on processing a high volume of transactions across numerous and diverse products and services accurately and efficiently. The Group also depends on technology to maintain its reputation for quickly and seamlessly processing customer requests, including account openings, payments and transfers. As a result, any weakness in the Group's IT systems, online or mobile banking platforms, or operational processes could have an adverse effect on its ability to operate its business and meet customer needs.

While the Group has disaster recovery and business continuity contingency plans in place, an incident resulting in interruptions, delays, the loss or corruption of data or the cessation of systems can still occur. The Group also periodically upgrades its existing systems, and problems implementing these upgrades may lead to delays or loss of service to the Group's customers, as well as an interruption to its business, which could expose the Group to potential liability.

In addition, the Group outsources significant elements of its IT and network functions and some of its middle and back office processes, such as telephony infrastructure and data centre infrastructure, to third parties. The Group also relies on certain third-party service providers for its hosted service software for unsecured personal and motor finance loans and Microsoft for a variety of operational software. In addition, the Group relies on Barclays Bank PLC as its clearing bank. If these third parties were unable to deliver their services to the Group in a timely manner and in accordance with required specifications, the Group's ability to meet its customer service levels could be compromised.

The Group's systems are also vulnerable to damage or interruption from other factors beyond its control, such as floods, fires, power loss, telecommunications failures and other similar events.

The Group's operations must be considered in the light of the risks, uncertainties, expenses and difficulties frequently encountered by companies that are growing quickly or have undertaken a number of acquisitions and disposals. The Group expects to continue to introduce new IT systems and upgrades as its business expands, and there can be no guarantee it will be able to efficiently implement these changes efficiently or cost effectively, or that its current IT systems will have sufficient scalability to support the Group's planned growth. Any actual or perceived inadequacies, weaknesses or failures in the Group's IT systems or processes could have a material adverse effect on its business, financial condition and results of operations.

3.13 The Group is exposed to risks associated with cybercrime

As a financial institution, the Group is subject to a heightened risk of actual or attempted IT security breaches by sophisticated cybercrime groups. Any failure by the Group's intrusion detection and anti-penetration software to anticipate, prevent or mitigate a breach of the Group's IT network could significantly disrupt the Group's operations.

The Group continues to invest in its information security controls in response to emerging cybercrime threats and to seek to ensure that controls for known threats remain robust. The Directors consider that the risks associated with cyber attacks are a material risk to the Group and are aware of the regulators' views of the risks of cyber attacks to the UK financial system, which has a high degree of interconnectedness between market participants, centralised market infrastructure and in some cases complex legacy IT systems. The Group cannot be certain that its infrastructure and controls will prove effective in all circumstances and any failure of the controls could result in significant financial losses and a material adverse effect on the Group's operational performance and reputation.

Any breach in the security of the Group's IT systems could disrupt its business, result in the disclosure of confidential information and create significant financial and legal exposure, as well as damage to the Group's reputation and brands and may result in a material adverse effect on the Group's business, financial condition, results of operations and prospects.

3.14 The Group may suffer loss as a result of fraud or theft

As a financial institution, the Group is subject to a heightened risk that it will be the target of criminal activity, including fraud or theft. Due to the nature of the Group's business, it has exposure to many different customers and third party service providers. The Group's selection and screening processes with respect to its third party service providers and lending customers, as well as its internal relationship management processes, may be ineffective if the Group's customers or third party service providers engage in fraudulent activity.

For example, the Group is exposed to potential losses resulting from customers or third party service providers providing the Group with falsified or fictitious information in order to secure financing or receive sales commissions. Further examples of possible fraudulent activity include borrowers of invoice discounting provided by the Group's Commercial Finance team raising falsified or fictitious invoices or diverting payments owed to the Group from the underlying customer into the borrowers' own bank account, and borrowers in the Group's Asset Finance division obtaining financing from more than one lender secured against the same collateral assets or obtaining financing on assets which do not exist. Such fraudulent activity could have a material adverse effect on the Group's business, financial condition, results of operations or prospects. The Group is also reliant on the accuracy and completeness of information it receives from its third party service providers, credit reference agencies and customers. If the Group receives inaccurate or misleading financial statements, credit reports or other financial information relating to its borrowers, such borrowers may be more likely to default on their obligations to the Group, which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

In addition, losses arising from staff misconduct may result from, among other things, failure to document transactions properly or obtain proper internal authorisation in an attempt to defraud the Group, or from theft by staff of customer data or physical theft at the Group's premises. Such behaviour may be difficult to prevent or detect, and the Group's internal policies to mitigate these risks may be inadequate or ineffective. The Group may not be able to recover the losses caused by these activities, and it could suffer reputational harm as a result, which could have a material adverse effect on its business, financial condition, results of operations or prospects.

3.15 The Group is subject to risks associated with its hedging and treasury operations, including potential negative fair value adjustments

While the Group does engage in limited hedging operations, it does not hedge all of its risk exposure and cannot guarantee that its hedging strategies will be successful due to factors such as behavioural risk, unforeseen volatility in interest rates or decreasing credit quality of hedge counterparties in times of market dislocation.

Through its treasury operations, the Group holds liquid asset portfolios for its own account, exposing the Group to interest rate risk, basis risk and credit spread risk. Under volatile market conditions, the fair value of the Group's liquid asset portfolios could fall more than estimated and cause the Group to record mark-to-market losses. In addition, as of 30 June 2016, the Group had investment securities of £19.8 million, comprising conservative, low-interest paying UK treasury bills. The Group has also pledged consumer loan assets as collateral to the Bank of England for the £15.0 million it had drawn down from the FLS as of 30 June 2016. In a distressed economic or market environment, the fair value of certain of the Group's holdings and exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods, reflecting then prevailing market conditions, may result in significant negative changes in the fair value of the Group's exposures and holdings.

Any inability of the Group to effectively manage its hedging and treasury operations could have a material adverse effect on its business, financial condition and results of operations.

3.16 The Group could fail to attract or retain senior management or other key staff

The Group's success depends on the continued service and performance of its key staff, particularly its senior management, and its ability to attract, retain and develop high-calibre talent. The Group may not succeed in attracting and retaining key personnel if they do not identify or engage with the Group's strategy and values or they do not wish to be located or relocate to the Group's key locations in Cardiff, London, Manchester, Rotherham and Solihull. The Group competes for talented people with specialist skills that are in relatively short supply at some of its locations and the Group, as a smaller market participant, may not have sufficient scale to offer staff rates of compensation or opportunities to advance within the organisation comparable to its larger competitors, particularly at more senior levels. Competition for high-calibre senior management and other key staff may increase if the Group's competitors were to relocate to the Group's key locations for cost saving or other reasons. In addition, external factors such as macroeconomic conditions, the developing and increasingly rigorous regulatory environment, changes to work permit and visa rules, or negative media attention on the financial services industry may adversely impact attracting and retaining staff.

In addition, CRD IV requires the UK to impose restrictions on the remuneration of bank staff, including requirements to ensure remuneration does not encourage excessive risk taking. These restrictions have been implemented through the PRA Remuneration Rules. The restrictions imposed by the Remuneration Rules on payout mechanics, such as a cap on bonuses and a requirement that variable remuneration be subject to risk adjustment and be partially deferred do not currently apply to the Group as the PRA applies a principle of proportionality relative to the size of the institution. However, there continues to be political pressure for further regulation of remuneration for individuals working in the financial services sector, including banking executives, and the application of proportionality may be re-examined by the PRA and/or European Banking Authority. Under the new regime for senior managers (introduced in the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**")), which came into force on 7 March 2016, individuals carrying out positions of significant influence at banks are individually responsible for defined areas of the business and can be held to account by the PRA and FCA on that basis. The Banking Reform Act also introduced a new criminal offence applicable to senior managers of reckless mismanagement resulting in a bank failure (punishable by a maximum seven years' imprisonment). These types of legislation, regulation and rules (including the PRA Remuneration Rules) may reduce the willingness of potential executive directors and senior managers to provide their services to the Group.

Any failure to attract and retain key staff, including senior management, could have a material adverse effect on the Group's business, financial condition and results of operations.

3.17 **Legal and regulatory proceedings could impact upon the Group's reputation and earnings**

The Group is subject to legal and regulatory proceedings in the course of its business. Risks relating to these proceedings may arise for a number of reasons, including (i) the Group's business may not be, or may not have been, conducted in accordance with applicable laws or regulations, (ii) contractual obligations may either not be enforceable as intended or may be enforced in a way that is adverse to the Group or (iii) liability for damages may be incurred to third parties harmed by the conduct of the Group's business. There can be no assurance that the Group will prevail in any future litigation or regulatory proceedings. Any litigation or other proceedings, whether or not determined in the Group's favour or settled by the Group, could be costly and may divert the efforts and attention of the Group's management and other personnel from normal business operations. In addition, any proceedings could adversely affect the Group's reputation and the market's perception of the Group and the products and services that it offers, as well as customer demand for those products and services, which could have a material adverse effect on the Group's business, financial condition and results of operations.

In particular, the Group faces both financial and reputational risks as a result of legal and regulatory proceedings, and complaints made to it directly or to the FOS or regulatory bodies, both against the Group and against members of the banking industry more generally. For example, recent decisions by the UK courts have indicated that the courts can exercise a wide degree of discretion when evaluating whether a credit agreement was "unfair" with respect to a borrower and render such arrangement unenforceable. New interpretations of the law expose the Group to the risk that types of contract previously entered into may now be voidable or practices thought to be lawful are reversed and determined to be unlawful. The Group cannot be certain that its interpretation of the laws relating to credit agreements will continue to be correct and that its interpretation will not be challenged in the future. Any such adverse interpretations, whether by the courts or regulatory bodies, could be material in amount and have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

3.18 **The Group is subject to changes in taxation laws**

The Group's activities are conducted in the UK, and consequently, it is subject to a range of UK taxes. Revisions to tax legislation or to its interpretation could result in increased tax rates (including in relation to UK corporation tax rates) or additional taxes. In addition, the Group is subject to periodic tax audits, which could result in additional tax assessments relating to past periods which may result in a further liability to tax or the application of penalties, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The UK Government introduced provisions in the Finance (No.2) Act, enacted on 18 November 2015, to charge an 8 per cent. surcharge on profits of banks to the extent that they exceed £25 million per year (the "**banking surcharge**"). The provisions apply to accounting periods beginning on or after 1 January 2016. While the banking surcharge is not expected to apply in the year ending 31 December 2016, the Group expects to incur this charge in subsequent years.

Adverse changes in tax laws, and any other reform amendments to, or changes in the interpretation or enforcement of, applicable tax legislation (including in relation to the recognition of deferred tax assets) that negatively impact the Group or its customers could have a material adverse effect on the Group's business, financial condition and results of operations.

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

The Group faces a wide range of risks in its core business activities, including credit risk and liquidity risk, conduct risk and interest rate risk. See Part 12: "*Risk Management*". Effective risk management requires, among other things, robust policies, processes and controls for the accurate identification and control of a large number of transactions and events, and the Group's risk management policies, processes and controls may not prove to be adequate. The Group has a range of tools designed to identify, assess and manage the various risks which it faces, some of which are based on historical market behaviour. These methods may be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historical experience. Other methods the Group utilises for risk management are based on the evaluation of markets, customers or other information that is publicly known or otherwise available to the Group. This information may not always be correct, updated or correctly evaluated. Furthermore, in respect of certain products the Group has a limited operating history and, consequently, does not have a long track record on which it can assess the performance of its systems and processes or the analysis of those systems' outputs in respect of those products. As such, it may be difficult to predict changes in economic or market conditions and to anticipate the effects that these changes could have on the Group's financial performance and business operations, particularly in periods of unusual or extreme market conditions. The Group is also limited by a maximum level of risk that it 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. If the Group's risk management policies, processes and controls are ineffective for any reason, this could have a material adverse effect on its business, financial condition and results of operations.

3.20 The Group's accounting policies and methodologies are important to ensure accurate reporting and they require management to make estimates

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

The Group has identified certain accounting policies in Part 11: "*Operating and Financial Review*" and in the notes to the financial statements in respect of which significant judgement is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. A number of these judgements are also identified in note 2 to the Group's historical financial information contained in Part 14: "*Historical Financial Information*". Such judgements and associated assumptions and estimates are based on historical experience and various other factors that are considered by management under the circumstances at the time, and may prove to be incorrect, which could lead to inaccuracies in the reported financial position and performance of the Group that could be material.

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

3.21 Changes in the Group's accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations

From time to time, the International Accounting Standards Board (the "**IASB**") and/or the European Union change the IFRS that govern the preparation of the Group's financial statements. These changes can be difficult to predict and could materially impact how the Group records and reports its financial condition and results of operations. In some cases, the Group could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

IFRS 9 (Financial Instruments) ("**IFRS 9**") is the new standard to replace IAS 39 (Financial Instruments: Recognition and Measurement) ("**IAS 39**") and will be effective for annual periods beginning on or after 1 January 2018. IFRS 9 will change the classification and measurement of some financial assets and the recognition and the financial impact of impairment and hedge accounting. Depending on its interpretation by the relevant regulators, IFRS 9 could lead to a substantial negative impact on the capital position of affected institutions, including the Group, and in particular, may impact on the Group's reported profitability for the year ended 31 December 2018 as a result of the accounting adjustments that the Group may have to make.

The IASB may make other changes to financial accounting and reporting standards that govern the preparation of the Group's financial statements, which the Group may be required to adopt or which the Group may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Directors. Any changes in the Group's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

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

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

4. RISKS RELATING TO THE SHARES

4.1 The value of the Shares may fluctuate significantly

Following Admission, the value of the Shares may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in this Part 2: "*Risk Factors*", as well as period-to-period variations in operating results or changes in revenue or profit estimates by the Group, industry participants or financial analysts. The value of the Shares could also be affected by developments unrelated to the Group's operating performance, such as the operating and share price performance of other companies that shareholders may consider comparable to the Group, speculation about the Group in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in any number of countries, whether or not the Group derives significant revenue therefrom.

The market price of the Shares could also be negatively affected by sales of substantial amounts of Shares in the public markets, or the perception that these sales could occur.

4.2 The Company may not pay dividends, and future issuances of additional shares in the Company could dilute existing shareholders

As a matter of applicable company law, the Company may only pay dividends if and to the extent that, among other requirements, it has distributable reserves and sufficient cash available for this purpose. Any decision to declare and pay dividends in the future will be made at the discretion of the Board of Directors and, where required, with the approval of regulators and will depend on, among other things, the Group's financial position, general economic conditions and other factors the Directors deem significant from time to time. As a result, there can be no assurance that the Company will pay dividends in the future.

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

The Group may seek to raise financing to fund future acquisitions and other growth opportunities. The Group may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, the Company's existing shareholders would suffer dilution in their percentage ownership if these issues were not done on a pre-emptive basis.

4.3 Shareholders outside the United Kingdom may not be able to participate in future equity offerings

The Articles of the Company provide for pre-emptive rights to be granted to shareholders in the Company unless those rights are disapplied by a shareholder resolution. However, securities laws of certain jurisdictions may restrict the Company's ability to allow participation by shareholders in future offerings. In particular, shareholders in the United States may not be entitled to exercise these rights unless either the rights and Shares are registered under the Securities Act, or the rights and Shares are offering pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

4.4 **Shareholders with a reference currency other than Pounds Sterling will become subject to foreign exchange rate risk when investing in the Shares**

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

4.5 **After Admission, Arbuthnot will remain the most significant shareholder**

Following Admission, Arbuthnot will own 18.9 per cent. of the Group (and will therefore be an approved controller under the applicable regulatory regime) and will be the Group's largest shareholder. Arbuthnot will, through the votes it will be able to exercise at general meetings of the Company, be able to influence the decision of shareholders on matters put to shareholders for approval. In particular, any matter proposed to be approved by special resolution (being at least 75 per cent. of the votes cast) may not be passed if Arbuthnot exercises its vote against such resolution and a significant proportion of the Company's other shareholders do not vote on the resolution.

In connection with the sale by Arbuthnot of 6,000,000 Shares, Arbuthnot agreed to a 180-day lock-up period from the date of completion of the sale (being 15 June 2016). Following the expiry of the lock-up period, sales of Shares by Arbuthnot in the public market, or the perception that such sales may occur, could depress the market price of the Shares and could have a material adverse effect on the Group's ability to raise capital through the issue or sale of additional equity securities.

PART 3
IMPORTANT INFORMATION

1. PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

1.1 General

The historical financial information in this Prospectus has been prepared in accordance with the requirements of the Prospectus Directive Regulation, the Listing Rules and IFRS issued by the International Accounting Standards Board ("**IASB**") as adopted for use in the European Union. The basis of preparation is further explained in Part 14: "*Historical Financial Information*".

The historical financial information in this Prospectus consists of audited consolidated financial information of the Group for the years ended and as at 31 December 2013, 31 December 2014 and 31 December 2015 and the six months ended and as at 30 June 2016 and unaudited consolidated financial information for the Group for the six months ended and as at 30 June 2015.

In April 2016, the Group completed the sale of ELG. In order to present the Group's financial information in a manner that reflects its operations in the future, certain of the financial disclosures relating to the Group's income statement in this document are stated showing operations for the continuing Group, which excludes the operations of the ELG (the "**Continuing Group**") separately from both the results of operations of ELG and the results of operations of the Group with ELG. The statement of financial position as at 30 June 2016 reflects the financial position after the sale of the ELG however the statement of financial position for the periods ending 31 December 2013, 2014 and 2015 and as at 30 June 2015 includes ELG. In order to allow a meaningful comparison of loans and advances to customers for the Continuing Group, Part 11: "*Operating and Financial Review*" includes statement of financial position data for the Continuing Group.

1.2 Non-IFRS financial information

The Group presents certain key performance indicators that are not defined under IFRS but that it finds useful in analysing its results and that the Directors believe are widely used by investors to monitor the results of banks generally. 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. In addition, the Group presents certain operating data about its operations that do not form part of the Group's accounting records and are not subject to an audit or review process by independent external auditors.

Because of the discretion that the Group and other companies 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 companies. These measures should not be used as a substitute for evaluating the performance of the Group based on its Historical Financial Information prepared in accordance with IFRS.

Part 10: "*Selected Financial Information and Key Performance Indicators*" includes certain key performance indicators and other financial data: underlying PBT, underlying PAT, annualised underlying ROAA, annualised underlying ROAE, annualised underlying RORE and loan origination volumes. The Directors believe these measures are a useful indicator of the Group's operating performance before items that are believed to be non-recurring and not relevant to an assessment of its actual operating performance. These measures are also presented on an unadjusted basis to allow direct comparison. Underlying results and similar measures may be used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Investors should exercise caution in comparing the Group's results on these key performance indicators with data of other companies as they are not a measure of performance under IFRS.

2. AVERAGE BALANCE SHEET DATA

This Prospectus includes information relating to average balances of interest earning assets and interest bearing liabilities of the Group, the amounts of interest income and interest expense of the Group and the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities for the years ended 31 December 2015, 2014 and 2013 and the six months ended 30 June 2016 and 2015. This information is presented and further described in Part 10: "*Selected Financial Information and Key Performance Indicators*" and elsewhere in this Prospectus. Unless otherwise specified herein, average balances of assets and liabilities for the Group for the years ended 31 December 2015, 2014 and 2013 and the six months ended 30 June 2016 and 2015 were calculated using the yearly average of the monthly averages during the year.

3. FORWARD-LOOKING STATEMENTS

Some of the statements under Part 1: "*Summary Information*", Part 2: "*Risk Factors*", Part 7: "*Information on the Group*", Part 10: "*Selected Financial Information and Key Performance Indicators*", Part 11: "*Operating and*

Financial Review" and elsewhere in this Prospectus include forward-looking statements which reflect the Group's or, as appropriate, the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's business). These forward-looking statements relate to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", plans", "believes", "projects", "anticipates", "estimates", "will", "targets", "aims", "may", "should", "would", "could", "continue" "budget", "schedule" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the US federal securities laws or otherwise.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include, but are not limited to those described in Part 2: "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included in this Prospectus.

Forward-looking statements are not guarantees of future performance. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this Prospectus speak only as of the date of this Prospectus, reflect the Company's current view with respect to future events and are subject to risk relating to future events and other risks, uncertainties and assumptions relating to the Company's operations, results of operations, growth strategy and liquidity. Existing and prospective shareholders should specifically consider the factors identified in this Prospectus which could cause actual results to differ before making an investment decision. All of the forward-looking statements made in this Prospectus are qualified by these cautionary statements. Specific reference is made to Part 2: "*Risk Factors*", Part 7: "*Information on the Group*" and Part 10: "*Selected Financial Information and Key Performance Indicators*".

Subject to any obligations under the Prospectus Rules, the Listing Rules, and/or the Disclosure and Transparency Rules, the Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph.

4. NO INCORPORATION OF WEBSITE INFORMATION

Neither the contents of the Group's website nor any other website, is referred to, incorporated in or forms any part of this Prospectus. The content of any website accessible from the hyperlinks on the Group's website are not incorporated in, nor do they form, any part of this Prospectus.

5. ROUNDING OF FIGURES

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, (i) the sum or percentage change of such numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given and (ii) the sum of the numbers in a column or row in certain tables may not conform exactly with the total figure given for that column or row.

6. MARKET, ECONOMIC AND INDUSTRY DATA

Certain information contained in this Prospectus in Part 6: "*Industry Overview*", Part 7: "*Information on the Group*", Part 10: "*Selected Financial Information and Key Performance Indicators*" and elsewhere in this Prospectus relating to the UK banking market in which the Group operates as well as certain economic and industry data and forecasts used in, and statements regarding the Group's market position made in, this Prospectus were extracted or derived from third party reports, market research, government and other publicly available information and independent industry publications, as the case may be, prepared by, *inter alia* the Bank of England, the Office for National Statistics, Mintel and other governmental and private bodies. Where third party information has been used in this Prospectus, the source of the information has been identified.

While the Directors believe the third party information included herein in Part 6: "*Industry Overview*", Part 7: "*Information on the Group*", Part 10: "*Selected Financial Information and Key Performance Indicators*" and elsewhere in this Prospectus to be reliable, neither the Company nor the Sponsor makes any representation or warranty as to the accuracy or completeness of such information as set forth in this Prospectus. The Company confirms that such third-party information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information has not been audited or independently verified.

7. CURRENCY PRESENTATION

In this Prospectus all references to "pounds sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom, all references to "$", "US$" or "US dollars" are to the lawful currency of the US and all references to "€" or "Euros" 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.

8. REFERENCES TO DEFINED TERMS

Certain terms used in this Prospectus, including certain capitalised terms and certain technical and other terms, are defined, and certain selected industry and technical terms used in this Prospectus are defined and explained, in Part 17: "*Definitions*".

PART 4
DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors

Current:	Sir Henry Angest	(Non-Executive Chairman)[1]
	Paul Lynam	(Chief Executive Officer)
	Neeraj Kapur	(Chief Financial Officer)
	Paul Marrow	(Senior Independent Non-Executive Director)
	Lord Forsyth	(Independent Non-Executive Director)
	Andrew Salmon	(Non-Executive Director)

Company Secretary	Alan Karter
Registered Office of the Company and telephone number	One Arleston Way Shirley Solihull West Midlands B90 4LH Tel: +44 121 693 9100
Sponsor	Stifel Nicolaus Europe Limited 150 Cheapside London EC2V 6ET
Legal Advisers to the Company as to English law	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ
Legal Advisers to the Sponsor as to English law	Eversheds LLP One Wood Street London EC2V 7WS
Reporting Accountants and Auditors	KPMG LLP 15 Canada Square London E14 5GL
Registrars	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

1 Subject to regulatory approval, Lord Forsyth will become the Chairman of the Board on the retirement of Sir Henry Angest as Chairman. Sir Henry Angest will remain on the Board as Non-Executive Director following his retirement as Chairman.

PART 5
EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and is subject to change without further notice. References to a time of day are to London time (unless stated otherwise).

Publication of Prospectus	7 October 2016
Last day of trading of the Shares on AIM	11 October 2016
Expected delisting of the Shares from AIM	8.00 a.m. on 12 October 2016
Expected admission of the Shares to the Official List	8.00 a.m. on 12 October 2016
Expected commencement of dealings of the Shares on the Main Market	8.00 a.m. on 12 October 2016

(1) The times and dates set out in the expected timetable of principal events above and mentioned in this document, and in any other document issued in connection with Admission are subject to change by the Company, in which event details of the new times and dates will be notified to the UKLA, the London Stock Exchange and, where appropriate, shareholders.

PART 6
INDUSTRY OVERVIEW

The following information relating to the UK banking market and certain sub-sectors thereof has been provided for background purposes only. Shareholders should read this Part 6: "Industry Overview" in conjunction with the rest of this Prospectus including Part 2: "Risk Factors", Part 5: "Important Information", Part 7: "Information on the Group", Part 9: "Supervision and Regulation", Part 10: "Selected Financial Information and Key Performance Indicators" and Part 11: "Operating and Financial Review", prior to making any assessment of the Company or the Shares.

1. ECONOMIC OVERVIEW

From 2011, the UK economic environment has been subject to a period of continued improvement. This period of growth has followed a sustained period of economic weakness commencing with the start of the global financial crisis in 2008. UK GDP grew by 2.2 per cent. in 2015, which was the strongest annual growth rate since 2010. The labour market has also experienced recent improvement. In June 2016, the UK unemployment rate was 4.9 per cent., which represents an improvement of 5.1 per cent. from a year earlier. The reduction of unemployment has arisen in the context of the number of people in employment increasing from 31.1 million to 31.2 million over the same period.

As at 30 June 2016, consumer price inflation was below the 2 per cent. target set by the Bank of England. The Bank of England base rate was reduced to 0.5 per cent. in 2009 following the financial crisis, and remained there until August 2016. On 4 August 2016, the Monetary Policy Committee announced a further cut to 0.25 per cent.

The improved economic environment has also prompted a revival in the housing market, with a 8.7 per cent. increase in the Halifax House Price Index from June 2015 to June 2016.

Other UK macro-economic indicators have also shown improvement, as summarised in the table below:

	As at 30 June	**As at 31 December**				
	2016	2015	2014	2013	2012	2011
GDP (£bn)(1)	1,850.9	1,833.2	1,793.0	1,739.6	1,706.9	1,684.8
Bank of England base rate (%)(2)	0.5	0.5	0.5	0.5	0.5	0.5
Bank of England Funding for Lending Scheme (£bn)(3)	60.6	69.5	55.7	41.9	13.8	—
Consumer price index inflation (%)(4)	0.5	0.2	0.5	2.0	2.7	4.2
Business investment (yoy %)(5)	(0.8)	5.0	3.9	2.6	7.2	4.3
Unemployment rate (%)(6)	4.9	5.1	5.7	7.2	7.8	8.4
Halifax House Price Index (yoy %)	8.7	10.3	8.7	6.2	2.8	(2.5)

(1) Office for National Statistics GDP data to 30 June 2016.

(2) Bank of England as at 30 June 2016.

(3) Bank of England outstanding FLS drawings as at 31 March 2016.

(4) Office for National Statistics Consumer Price Inflation time series dataset (MM23) 19 July 2016.

(5) Office for National Statistics Annual growth of business investment, chained volume measure release 30 June 2016.

(6) Office for National Statistics 17 August 2016

Following the referendum on the UK's membership of the EU held on 23 June 2016, the UK economy has experienced volatility in financial markets and the pound sterling fell to a 31 year-low against the US dollar of US$1.28 on 6 July 2016. Two credit rating agencies: Fitch and Standard & Poor's have downgraded the UK from an "AAA" to "AA" credit rating, creating some pressure on the cost of government borrowing. This volatility has created increased uncertainty about the short to medium term outlook for the UK economy. Whilst stock markets have recently improved from immediate post-referendum falls, the initial post-referendum forecasts for the UK economy range in expectations from a slowdown in growth to recession.

To support the smooth functioning of capital markets, the Bank of England announced that it stood ready to provide more than £250 billion of additional funds through its normal facilities and substantial liquidity in foreign currency. On 4 August 2016, the Bank of England announced that it would extend its existing quantitative easing programme by £60 billion and on the same day, the Monetary Policy Committee announced a new Term Funding Scheme ("**TFS**"), to provide funding for banks at interest rates close to the Bank of England base rate. This scheme is intended to assist in the transmission of the base rate cut to 0.25 per cent. to the UK economy and to provide an effective source of funding to support additional lending. TFS exists alongside the FLS which was launched by the Bank of England alongside the Treasury in 2012, which provides funding to banks for an extended period, with both the price and quantity of funding provided linked to their lending performance, and is currently planned to run until January 2018.

Additionally, the Bank's Financial Policy Committee, announced in its publication of the 2016 Financial Stability Report, that the UK countercyclical buffer (CCyB) rate will reduce from 0.5 per cent. to 0 per cent. with immediate effect.

In summary, the long-term impacts of UK's exit of the EU cannot be reliably predicted. However, the negotiation process between the UK and the EU could result in uncertainty in relation to the investment climate, which may delay investment decisions and therefore hamper future economic growth.

2. OVERVIEW OF UK BANKING MARKET

The UK banking industry plays an important role in the UK economy, providing a range of services to facilitate day-to-day financial transactions and providing capital to both individuals and businesses for various purposes. The total UK banking market comprised £2.2 trillion of gross lending assets at 30 June 2016 and £2.1 trillion in deposits (*Sources: Bank of England and Thomson Reuters Datastream*). This represented an increase of 2.5 per cent. from 30 June 2015 as the appetite for credit improved with strengthening UK macroeconomic conditions.

The UK banking market can be split into various types of lending asset, with the largest contributors being residential mortgages, corporate loans, SME lending and personal unsecured loans.

UK bank lending is funded by retail markets (customer deposits) and wholesale markets (either unsecured or collateralised against bank assets). Retail markets provide the majority of UK banks' funding. The retail funding market can be segmented by customer type and duration of funding. Retail customers predominantly require current accounts, easy-access and short-to-medium-term savings products, while large institutions require corporate current accounts and more sophisticated liquidity lines. The needs of SMEs exhibit characteristics of both retail customers and large institutions, using current account facilities as well as easy access and short to medium-term savings.

The UK banking market is dominated by the largest six high street institutions: HSBC, Barclays, RBS, Lloyds, Santander and Nationwide (the first five being banks while Nationwide is a building society). These are long-established entities providing a large range of banking services, typically with a national coverage.

As well as the largest six institutions, there are also a large number of mid-sized banks including Virgin Money, Clydesdale and TSB. These banks enjoy an established customer base and compete with the larger banks in the mainstream retail and commercial markets. Next, come slightly smaller full-service banks offering products to the retail and SME sectors such as Metro Bank and Handlesbanken.

There are also building societies, of which Nationwide is by far the largest. These are owned by, and run for the benefit of, their members, who form the majority of a society's mortgage and savings customers. Building societies are governed by the UK Building Societies Act 1986 with regards to the products and services they can offer.

Specialist banks such as Shawbrook and Aldermore offer products that typically focus on specific sub-sectors of the market. In addition, a number of non-bank finance companies such as short-term high cost credit ("**pay-day**") lenders, online specialists, peer-to-peer lending facilitators and specialist mortgage lenders focus on niche products in segments in which larger banks typically choose not to operate.

A number of non-financial groups, including retailers such as Sainsbury's, Marks & Spencer, Tesco and the Post Office, have taken the opportunity to use their existing customer base and retail infrastructure to establish a presence in the lending and savings market.

Net lending to UK businesses and individuals has been positive since 2013, following a period of negative net lending from 2008 in the wake of the global financial crisis as businesses and households paid down debt and banks restricted the supply of credit. Despite being positive, the aggregate net lending flow in 2015 was still small compared to the positive flows experienced in periods prior to 2009.

Following the global financial crisis in 2008/09, the UK banking market has experienced considerable sector consolidation with a high number of mergers and acquisitions (Lloyds's acquisition of HBOS being the largest as well as a number of smaller building society takeovers such as Santander's acquisition of Alliance & Leicester and Nationwide's acquisitions of Cheshire, Derbyshire and Dunfermline Building Societies). This has resulted in the UK banking sector becoming one of the most concentrated and least competitive in Europe according to a Treasury Select Committee report published in 2011. On 9 August 2016, the CMA published its findings in its Retail Banking Market Investigation Report (the "**CMA Report**") which concluded that retail banking markets are concentrated and have become more so as a result of recent consolidation activity. Although the longer-established banks (Lloyds Banking Group, Royal Bank of Scotland, Barclays and HSBC) have been losing market share, this has occurred slowly and the four large longer-established banks in the UK still have the largest shares of both the PCA and BCA markets, with 70 per cent. and 80 per cent. market share respectively in 2015. Furthermore, the Bank of England Q2 2016 Credit Conditions review indicates that the major UK lenders, Banco Santander, Barclays, HSBC, Lloyds Banking Group, Nationwide and Royal Bank of Scotland; account for approximately 75 per cent. of the stock of mortgage lending, 50 per cent. of the stock of consumer credit (excluding student loans) and 65 per cent. of the stock of lending to businesses at 31 March 2016.

Many of the larger UK banks have faced a number of alleged legacy and conduct issues arising from, inter alia, payment protection insurance and interest rate swap mis-selling, LIBOR scandals as well as prolonged underinvestment in their infrastructure. Total litigation, fines and customer redress have totalled more than £38 billion since 2011 (*Source: KPMG—A paradox of forces, 8 April 2015*).

Against this backdrop of customer dissatisfaction, lack of lending to the real economy and historic mis-selling, combined with the need for UK Government support for UK banks during the global financial crisis, the UK banking market is facing enhanced regulation and higher capital and liquidity requirements. As a result of State Aid provided to RBS and Lloyds, and to enhance competition in the UK market, the European Commission required both banks to divest Williams & Glyn and TSB respectively. Furthermore, the banking sector regulators (FCA and PRA) are reviewing and proposing changes to address the lack of competition in the UK banking market and the ease with which borrowers can access finance.

As a result of losses incurred and increased capital and liquidity requirements, the large incumbent banks have been forced to deleverage and rebuild capital through targeted balance sheet reductions. As well as deleveraging, a number of incumbent banks have been through major cost-cutting exercises, have scaled back their branch network and are continuing to spend significant amounts on improving their IT and operational capability. Additionally, several incumbent banks, such as Lloyds and RBS, continue to streamline their businesses and refocus their operations both geographically and by product.

The factors above have presented an opportunity for smaller competitors such as Secure Trust Bank. While the larger banks have sought to move away from bespoke underwriting and a relationship-based model towards a more commoditised product offering, the new competitors have adopted a different model. New entrants have adopted a variety of models targeting different credit segments (i.e. retail, SME, corporate) and adopted different distribution models (i.e. branches, intermediary, direct).

A number of these new participants successfully listed their shares in the last two years (for example, Aldermore, OneSavings Bank, Shawbrook, Virgin Money and Metro Bank) and continue to achieve strong growth and returns.

3. MARKETS IN WHICH THE COMPANY OPERATES

3.1 UK SME Overview

Within the UK, an SME is usually defined as a business with less than £25 million turnover. Within the UK banking market, as at 31 March 2016, the value of lending to SME's was £108.5 billion (*Source: British Bankers' Association—Bank support for SME's, 1st Quarter 2016*) in a total business lending market of £832.5 billion (*Source: Bank of England*). SMEs account for around 60 per cent. of private sector employment and 47 per cent. of the annual turnover of all private sector businesses (*Source: British Business Bank—Small Business Finance Markets 2015/2016*).

In 2015, 37 per cent. of SMEs had employed some form of external finance (*Source: SME Finance Monitor, Q4 2015 management report*). The main debt finance products demanded by SMEs included invoice finance, asset finance, unsecured bank loans, debenture lending, commercial mortgages, overdrafts and credit cards.

The market for SME finance is dominated by the large high street banks, supplemented by specialist lenders. The specialist lenders often tend to focus on a small selection of products.

Distribution of banking products to SMEs is predominantly via intermediaries, banking relationships (serviced via bankers and regional centres) and direct (usually via the internet and telephone as opposed to branches).

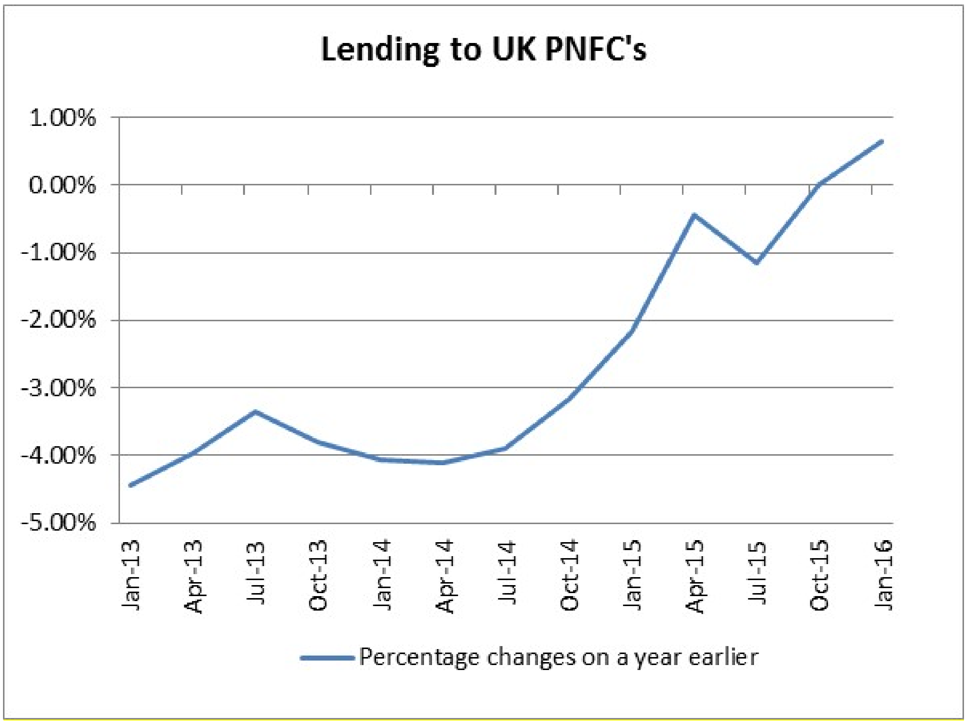
Demand for SME finance is driven by business confidence, leading to increased business investment. The growth in levels of business investment was 4.7 per cent. in 2015. It is expected that growth in business investment will slow in 2016 to 2.6 per cent. before growing by a further 6.1 per cent. in 2017 (*Source: Office for Budget Responsibility—Economic and Fiscal Outlook, March 2016*). Business investment decreased 0.8 per cent. in Q2 2016, compared to the same period in 2015 (*Source: Office for National Statistics, Q2 2016*). The continued economic recovery has also led small business confidence to reach near multi-year highs, as illustrated by the chart below.

SMEs have generally experienced greater difficulty than larger corporates in accessing finance. However, acceptance rates have continued to improve over time with 70 per cent. of new money overdraft applications in the 18 months to 31 December 2015 resulting in a facility being provided and 81 per cent. of all overdraft applications being successful, the highest proportion recorded on the SME Finance Monitor since it began tracking such data in Q1 2011 (*Source: SME Finance Monitor, Q4 2015 management report*).

The use of external finance has remained lower than in prior years with 37 per cent. of SMEs using external finance in the second quarter of 2015, compared to 46 per cent. in 2011 (*Source: SME Finance Monitor Q4 2015 management report*). SME products are often tailored to customers' individual requirements and incorporate a higher degree of customer interaction and service which larger banks are increasingly not able, or unwilling, to provide.

As a result of the combination of growing demand through business confidence and a lack of supply from high street banks, there has been a significant credit shortage in the SME segment. The Breedon Report, which was commissioned by the UK Government Department for Business, Innovation & Skills to specifically look at the topic of financing UK SMEs, estimated the SME credit gap between supply and demand could rise to c. £26-£59 billion by the end of 2016.

There have been signs of an SME market recovery recently. Loans outstanding to UK private non-financial corporations ("**PNFCs**") increased by 1.4 per cent. during the quarter ending 29 February 2016 compared with a decline in total loans outstanding of 5.6 per cent. and 1.0 per cent. during 2014 and 2015 respectively, as illustrated by the chart below. (*Source: Credit Conditions Review—Bank of England Q1 2016*).



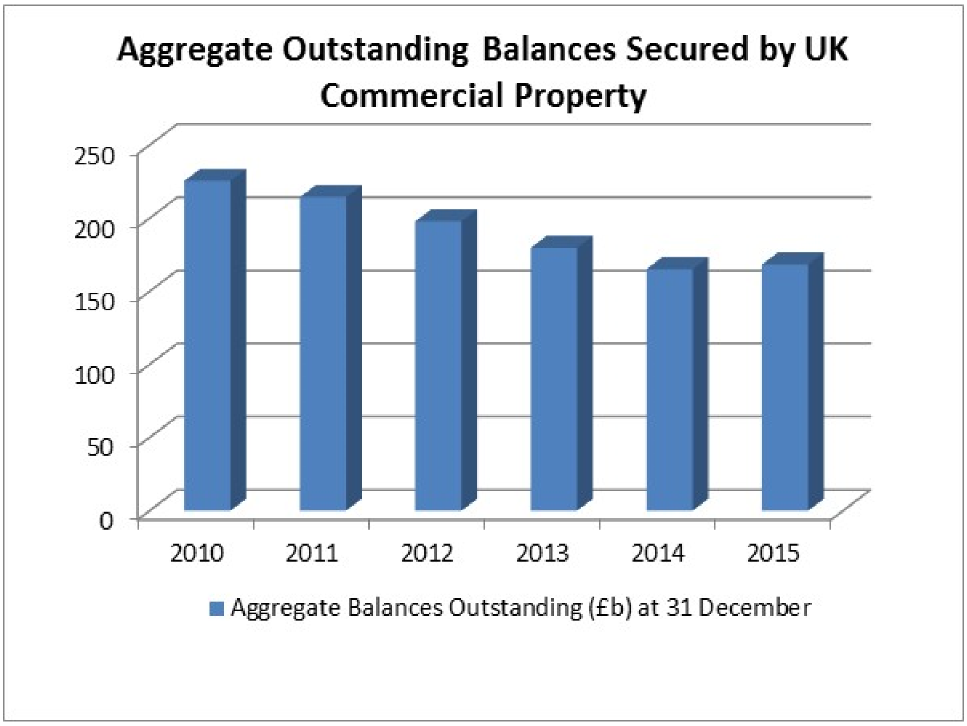
A brief description of the main categories of SME lending is set out below.

3.2 Real Estate Finance

Real estate finance includes investment lending to professional landlords and developers, mortgages secured against commercial properties such as retail premises, offices, industrial units and commercial and residential investment property. Real estate finance customers typically include large corporates, SMEs and private property investors.

Products offered in the market include mortgages for large commercial development projects (e.g. hotels), mezzanine lending products, professional buy-to-let mortgages and owner-occupied commercial properties (e.g. retail premises).

The total value of outstanding debt secured only by commercial property, according to the De Montfort Commercial Property Lending Report, is £168.4 billion as at year end 2015, representing a 1.9 per cent. increase from the £165.2 billion as at year end 2014.



Gross lending was £53.7 billion during 2015 up on the £45.2 billion recorded in 2014 as confidence in the market and the UK economy improved.

The high street banks are the largest players in the commercial property market. In the SME and professional property investor markets, the Group primarily competes with Lloyds, Shawbrook, Aldermore and Santander. Distribution via mortgage brokers and introducers is an integral feature of the real estate finance market.

The Group launched its real estate finance business in July 2013. The Group's SME commercial mortgages business portfolio amounted to £361.7 million at 30 June 2016 (mainly in the sub sectors of residential investment (47 per cent. of the Group's real estate finance book) and residential development (45 per cent. of the Group's real estate finance book)), resulting in an estimated market share of less than 0.01 per cent.

Real estate finance market demand is driven by SMEs, corporates and entrepreneurs gaining confidence in economic stability and a positive economic outlook. This leads to increased investment in property assets, including property development, particularly in an economic climate of improving property values and minimal interest returns on cash savings.

Demand in the professional buy-to-let market has been increasing in recent years, with 19 per cent. (4.4 million) of households renting privately, up from 11 per cent. in 2003 (*Source: English Housing Survey Report 2014—2015*). The private rented sector is forecast to continue to grow and account for more than a third of the UK's housing stock by 2032 (*Source: Civitas—The Future of Private Renting, January 2015*).

The management team has taken an active decision to avoid certain segments of the market, such as commercial real estate and buy-to-let financing, where it had concerns on the dynamics of these markets.

Investment mortgages are recovering close to 2007 levels as prime property yields have reduced materially.

Retail commercial property (comprising shopping centres and out-of-town retail warehouses and parks, as well as food and department stores and high street shops) is the largest commercial mortgage sub-sector, accounting for 43 per cent. of the total value of commercial property in 2014. London accounts for 36 per cent. of the total value of UK commercial property, as compared to its 23 per cent. share of UK GDP (*Source: Property Industry Alliance Property Data Report 2015*).

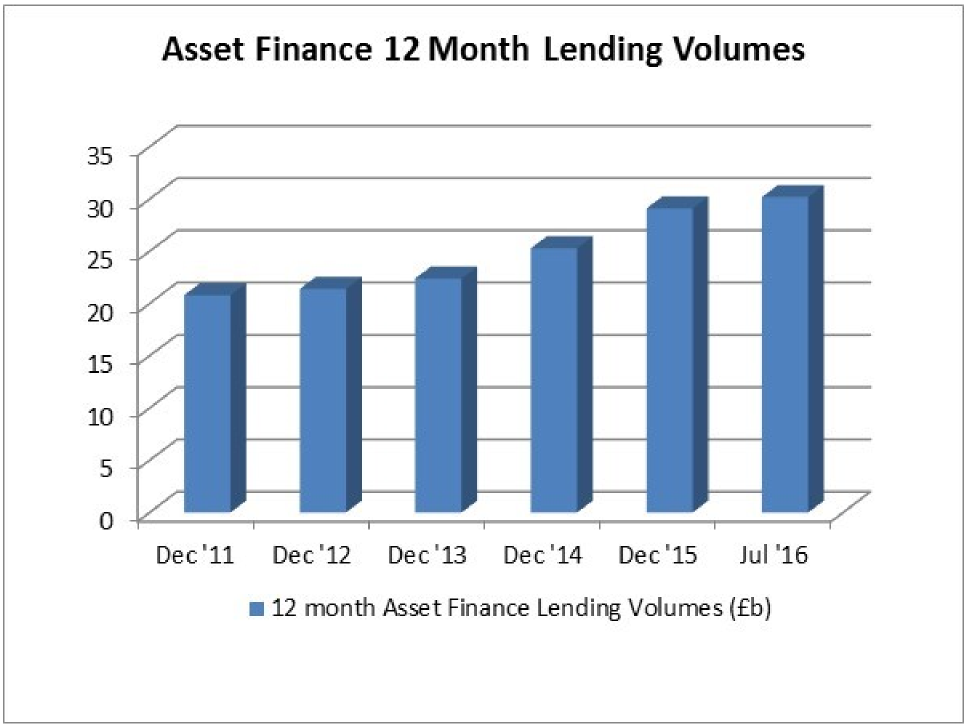
3.3 **Asset Finance**

Asset finance offers SMEs a secured finance alternative to a traditional bank loan and it is the third most common source of finance for businesses, after bank overdrafts and loans.

Asset finance agreements are secured against assets, with common examples including: vehicles, office equipment, manufacturing equipment, IT equipment and telephony systems. The majority (c.34.1 per cent.) of new commercial asset finance is secured against cars (new and used) and commercial vehicles, with the next largest category being plant and machinery (c.26.3 per cent.). Other larger types of security including specialist business equipment (e.g. medical equipment) and IT equipment and telephony systems, are often referred to as "soft assets" because of their limited sell-on value.

Assets such as cars and plant and machinery are favoured by providers of asset finance because there is a well-established liquid secondary market. Nonetheless, IT equipment has seen significant growth, increasing 22 per cent in the 12 months to April 2016. In addition, new vehicles and plant and machinery have also grown rapidly, up 7 per cent. and 12 per cent for the same period. Asset finance is predominantly short-term in nature, with an average contractual and behavioural duration of between 3 to 4 years.

According to the Financing & Leasing Association, the total origination of asset finance by its members to businesses and the public sector was £30.2 billion in the 12 months ending 31 July 2016, representing almost 32 per cent. of UK investment in machinery, equipment and software purchases in the UK. Overall new business volumes grew at a rate of 8 per cent. over the same period but the market remains smaller than 2007/08 when the market size was £31 billion.



The Group launched its asset finance business in the fourth quarter of 2014. As at 30 June 2016, the Group's asset finance business had net loans of £112.3 million, and is estimated to represent less than 0.1 per cent. of the total UK asset finance market.

Asset finance can be obtained directly from specialist providers, indirectly through equipment suppliers (c.5,000 operating in the UK in 2015) or through finance brokers (c.400 operating in the UK in 2015).The majority of asset finance (50 per cent. for the year ending 31 December 2015) is distributed directly and has remained a relatively constant proportion of the total volume of market originations since 2012

The main providers of asset finance in the UK can be broken down into:

(a) the larger banks (Barclays, RBS, Lloyds and HSBC) that accounted for approximately 65 per cent. of the value of outstanding loans in 2014 (*Source: Competition and Markets Authority—Retail Banking Investigation, October 2015*);

(b) original equipment manufacturers and vendors such as General Electric and Siemens; and

(c) specialised banks and lenders such as Close Brothers, Aldermore and Hitachi.

A key development of the asset finance segment was the exit of a major player, ING, in 2012 which is estimated to have created a gap of unserved credit demand of c. £1 billion for the rest of the sector. The high yields available in the sector make it attractive for companies looking for superior returns-for example, Paragon's acquisition of Five Arrows for £117 million in October 2015.

The growth of the asset finance market is primarily driven by business confidence. SMEs' need for asset finance increases as their output expectations rise. To accompany growth in business output, SME's will invest in new assets or replace existing assets, increasing demand for asset finance products.

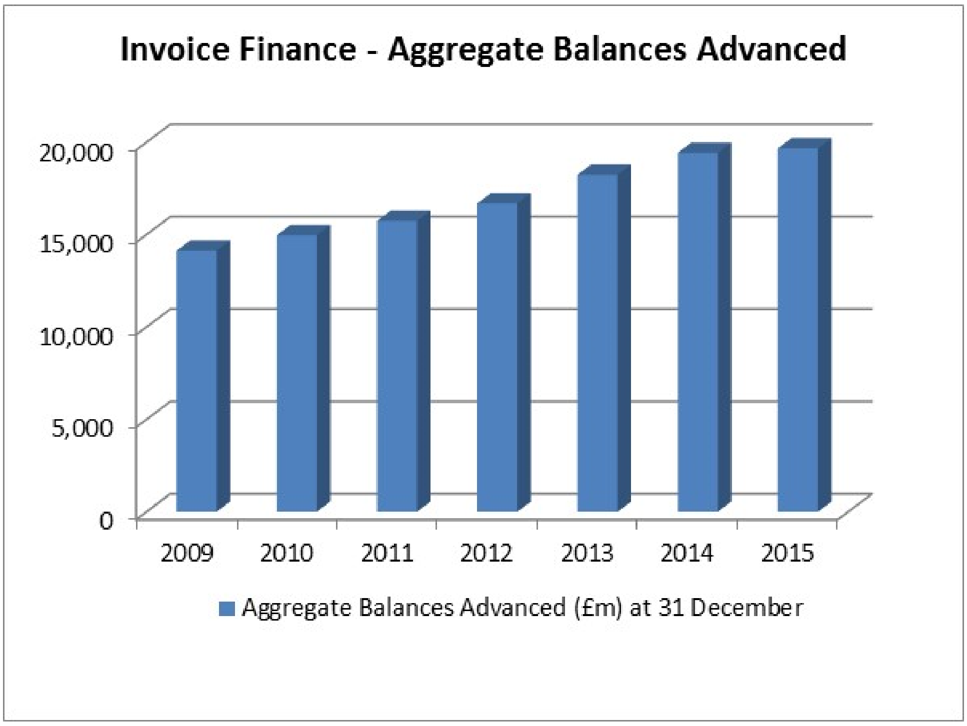
3.4 Commercial finance

Commercial (also often referred to as Invoice) financing enables SMEs to meet their working capital requirements through invoice finance. The most common types of invoice finance are:

(a) *Invoice discounting*: which involves lending against unpaid invoices, typically at an agreed percentage of their total value. The financier then charges a fee, commonly between 0.75 per cent. and 2.5 per cent. of turnover / total invoices. The average duration of invoice finance is currently 54 days. The lender does not directly interact with the business's customers under an invoice discounting facility; and

(b) *Factoring:* which involves the lender managing the credit control and interacting with the business's customers while retaining a percentage of the value in return. Upon purchasing the debt from a company, the financier provides a percentage of the cost upfront (usually around 85 per cent., with the remainder upon collection) and charges the company a discount charge (interest) and/or a fee.

According to the Asset Backed Finance Association ("**ABFA**"), the aggregate amount of invoice financing in the UK was £19.7 billion in 2015 and there are 43,868 customers in the market as at 31 December 2015, after reaching a peak of 48,000 in 2007/08. Invoice discounting represented 93 per cent. of domestic UK invoice finance new business volumes, whilst factoring facilities made up the remaining 7 per cent.



The Group launched its commercial finance business in September 2014. As at 30 June 2016, the Group's invoice finance portfolio amounted to £54.5 million, resulting in a market share of less than 0.1 per cent.

Invoice finance products are most commonly distributed via referrals from bank relationship managers, sold direct or via intermediaries such as specialist brokers and accountancy practices.

The market participants include the large banks (e.g. Barclays, RBS, Lloyds, HSBC) as well as some specialist providers such as Bibby Financial, Close Brothers and Aldermore, which are focused on regional and SME customers.

3.5 **Consumer Overview**

The UK unsecured consumer lending market is significant in size, with outstanding balances in the overall market (including unsecured term loans, retail finance credit cards and other short-term credit) amounting to approximately £186 billion at 30 June 2016 (*Source: Bank of England*).

Following a decline in originations and outstanding stock of unsecured credit in the period leading to 2009, consumer credit volumes have been increasing in recent years with new business (excluding student loans) increasing. Further growth in the sub-sector is expected, driven by increasing consumer confidence resulting in higher demand for consumer credit, an improving labour market increasing the capacity of consumers to service debt, and increasing lender supply (*Source: Datamonitor*).

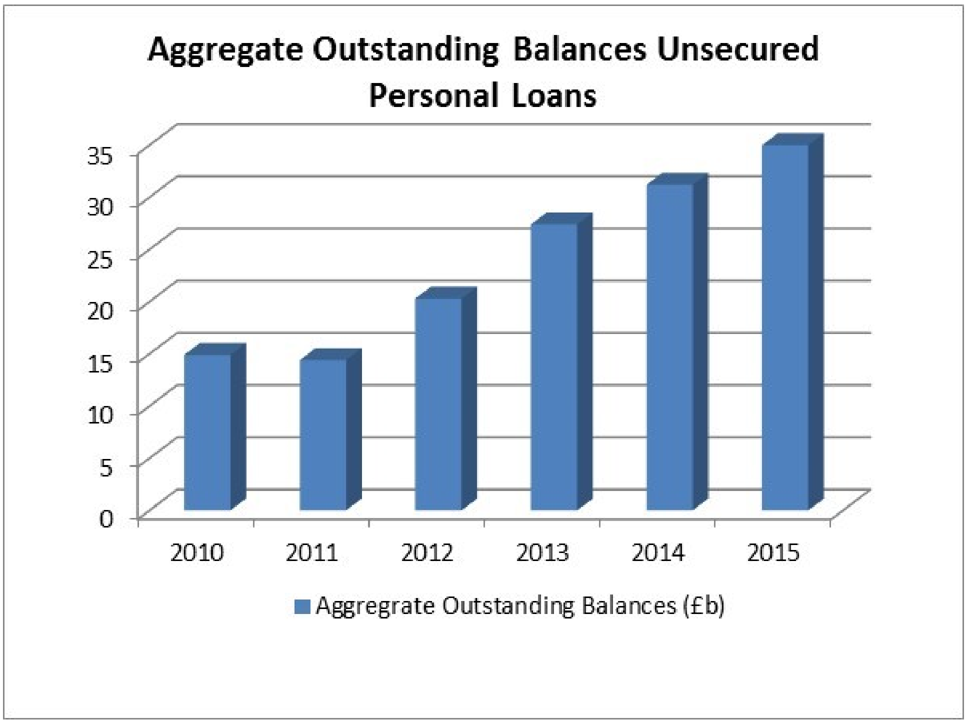
As at 30 June 2016, the Group's total consumer lending portfolio amounted to £541.9 million, resulting in a market share of less than 0.1 per cent.

A brief description of the main categories of Consumer lending and a breakdown of the Group's consumer lending portfolio into its constituent parts, is set out below:

3.6 **Personal Lending**

Personal loans allow customers to borrow a sum of money for a specified period of time without providing any collateral against the facility. The interest rate varies based on the credit quality of the borrower, together with loan value and term. As at December 2015, the average interest rate charged by UK banks for a £5,000 personal loan was 8.2 per cent. and 4.2 per cent. for a £10,000 personal loan (*Source: Bank of England*).

The overall personal loans market has experienced significant growth since 2009. Growth has been attributable to record-low interest rates, improving consumer confidence, and increased employment. It is estimated that the unsecured personal loans market has grown by 12 per cent. in 2015, to £35 billion as at 31 December 2015. Further growth is forecast over the next five years, with the market expected to reach £50 billion in 2020 (*Source: Mintel—Unsecured Loans UK, January 2016*).



Personal loans represent the fourth most commonly held form of credit for individuals, following credit card facilities, mortgages and current account overdraft facilities (*Source: Mintel*).

Following its divestiture of Everyday Loans, the Group's personal lending portfolio has reduced to £64.6 million as at 30 June 2016. This represents an estimated market share of less than 0.1 per cent.

High street banks dominate the unsecured loans market. Operating across a range of channels allows them to reach more consumers, whilst their existing customer base offers significant opportunity for cross-selling and lending to the most creditworthy customers. Lloyds is the biggest lender of unsecured personal loans, with £8.2 billion of loans outstanding at the end of 2014. However, like most other high street lenders, its overall net lending decreased in 2014 due to competitive market conditions. Challenger brands such as supermarket banks and smaller peer-to-peer lenders are partly responsible for this decline.

Supermarket banks have been highly successful following their entrance into the market, thanks to their highly recognisable brands. Tesco is the leading UK supermarket, with 24.4 per cent. of sector sales in the UK. Sainsbury's Bank has also experienced significant increases in unsecured lending volume, with approximate total lending of £3.1 billion during 2014, representing 17.1 per cent. growth from total lending of £2.6m during 2013 (*Source: Mintel*)

3.7 **Motor Finance**

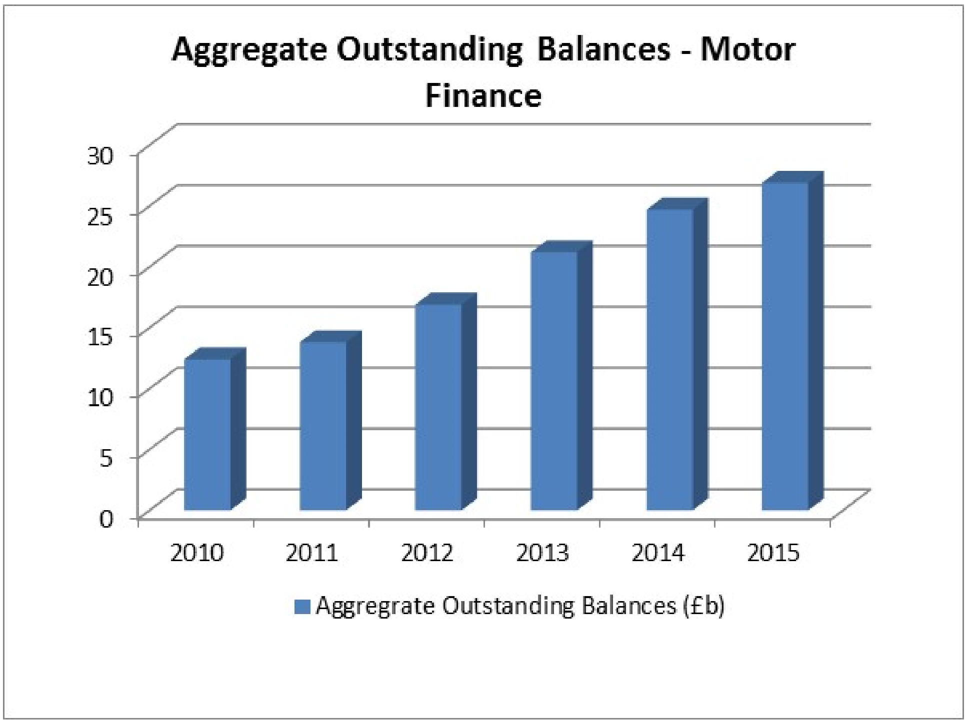
Motor finance comprises a variety of differing financial products which facilitate the purchase of a motor vehicle with a payment arrangement other than a lump sum payment. The provision of car finance by a third party supplier allows the acquirer to provide for and raise the funds to compensate the initial owner, either a dealer or manufacturer. The three main types of motor finance are as follows:

(a) *Hire purchase ("**HP**")*: A hire purchase agreement involves the car buyer paying an initial up-front deposit for their chosen car (usually starting at 10 per cent.), before making fixed monthly payments over a repayment term that is generally between one and five years. Once all fixed monthly payments have been made, along with an 'option to purchase' fee, the ownership of the car is transferred to the buyer.

(b) *Personal contract purchase ("**PCP**")*: A PCP plan, similar to HP, starts with the payment of a deposit (typically in excess of 10 per cent.), followed by fixed monthly payments over a typical term of two to four years. At the end of the repayment period, the buyer has the option to pay a final 'balloon' payment, known as the minimum guaranteed future value (MGFV) to keep and own the car, return the car, or use the car as part-exchange in return for a new car. For the latter option, the dealer pays the MGFV, with any surplus put towards the deposit for the replacement vehicle.

(c) *Lease purchase*: Lease purchases work similarly to PCPs, with a deposit (usually equivalent to between three and six months' rental) and monthly payments over two to four years. The differences between PCP and lease purchases are that, as the name suggests, lease purchases do not include the provision to own the car at the end. As a result, monthly payments can be much lower than under HP or PCP plans. However, the MGFV payment must be made in a lease purchase. This means that if the car has depreciated more than anticipated, and the car does not cover the MGFV, the consumer must cover any residual balance.

The car finance market enjoyed annual growth of 23 per cent. and 24 per cent. respectively in 2012 and 2013, reaching a total market of £20.2 billion by the end of 2013. Improved consumer confidence over the last year has encouraged a growing number of people to update their cars after a period of pent-up demand. The car finance market has also been helped by record low interest rates. It is anticipated that the Motor lending market will continue to grow at a slower rate, reaching £35.6 billion by 2019 (*Source: Mintel—Car Finance UK, 2015*).



As at 30 June 2016, the Group's Motor Finance portfolio amounted to £205.6 million, resulting in a market share of less than 0.1 per cent.

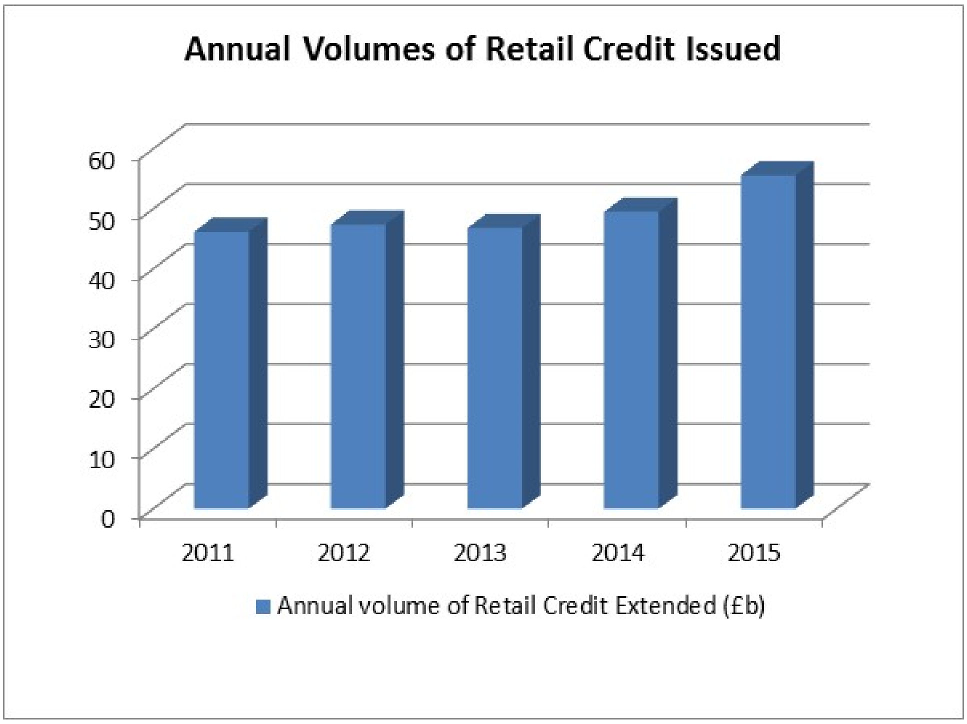
A high proportion of car finance plans are arranged at car dealerships, thereby providing car manufacturers' in-house finance providers a strong advantage over other lenders. Ford is the leading car manufacturer in the UK in terms of share of new car registrations. As the official finance partner of all Volkswagen Group marques, Volkswagen Financial Services is tied to four of the top 20 car manufacturers, with a combined market share higher than that of Ford Credit.

As at 2014, Black Horse was the UK's largest supplier of used car finance, whilst GMAC and Santander Consumer Finance led the specialist new car finance market (*Source: Mintel—Car Finance UK, 2014).*

3.8 Retail Finance

Retail finance is a method of providing loan services to retail consumers for goods and services, typically at the point-of-sale.

The overall market size for the retail finance sub-sector (including online credit) is estimated to comprise £6.7 billion of outstanding loans as at 31 December 2015, representing an increase of £254 million since 31 December 2014. It is estimated that £50.6 billion of retail credit was extended during 2015, representing an increase of 12 per cent. over the total retail credit extended during 2014 (*Source: Mintel—Consumer Attitudes Towards Retail Credit UK, October 2015*).



As at 30 June 2016, the Group's Retail Finance portfolio amounted to £271.7 million, representing a market share of approximately 0.4 per cent.

The biggest providers of retail credit are Shop Direct and Next. Both do so through their online proposition (*Source: Mintel Consumer Attitudes Towards Retail Credit UK, October 2015*). Next use their retail finance product to allow customers to buy on credit and approximately 75 per cent. of Next Directory customers do so. Shop Direct's offer has developed from its agency mail order business which precipitated development of their online proposition.

Interest free credit (IFC) offerings, are the norm for many household goods retailers. Most furniture retailers provide an IFC product, with DFS being the market leader. IKEA and John Lewis-financed by Hitachi Capital, have also recently begun offering an IFC product, albeit over a shorter repayment period than offered by DFS and other furniture retailers. An IFC product is structured such that the retailer will pay the lender a sum to compensate the lender for the absence of interest on the loan to the consumer.

3.9 **Residential Mortgages**

Residential mortgages are the most common form of financing in the UK to purchase residential property. The loan is secured by a mortgage, using the property as collateral against the amount borrowed. There are two principal categories of mortgage products in the UK residential mortgage market:

(a) *Owner-occupied mortgages*: provide financing to owner-occupiers, including first-time buyers, home-movers and those wishing to re-mortgage. This is the largest segment of the mortgage market, with £1,065 billion of outstanding balances as of 31 December 2014, or 85 per cent. of outstanding balances in the market (*Source: Council of Mortgage Lenders*); and

(b) *Buy-to-let ("**BTL**") mortgages*: provide financing for individuals who intend to rent out the purchased property. The BTL market had £188 billion of outstanding balances as of 31 December 2014, or 15 per cent. of outstanding balances in the market (*Source: Council of Mortgage Lenders*).

Within those categories, mortgage products can vary depending on:

(i) *Interest rate type:* variable rate mortgages, fixed rate mortgages and tracker mortgages; and

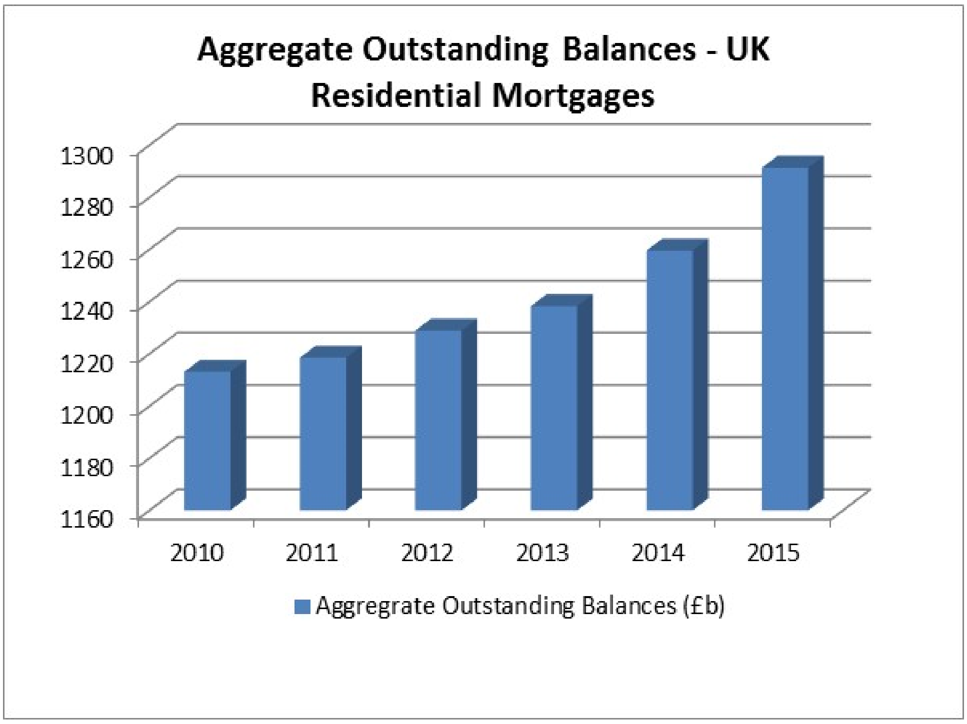
(ii) *Repayment type:* "capital repayment" and "interest-only".

Mortgage interest rates vary depending on (i) the size of the mortgage at origination relative to the value of the property on which the mortgage is secured (defined as Loan to Value or "**LTV**"), (ii) the size of mortgage relative to gross income of the borrower (defined as "**LTI**"), (iii) the borrower's credit history and (iv) the prevailing Bank of England base rate. Mortgage rates increase with LTVs and LTIs as the impairment risk increases. Higher LTV mortgage products may also be subject to higher regulatory capital requirements in the future. During Q1 2016, 68.3 per cent. of residential mortgage gross advances had an LTV below 75 per cent. and 97.2 per cent. had an LTV below 90 per cent. (*Source: Financial Conduct Authority*). BTL mortgages tend to have higher rates than owner-occupied mortgages at comparable LTV ratios.

There has been a significant reduction in gross lending from the pre-crisis peak, as gross mortgage lending in 2007 was £357 billion compared to £220 billion in 2015. Recovery in the mortgage market commenced in 2010 and has subsequently increased at a CAGR of 10 per cent. between 2010 and 2015. The recovery has continued in 2016 with gross mortgage lending for the second quarter of 2016 estimated at £56.1 billion. Whilst this is 10 per cent. lower than the first quarter of 2016, it is 8 per cent. higher than the second quarter of 2015 (*Source: Council of Mortgage Lenders*).

In particular, the market for first-time buyers has seen a significant increase, with the number of first-time buyers rising to more than 313,000 in 2015, the highest since 2007 (*Source: Council of Mortgage Lenders*). This is partly as a result of the UK Government's "Help to Buy" scheme which was launched in 2013 and provides shared-equity schemes for first-time buyers. The scheme was originally intended to run until 2017, but was extended until 2020 in March 2014. The chart below illustrates the residential loans to individuals by purpose showing an increase in the proportion of first-time buyers and buy-to-let purchases since 2008.

According to the Council of Mortgage Lenders, as at 31 December 2015 there are an estimated 11.1 million residential mortgages in the UK, with loans worth £1.3 trillion.



Mortgages are primarily distributed through two channels:

(i) *Intermediaries:* who provide advice to consumers and introduce mortgage business to lenders; and

(ii) *Direct-to-consumer:* by lenders through high street branches, internet and telephone.

Intermediaries play an important and growing role in UK mortgage distribution, and accounted for 71 per cent. of mortgage origination in Q2 2015 (*Source: "The Changing Face of Mortgage Distribution"—Intermediary Mortgage Lenders Association, December 2015*) and continue to increase their share. The intermediary channel enables smaller lenders to compete for mortgage business on a national scale since it reduces the need to have an extensive branch network.

The Mortgage Market Review ("**MMR**") reforms came into force on 26 April 2014 and affect the UK mortgage distribution market. MMR has effectively shifted the responsibility for verifying income and assessing whether the customer can afford the loan to lenders and also prohibits non-advised mortgage sales. In addition, the Mortgage Credit Directive (MCD), designed to foster a single market for mortgages and to protect consumers, was implemented in 21 March 2016. The introduction of the MCD rules has resulted in some second charge and buy-to-let mortgages becoming regulated by the FCA along with further enhancements to mortgage lenders' sales processes and documentation are required. As a result of these recent market regulatory changes, lenders without sufficient in-house advisory capabilities are increasingly relying on intermediaries to provide such services.

Following the government's Summer Budget in 2015, changes to tax legislation have been enacted to restrict certain tax reliefs for landlords associated with the finance costs incurred on funding the purchase of buy-to-let residential properties. The new measures will be introduced gradually from 6 April 2017. Landlords will no longer be able to deduct all of their finance costs from their property income to arrive at their property profits and will instead receive a basic rate reduction from their income tax liability for their finance costs. Accordingly, they will pay a higher amount of tax on rental property income. The new tax measures do not apply to incorporated entities which may increase the attraction of operating a residential property lettings business through an incorporated entity.

Competition in the UK residential mortgage market has increased in recent years. In 2009, the six largest lenders together accounted for 86 per cent. of gross mortgage advances. These six largest mortgage lenders and their respective share of gross advances in 2015 were: Lloyds (19.8 per cent.), Santander (13.5 per cent.), Nationwide (13.2 per cent.), Barclays (10.0 per cent.), RBS (9.7 per cent.) and HSBC (6.2 per cent.) (*Source: Council of Mortgage Lenders, 2014*). The remaining segment of the market is served by Yorkshire Building Society (3.7 per cent.), Coventry Building Society (3.6 per cent.), Virgin Money (2.9 per cent.), Clydesdale (2.5 per cent.) and other smaller lenders (*Source: Council of Mortgage Lenders, 2014*).

Challenger banks, smaller banks and mutuals have experienced an increase in lending in recent years, as they have been less affected by the legacy issues, liquidity and capital constraints and deleveraging that have impacted a number of the larger banks.

Customer demand for mortgages is affected by the strength of the housing market, among other factors. Average house prices in the UK fell by 17 per cent. from the peak in November 2007 to the trough in April 2009 (*Source: Land Registry*). However, there has been a recovery since and prices are generally higher than the pre-economic downturn peak, with strong growth having been experienced in London and the South East in particular.

House price inflation has exceeded wage inflation, constraining customers' affordability for residential mortgages and raising concerns of a potential overheating of the UK housing market. The house price to earnings ratio (a measure used for mortgage affordability and calculated using average seasonally adjusted house prices, average disposable earnings and the Bank of England's monthly average rate for new advances) increased from 4.42x in the last quarter of 2012 to 6.09x at the end of 2015. Over the same period, the house price to earnings ratio in Greater London increased from 5.43x to 9.63x (*Source: Halifax House Price Index*).

4. RETAIL DEPOSITS

Retail customer deposits comprise the savings held by banks on behalf of their customers. Banks can pool together such funds on a short-term basis and facilitate a more efficient allocation of capital across the economy by lending the funds to selected borrowers for a longer term. The stability of the funding base and liquidity of financial institutions are thus critical for the financial system due to the role retail banks play in maturity transformation.

In the UK there were £2.1 trillion of deposits as at 30 June 2016 (S*ource: Bank of England*). The market is segmented into: (i) non-interest bearing current accounts; (ii) sight deposits, where the entire balance is accessible without penalty, either on demand or by close of business; and (iii) time deposits, where deposits are not accessible without penalty, on demand / at end of day. Tax-free Individual Savings Accounts ("**ISAs**") accounted for 19 per cent. of the retail deposit market at £185 billion (S*ource: Financial Conduct Authority—Cash savings market study report, January 2015*). Retail depositors have protection under the Financial Services Compensation Scheme ("**FSCS**").

Savings accounts allow customers to deposit cash funds and receive interest on those funds, which is typically higher than funds held in a personal current account. Approximately 93 per cent. of adults in the UK have a cash savings account (*Source: Mintel—Deposit and Savings Accounts UK*). There are two main types of savings accounts:

(a) *Fixed rate savings accounts* (sometimes referred to as "time" or "term" deposits) offer a fixed interest rate for a fixed term; and

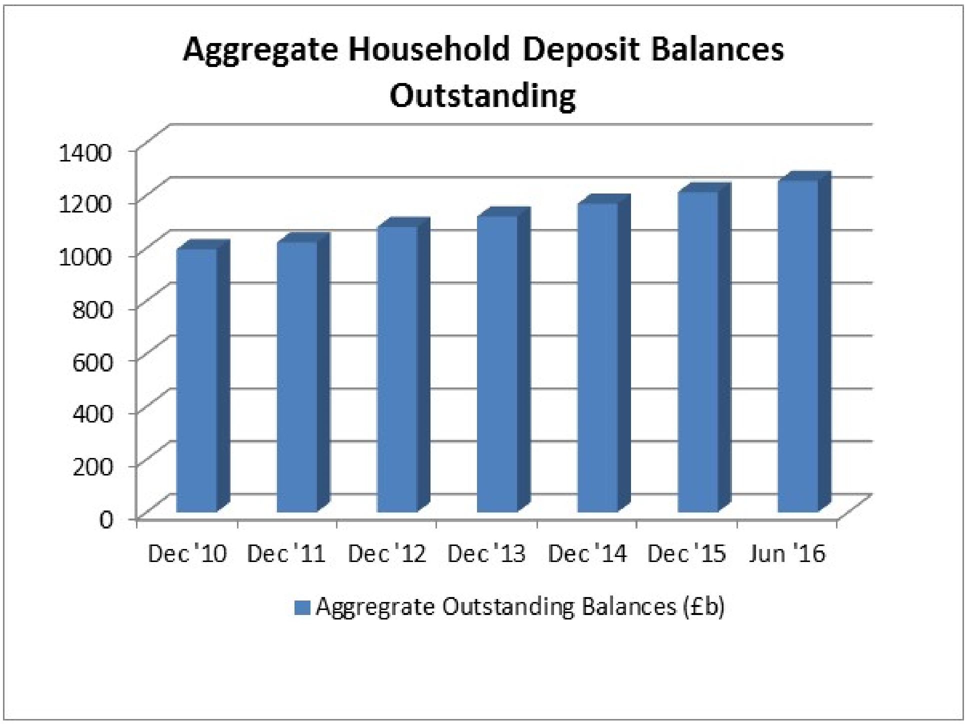
(b) *Variable rate savings accounts* pay a variable rate of interest (which may change at the discretion of the bank or building society but often moves in response to changes in the prevailing Bank of England base rate).

The retail deposit market can be divided into "primary" and "secondary" markets. In the primary market, customers use the current account for everyday transactions, usually where there is a direct deposit of salary and use of direct debits for regular bills. In the secondary market, a customer opens a second account with another provider.

Primary market: Primary customers use the account for everyday transactions, such as the direct deposit of salaries and direct debits for bills. They are likely to hold further products, such as mortgages, credit cards and loans, and tend to be customers who do not change their account arrangements frequently (*Source: Competition and Markets Authority—Personal Current Accounts*). Larger banks hold a leading share of the primary market.

Secondary market: This segment is driven more by price and/or customer service, as compared to the primary market. Total household deposits (including personal current account balances) stood at £1,232 billion as at 31 December 2015 (*Source: Bank of England*).

Over the three years to December 2015, household deposit balances have grown at a CAGR of 3.9 per cent. The growth in household deposits is illustrated in the chart below:



The Group had retail deposits of £1.0 billion at 30 June 2016, resulting in a market share of less than 0.1 per cent.

A subset of fixed and variable rate savings accounts are cash ISAs, the income generated from which is exempt from tax.

The UK deposit market is large but is concentrated among the high street banks. Some new entrants, such as Tesco Bank, are entering the market utilising their existing brand-value to attract customers and build a deposit base. Following the withdrawal of the FLS, it is expected that competition may increase as some lenders lose this funding stream.

The largest distribution channel for deposit accounts is from banks via branches and online as well as phone distribution. A small share of the market is distributed via intermediaries. However, "best-buy" tables published in the media or on price comparison websites provide guidance to customers seeking the most attractive rates.

Customer demand for deposits and savings is driven by the rate of interest on cash deposit accounts, versus the returns on other assets (e.g. equity investment, bonds), disposable income to save (household savings ratio) and individual attitudes towards both saving and risk.

Growth in deposits ran at an average at 8 per cent. from 2001 to 2007, as rising asset prices and higher interest rates helped grow market deposits. Since 2009 growth has been lower, averaging about 3 to 4 per cent. a year, a higher growth rate than consumer credit (due to customer deleveraging), but well below previous levels.

Seasonally, there is typically an increase in the second quarter as customers invest in ISA (tax-free savings) products around the change in tax year, although the third quarter is usually the busiest.

PART 7
INFORMATION ON THE GROUP

1. OVERVIEW

Secure Trust Bank is an established, well funded and capitalised UK retail bank. The Group's strategy is to build on its current position as an established UK retail bank through a focus on carefully selected and attractively priced segments of the consumer and business markets, prudent underwriting and a prudent approach to capital and liquidity. The Group intends to continue growing its business through professional and responsible lending across existing and new lending divisions and selective acquisitions of loan books and businesses, funded by capital and customer deposits.

The Group, which has a 64 year trading track record, operates principally from its head office in Solihull, West Midlands, and had 630 employees (full-time equivalent) as at 30 June 2016. The Group's diversified lending portfolio currently focuses on Business Finance and Consumer Finance, almost entirely funded by customer deposits, with substantially no exposure to wholesale funding. The Group's fundamental strategic aims are: (i) to maximise shareholder value through strong lending growth by delivering positive customer outcomes in both its existing markets and new markets; (ii) to protect the reputation, integrity and sustainability of the Group for all of its customers and stakeholders via prudent balance sheet management, investment for controlled growth and robust risk and operational control; (iii) to ensure that the fair treatment of customers is central to corporate culture; and (iv) to ensure that the Group provides a supportive environment for its employees to deliver good service levels for its customers.

The Group's diversified lending portfolio focuses on two sectors (i) Business Finance through its Real Estate Finance, Asset Finance and Commercial Finance divisions and (ii) Consumer Finance through its Personal Lending, Motor Finance and Retail Finance divisions. Lending customers are primarily sourced through carefully selected business partners and through online channels. The Group has developed underwriting technology and processes in its Consumer Finance segment to enable it to make lending decisions quickly, often on an automated basis, and has high customer satisfaction scores.

Through carefully targeted lending products, the absence of large fixed overheads in the form of a branch network and a policy of not cross-subsidising loss making products with profitable ones, the Group is able to offer competitive deposit interest rates and has been successful in attracting deposits from a wide range of customers. The Group's strategy is to broadly match customer loans and deposits of similar maturity. Deposit accounts offered to customers at any one time are therefore differentially promoted to broadly match the Group's funding needs and desired maturity profiles and may include deposit accounts ranging from instant access to seven year bonds. This strategy seeks to help mitigate maturity transformation and interest basis risks.

The Group's strong financial record is evidenced by the consistent growth in the Group's equity, profits and the payment of dividends since the beginning of 2013.

In April 2016, the Group completed the sale of ELG. In order to present the Group's financial information in a manner that reflects its operations in the future, the financial disclosures relating to the Group's income statement and statement of financial position in this Part 7: "*Information on the Group*" are stated for the continuing Group, which excludes the operations of the ELG (the "**Continuing Group**"), unless otherwise stated. In the three years ended 31 December 2015 the Continuing Group's loan book increased from £226.3 million to £960.6 million, with net interest income increasing from £38.7 million in the year ended 31 December 2013 to £78.9 million in the year ended 31 December 2015. As at 30 June 2016, loans and advances to customers were £1,128.3 million representing growth of 32 per cent. on the previous year. Profit before tax for the year ended 31 December 2015 for the Continuing Group was £24.8 million and for the six months ended 30 June 2016 was £12.5 million (excluding the Group's gain on disposal). Over the six month period to 30 June 2016, the Group had an underlying return on required equity of 27.1 per cent. (28.7 per cent. for the six months ended 30 June 2015). As at 30 June 2016 the Group had a Common Equity Tier ("**CET 1**") ratio of 20.1 per cent., a leverage ratio of 15.8 per cent. and a loan to deposit ratio of 108.2 per cent., reflecting a prudent approach to capital and liquidity.

As at 30 June 2016 the Group's total customer base exceeded 600,000, representing an increase of 35.3 per cent. from the position as at 30 June 2015.

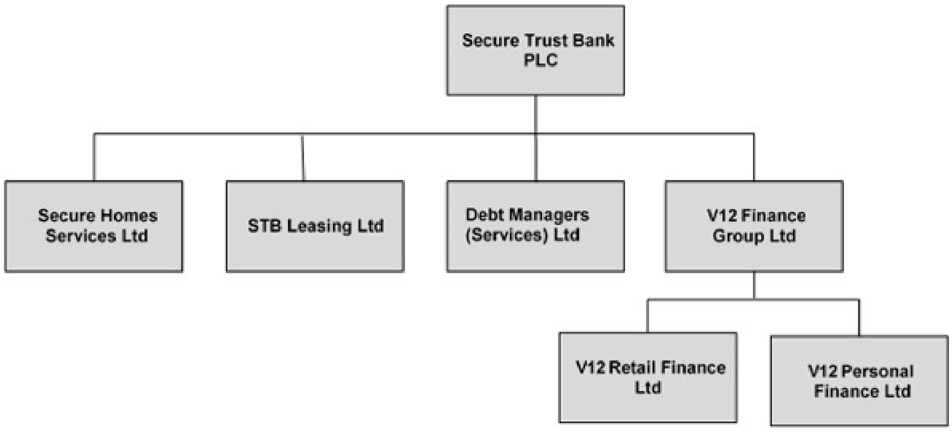
2. HISTORY AND ACQUISITIONS

2.1 Corporate and ownership history

The Company was incorporated in 1954, and had been a subsidiary of Arbuthnot since 1985. Following the admission of the Group to trading on AIM in November 2011 and a series of share sales by Arbuthnot, the most recent of which closed in June 2016 and which broadened the institutional shareholder base and free float of the

Group, Arbuthnot is no longer the Group's parent company and the Group therefore has deconsolidated from Arbuthnot for accounting, regulatory and taxation purposes.

The Group's current corporate structure is set out below.



2.2 **Operational developments**

Since 2009, the Group has grown its lending activities in a prudent manner. Over the last three and a half years, the Group has increasingly diversified its product range, having expanded initially in the consumer finance sector with motor finance and retail point of sale finance products and more recently into business finance, with the launch of a SME product offering. The Group has diversified its lending portfolio both through organic expansion as well as through acquisition. The organic diversification has been supported by the hiring of new internal product teams as well as through the establishment of certain business partnerships, including with Haydock, a well-established asset finance company operating across the UK. The Group has also continued to invest in its infrastructure and support functions, including technology, risk and internal audit. This investment has included, the filling of new positions such as Chief Technology Officer and Chief Internal Auditor, as well as investment into support functions in their areas of responsibility.

In June 2014, the Company raised gross proceeds of £50 million in order to increase its capital base to support growth in the existing Consumer Finance division as well as into Real Estate Finance (launched Q3 2013), Commercial Finance (launched Q3 2014) and Asset Finance (launched Q4 2014). These developments have resulted in the Group's loan book increasing 324 per cent. over the three and a half year period to 30 June 2016 and these new divisions accounted for 47 per cent. of the Group's total loan book as at 30 June 2016.

As part of the Group's strategy of securing deposit based funding to support its loan book growth the Group has increased its retail deposit base over the three and a half year period to 30 June 2016 with limited reliance on the FLS and no reliance on funding from wholesale or interbank markets. In 2011, the Group introduced fixed term deposits which have increased as a proportion of total deposits each year, reaching 61.7 per cent. as at 30 June 2016. Other changes to the Group's funding structure include, in 2009, the Group closing its OneBill account product to new customers and, in response to changes in the market and the associated costs of providing the account, closing the current account product to new customers in September 2015.

2.3 **Strategic development and corporate activity**

In June 2012, the Group acquired a branch-based non-standard consumer lending business, ELG, to broaden its reach to a wider consumer finance market. In April 2016, having successfully grown ELG's loan book by 84.6 per cent., the Group completed the sale of ELG for a total transaction value of approximately £235 million. The disposal generated a profit on disposal of £116.8 million and represented substantial value realisation for the Group and its shareholders, allowing the Group to declare a special dividend of 165 pence which was paid on 27 July 2016. The disposal has reduced the Group's exposure to personal unsecured loan products whilst allowing reinvestment into its continuing businesses.

Following a cash placing to raise £20 million in November 2012, the Group agreed to acquire V12 for a total transaction value of approximately £39 million which included the acquisition of V12's loan book of £33 million as at 31 March 2012. V12 provides retail point of sale loans, typically for 18 months, on an unsecured basis to consumers who are predominantly classified as prime borrowers. The loans are originated through a national network of in store and online retailers. V12 continues to trade using the V12 management team and the V12 brand and since the acquisition the Group's existing retail finance partners have been migrated to the V12 platform. As well as building additional scale in the retail finance sector, the acquisition of V12 gave the Group ownership of a technology-based platform capable of providing consumers with in store and online point of sale finance.

The Group also acquired the trade and certain assets of Debt Managers Holdings Ltd, Debt Managers (AB) Limited and Debt Managers Limited on 15 January 2013 through Debt Managers (Services) Limited ("**DMS**") for a total transaction value of approximately £0.5 million, which facilitated the Group's entry into the UK debt collection market. The business, which is based in Rotherham, collects debts on behalf of a range of clients, including banks and utility companies as well as selective investment in purchased debt portfolios. The acquisition has been complementary to the Group's Business Finance and Consumer Finance divisions as it permits the Group to channel its delinquent debt through DMS.

3. COMPETITIVE STRENGTHS

The Group believes it has the following competitive strengths in the UK banking market:

3.1 Asset quality: Track record of controlled loan book growth and diversification of business

The Group has delivered a consistent track record of loan book growth, with a CAGR increase in the loan book of 57 per cent. over the last three and a half years. Following the expansion into new lending segments, in particular the Business Finance division in 2014, the Group's lending profile has become more diversified and this is expected to continue.

The Group has however grown its loan book on a prudent basis, with a short duration, impairment levels remaining below the level which the Group had assumed within its pricing models when originating the business and a commitment to credit quality across its divisions. The Group's Cost of Risk has consistently remained below 3 per cent. over the last three and a half years and as at 30 June 2016 the Group's Real Estate loan book had an average loan to value of less than 60 per cent. In excess of 67 per cent. of the Group's loan book as at 30 June 2016 was secured against customer assets.

The management team has taken an active decision to avoid certain segments of the market, such as commercial real estate and buy-to-let financing, where it had concerns about these markets.

3.2 Strong capital position: One of the best capitalised banks in the UK market

The Group, following the growth in its retained profits and the disposal of the ELG, is one of the best capitalised banks in the UK market with a CET1 ratio of 20.1 per cent. as at 30 June 2016, despite its sizeable loan book growth. In addition, the Group's leverage ratio was 15.8 per cent. compared with a minimum requirement of 4.5 per cent. and demonstrates the ability the Group has to increase its lending activities whilst remaining modestly leveraged.

The Group is therefore well positioned to pursue its strategic priorities, with targeted future growth organically and by acquisition of portfolios and businesses which meet the Group's criteria.

3.3 Funding: Robust funding position with matched deposit-based funding and asset duration

The Group's strategy is to fund its lending activities predominantly through deposit funding and broadly match customer loans and deposits of similar maturity in order to help mitigate maturity transformation and interest basis risks. The Group's Loan to Deposit Ratio was 108.2 per cent. and its loan book had an average duration of 1.41 years, matched with an average deposit term of 1.39 years as at 30 June 2016. The Group has a track record of being able to raise deposit funding. The proportion of term deposits has increased over the last three and a half years to represent 61.7 per cent. of total deposits as at 30 June 2016, which provides increased visibility on funding duration.

The Group has limited reliance on the FLS, with such funds being retained as a liquidity buffer and no reliance on funding from wholesale or interbank markets funding rates.

3.4 Track Record: Experienced team and track record

The Group has an experienced and stable senior executive management team which has been in place since the Group's IPO in 2011. The Group has also invested in expanding its management, infrastructure and product teams in order to support the growth of the business.

3.5 Limited legacy issues: Less exposed to the legacy issues that some of its competitors face

The large UK banks and a number of mid-size banks continue to face a number of challenges which, in the opinion of the Directors, include impaired legacy loan books, mis-selling and other historic misconduct liabilities, inefficient infrastructure and in some cases the impact of being wholly or partly nationalised.

The Directors believe that the above challenges and distractions faced by the established UK banking and wider consumer credit sector provide the Group, which is much less exposed to these issues, with a significant opportunity, as a well-capitalised, deposit funded bank to grow within its chosen markets.

3.6 Value creation for Shareholders: Successful track record of value creation for shareholders

The Group has delivered growth in net asset value and continuing earnings growth (excluding gains arising from disposal of assets) of 49 per cent. and 14 per cent. respectively over the last three and a half years and dividend growth of 8 per cent. over the last three years (CAGR). This has been delivered both through prudent expansion of the loan book but also through value enhancing acquisitions.

Organic growth of the business has been driven by the Group's sales efforts but also through successful partnerships, including the Retail Finance division business winning competitive auctions to act as retail credit provider to companies such as AO.com and Halfords.

The Group has successfully acquired and integrated businesses such as the ELG, V12, and DMS which have supported its offering and growth. In addition, the Group's strategy is to realise value to allow reinvestment into the business when the opportunity arises, such as with the disposal of the ELG.

3.7 Strong customer relationships: Focus on responsible lending and sustaining high customer service levels

The Group's strategy is to ensure it builds sustainable and strong customer relationships, based on responsible lending and a focus on a high level of customer service. Customer satisfaction levels, as measured by the independent FEEFO customer feedback forum, are consistently in the 95th percentile and the Group operates a number of staff reward schemes which are designed to foster customer service excellence, outstanding achievement and more efficient processes.

4. STRATEGY FOR GROWTH

The Group's strategy is to build on its current position as an established UK retail bank through a focus on carefully selected and attractively priced segments of the consumer and business markets, prudent underwriting and a prudent approach to capital and liquidity. It intends to continue growing its business through professional and responsible lending across existing and new lending segments and selective acquisitions of loan books and businesses, funded by capital and customer deposits.

The Group's fundamental strategic aims are: (i) to maximise shareholder value through strong lending growth by delivering positive customer outcomes in both its existing and new markets; (ii) to protect the reputation, integrity and sustainability of the Group for all of its customers and stakeholders via prudent balance sheet management, investment for growth and robust risk and operational control, with controlled growth as one of the Group's top strategic priorities; (iii) to ensure that the fair treatment of customers is central to corporate culture; and (iv) to ensure the Group provides a supportive environment for its employees to deliver good service levels for its customers.

The Group's three key strategic priorities are set out below.

4.1 Organic growth in existing lending segments

The Directors believe that there is significant scope to grow the Group's Business Finance and Consumer Finance divisions. In particular, given the Group's relatively recent entry into the business finance sector, there are opportunities to see continued strong growth in this area. The Group's target markets are large and it therefore has a relatively low market share, representing an opportunity for growth especially should the established systemically important banks, which control over 80 per cent. of the UK lending market, continue to reduce higher risk weighted asset lending such as in the SME markets, in response to an expected lower interest rate environment.

4.2 Diversification into new lending segments

The Directors believe that there is significant scope to expand the Group's lending activities beyond its current lending segments. One such opportunity is the provision of first mortgage UK residential mortgage lending, in respect of which the Group has already acquired the necessary regulatory licenses and approvals. The Group will select an appropriate time to enter this market, having deferred the entry as part of the Group's cautious stance in the run up and following the UK's EU referendum result.

The Group has a strong capital base from which to support its longer term ambition to grow a broad based portfolio, balanced across consumer finance, SME finance and residential mortgage lending.

4.3 **Acquisitions and joint ventures**

The Group has a proven track record of acquiring businesses that complement the Group's strategic aims and successfully integrating and delivering value from these acquisitions. The Directors believe the ongoing capital and funding constraints being experienced by other lenders may provide potential portfolio or other acquisition opportunities for the Group. The Group will continue to exercise discipline and caution when considering any potential acquisitions.

5. BUSINESS AND ACTIVITIES

5.1 Introduction

The Group has a diversified lending portfolio and focuses on two key sectors (i) Business Finance through its Real Estate Finance, Asset Finance and Commercial Finance divisions and (ii) Consumer Finance through its Personal Lending, Motor Finance and Retail Finance divisions. All reserves are generated in the UK.

The following table sets out summary financial information on the Continuing Group's operations over the historic period.

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Interest receivables, fees and commission income					
- Business Finance	19.2	9.2	24.3	2.6	0.1
- Consumer Finance	43.4	34.6	74.7	55.9	45.5
- Other	8.8	10.2	18.4	21.0	23.0
Operating income	57.3	42.8	92.1	63.7	52.9
Profit before income tax	15.0	16.0	36.5	26.1	17.1
Profit for the period—continuing operations	12.5	10.4	24.8	17.5	13.1
Profit for the period—discontinued operations	2.5	5.6	11.7	8.6	4.0
Loans and advances to customers	1,128.3	747.0	960.6	622.5	391.0
Deposits from customers	1,042.6	835.1	1,033.1	608.4	436.6

The Group has focused on expanding its operating divisions, in particular in the business finance sector, with operations increasing substantially from 2014. The following tables set out summary information relating to the Group's operating divisions for the latest full financial and interim periods.

	Year ended 31 December 2015				
	Interest receivable and similar income	Fees and commission income	Revenue from external customers	Net impairment losses on loans and advances to customers	Loans and advances to customers
			(£ million)		
Business finance					
Real Estate Finance	20.2	0.1	20.3	–	368.0
Asset Finance	2.4	–	2.4	–	70.7
Commercial Finance	0.4	1.2	1.6	0.3	29.3
Consumer finance					
Retail Finance	22.5	1.7	24.2	5.2	220.4
Motor Finance	33.2	0.1	33.3	7.3	165.7
Personal Lending	17.2	–	17.2	4.8	74.3
Other	4.6	13.8	18.4	(0.8)	32.2
	100.5	16.9	117.4	16.8	960.6
Discontinued operations and assets held for sale					
Personal Lending	39.2	1.5	40.7	7.5	114.3
	139.7	18.4	158.1	24.3	1,074.9

	Six months ended 30 June 2016				
	Interest receivable and similar income	Fees and commission income	Revenue from external customers	Net impairment losses on loans and advances to customers	Loans and advances to customers
			(£ million)		
Business finance					
Real Estate Finance	13.9	0.1	14.0	—	361.7
Asset Finance	3.5	—	3.5	0.2	112.3
Commercial Finance	0.6	1.1	1.7	—	54.5
Consumer finance					
Retail Finance	15.4	1.2	16.6	4.8	271.7
Motor Finance	18.4	0.4	18.8	6.1	205.6
Personal Lending	8.0	—	8.0	2.2	64.6
Other	2.9	5.9	8.8	—	57.9
	62.7	8.7	71.4	13.3	1,128.3
Discontinued operations and assets held for sale					
Personal Lending	11.1	0.1	11.2	2.6	—
	73.8	8.8	82.6	15.9	1,128.3

A detailed description of the Group's operating divisions is set out below.

5.2 Business Finance

(a) Real Estate Finance

The following table sets out summary information relating to the Group's Real Estate Finance division for the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2015 and 2016.

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Interest receivable and similar income	13.9	8.1	20.2	2.5	0.1
Fee and commission income	0.1	—	0.1	—	—
Revenue from external customers	14.0	8.1	20.3	2.5	0.1
Net impairment losses on loans and advances to customers	—	0.3	—	—	—
Loans and advances to customers	361.7	266.3	368.0	133.8	1.8

Real Estate Finance was formed as a division within the Group in 2013. The division supports small to medium sized enterprises ("**SMEs**") in providing finance principally for residential development and residential investment.

Residential development: The Group lends to enable the development of new build property, commercial to residential conversions (including those with permitted development rights) and refurbishment projects.

Residential investment: The Group lends to portfolios of residential property where the rental income will repay the underlying borrowing over a term period. The Group has no exposure to the regulated buy to let mortgage sector and has no plans to enter this sector.

Other: The Group has limited appetite for commercial lending (either development or investment) and has limited exposure to mixed development schemes.

As at 30 June 2016, 44.6 per cent. of the Group's Real Estate lending was in residential development and 46.8 per cent. of the Group's Real Estate lending was in residential investment, with the balance classified as being in commercial investment, representing loans secured and risk assessed against residential property with a small element of commercial activity. Lending balances as at 30 June 2016 were £361.7 million representing a small decline of 2 per cent. from 31 December 2015.

Financing is typically provided over a term of up to five years with prudent loan to value targets, with a 60 per cent. loan to gross development value ("**LTGDV**") to residential house builders but more restrictive policies are implemented from time to time as required, for instance the Group reduced its financing of residential developments in Central London in 2015. As at 30 June 2016, the Group's LTGDV/LTV ratios ranged between 50 per cent. and

58 per cent. across its key lending areas (such ratios stated on a conservative basis, assuming these lending facilities are fully drawn). The Group has no significant exposure to any one property scheme or developer.

The Real Estate Finance team is staffed by experienced bankers with proven property lending expertise. The team provides full support to customers and introducers over the life of the products.

(b) *Asset Finance*

The following table sets out summary information relating to the Group's Asset Finance division for the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2015 and 2016.

	Six months ended 30 June		**Year ended 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Interest receivable and similar income	3.5	0.6	2.4	—	—
Fee and commission income	—	—	—	—	—
Revenue from external customers	3.5	0.6	2.4	—	—
Net impairment losses on loans and advances to customers	0.2	—	—	—	—
Loans and advances to customers	112.3	30.4	70.7	4.5	—

Asset Finance was formed as a division within the Group in December 2014. The division provides funding to support SMEs, who may not be adequately served by the traditional banks, in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment.

Lending balances as at 30 June 2016 were £112.3 million representing growth of 59 per cent. from 31 December 2015, as the Group has continued to develop its Asset Finance division.

The Asset Finance business is operated via a strategic partnership with Haydock, a well-established asset finance company operating across the UK. Haydock provides a full business process outsourcing service to the Group and also assists the Group in sourcing new business and providing support to the Group's clients on an ongoing basis. All of the lending written fully conforms to the Group's credit policies, risk appetite or other specific authorisations.

The current route to market is via introducers who are supported by the Group's marketing resource and a targeted web and social media presence. The Group offers hire purchase and finance lease arrangements with terms of up to five years.

The Group also offers asset refinancing whereby the Group takes ownership of the customer's existing equipment and enters into a hire-purchase financing arrangement with the customer for a set period of time.

(c) *Commercial Finance*

The following table sets out summary information relating to the Group's Commercial Finance division for the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2015 and 2016.

	Six months ended 30 June		**Year ended 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Interest receivable and similar income	0.6	0.1	0.4	—	—
Fee and commission income	1.1	0.4	1.2	0.1	—
Revenue from external customers	1.7	0.5	1.6	0.1	—
Net impairment losses on loans and advances to customers	—	—	0.3	—	—
Loans and advances to customers	54.5	15.7	29.3	5.0	—

Commercial Finance was formed as a division within the Group in 2014. The division specialises in providing a full range of invoice financing solutions to UK businesses including invoice discounting and factoring.

Invoice discounting services provide access to funding and releases typically up to 90 per cent. of the value of unpaid invoices in a manner that is non-customer facing and allows customers to stay in control of sales ledger management.

Factoring services, where the sales ledger management is passed onto the Group, may also provide access to funding of typically up to 90 per cent. of the value of invoices and often results in the Group managing credit control, cash allocation, statement and reminder letter distribution.

The division has been successful in acquiring a wide range of clients across the whole of the UK with a broad variety of funding requirements and solutions. Lending balances as at 30 June 2016 were £54.5 million representing growth of 86 per cent. from 31 December 2015.

Commercial Finance complements the broader SME lending proposition which has been developed by the Group. The business also provides SME commercial owner occupiers with finance to buy the property they trade from in conjunction with other financing facilities.

The division has built a strong team of proven business development, credit and operational professionals who have delivered a robust and compliant operational model. The business operates from premises in Manchester but provides national coverage via teams throughout the country who service the national introducer market and existing clients.

5.3 **Consumer Finance**

(a) *Retail Finance*

The following table sets out summary information relating to the Group's Retail Finance division for the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2015 and 2016.

	Six months ended 30 June		**Year ended 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Interest receivable and similar income	15.4	9.6	22.5	12.8	9.4
Fee and commission income	1.2	0.7	1.7	0.8	0.4
Revenue from external customers	16.6	10.3	24.2	13.6	9.8
Net impairment losses on loans and advances to customers	4.8	2.3	5.2	1.2	1.0
Loans and advances to customers	271.7	163.4	220.4	116.7	70.1

The Group's Retail Finance division started lending in 2009 and provides unsecured, prime lending products to the UK customers of its retail partners to facilitate the purchase of a wide range of consumer products across in-store, mail order and online channels. The acquisition of the V12 Finance Group in January 2013 was complementary to the Group's existing Retail Finance proposition and the V12 management team continued in the business. V12 Retail Finance has provided finance in co-operation with their retail partners for more than 20 years.

The acquisition enabled the Group to integrate its existing retail lending business with that of the V12 Finance Group to generate synergistic benefits from the use of a Group-wide point of sale system. All of the Group's retail partners are now on the V12 platform and Retail Finance is administered in V12 Retail Finance's offices in Cardiff.

Lending balances as at 30 June 2016 were £271.7 million representing growth of 23 per cent. from 31 December 2015.

Retail Finance products are unsecured, fixed rate and fixed term loans of up to 84 months in duration with a maximum loan size of £25,000. The average new loan is for £800 over an 18 month term. Lending is restricted to UK residents who are either employed or self-employed.

The finance products are either interest bearing or have promotional credit subsidised by retailers, allowing customers to spread the cost of purchases into more affordable monthly payments or paying later for the goods.

The Group operates an online eCommerce service to retailers, providing finance to customers through an online paperless processing system. This includes allowing customers to digitally sign their credit agreements, thereby speeding up the pay-out process, and removing the need to handle and copy sensitive personal documents through electronic identity verification.

The Group serves retailers across a broad range of retail sectors including cycle, music, furniture, outdoor/leisure, electronics, dental, jewellery and football season tickets.

The Group provides finance to customers of a large number of retailers including household names such as Evans Cycles, AO.com, Jessops, Halfords, DFS and Watchfinder.

(b) *Motor Finance*

The following table sets out summary information relating to the Group's Motor Finance division for the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2015 and 2016.

	Six months ended 30 June		Year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Interest receivable and similar income	18.4	15.8	33.2	27.2	23.0
Fee and commission income	0.4	—	0.1	—	—
Revenue from external customers	18.8	15.8	33.3	27.2	23.0
Net impairment losses on loans and advances to customers	6.1	3.1	7.3	3.9	3.6
Loans and advances to customers	205.6	152.3	165.7	137.9	114.7

The Group's Motor Finance division began lending in 2008 under the Moneyway brand and provides hire purchase lending products to a wide range of customers including those who might otherwise be declined by other finance companies.

Motor Finance balances have grown to £205.6 million as at 30 June 2016 representing an increase of 24 per cent. from 31 December 2015.

Motor Finance loans are fixed rate, fixed term hire purchase agreements and are secured against the vehicle being financed.

Only passenger vehicles with certain features meet the lending criteria, which include an engine size of up to three and a half litres, an age ranging from new to a maximum of 12 years old by the end of the hire purchase agreement and with a maximum mileage of 100,000 miles. The majority of vehicles financed are used cars. Finance term periods are up to 60 months with a maximum loan size of £25,000 in the prime sector and £20,000 in other sectors.

Customers are either private individuals or self-employed small business users. During 2015, Moneyway began to lend into the prime motor sector thereby broadening the area of the market that it serves. The Group distributes its Motor Finance products through UK motor dealers, brokers and internet introducers. New dealer relationships are established by the Group's UK-wide Motor Finance sales team with all introducers subject to a strict vetting policy, which is reviewed on a regular basis. The motor business has a sales team responsible for all aspects of the management of the introducer relationships. The technology platform used allows Moneyway to manage all aspects of the motor business, from introducer set up and application capture through to underwriting, pay-out and agreement servicing.

While Motor Finance is administered in the Group head office in Solihull, the UK motor dealers and brokers are UK-wide.

(c) *Personal Lending*

The following table sets out summary information relating to the Group's Personal Lending division for the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2015 and 2016. The table below shows the Group's continuing operations and excludes the ELG.

	Six months ended 30 June		Year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Interest receivable and similar income	8.0	8.5	17.2	15.1	12.7
Fee and commission income	—	—	—	—	—
Revenue from external customers	8.0	8.5	17.2	15.1	12.7
Net impairment losses on loans and advances to customers	2.2	2.3	4.8	3.3	4.4
Loans and advances to customers	64.6	83.6	74.3	87.5	77.8

The Group has provided personal unsecured lending for nearly 35 years. Following the sale of ELG in April 2016, the Group continues to provide unsecured personal loans through its Moneyway branded business, which is a trading name of the Group.

Net outstanding loans totalled £64.6 million as at 30 June 2016 representing a decline of 13 per cent. from 31 December 2015 as the Group has and continues to take a cautious stance to lending in this area.

Personal unsecured loans are fixed rate, fixed term products with payments received monthly in arrears. Loan terms are between 12 months and 60 months with advances varying from £1,000 to £15,000. Loans are provided to customers for a variety of purposes which might include, for example, home improvements, personal debt consolidation and for the purchase of vehicles.

Distribution of unsecured personal loans is through brokers, aggregators, existing customers and business partners.

5.4 **Other**

The table below includes financial information for the Group's current account product, OneBill, STB Leasing Limited, DMS and the loan interest from NSF, for the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2015 and 2016.

	Six months ended 30 June		Year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
		(£ million)			
Interest receivable and similar income	2.9	3.0	4.6	5.8	6.4
Fee and commission income	5.9	7.2	13.8	15.2	16.6
Revenue from external customers	8.8	10.2	18.4	21.0	23.0
Net impairment losses on loans and advances to customers	—	—	(0.8)	0.3	0.6
Loans and advances to customers	57.9	35.3	32.2	43.2	45.2

(a) *STB Leasing*

The Group offers certain finance leasing products to businesses and consumers through an agency arrangement with RentSmart Limited ("**RentSmart**"). RentSmart acts as an intermediary between the Group and end-customers and undertakes all origination, underwriting, administration and arrears management services on behalf of the Group with respect to such financing agreements.

(b) *Debt Managers Services*

Through DMS, the Group provides debt collection services to businesses dealing with consumers across a range of sectors including financial services, retail, utilities, public sector and motor finance. In addition to providing collection services to third parties it has also purchased debt portfolios on occasion. The Group channels its delinquent debt through DMS.

(c) *Investment in and loan balances with NSF*

As a result of the Group's disposal of ELG in April 2016, as part of the consideration the Group received 23,529,412 shares in NSF and also participated in a lending syndicate to provide a three year term loan to NSF, of which the Group advanced £30 million, which is secured on ELG's assets. The NSF shares represent 7.42 per cent. of NSF's issued share capital and are subject to a lock-up which expires in October 2016. While NSF did not pay any dividend during the period covered by the historical financial information, it has declared in its latest interim results, a dividend of 0.3 pence per NSF share which is payable on 19 October 2016 to shareholders on the register on 23 September 2016. NSF's stated medium-term dividend policy objective is to pay-out 50 per cent. of annual post-tax earnings as dividends.

(d) *Current account and OneBill*

The Group generates fees and income from operating these accounts and services. Further details on these products are set out in paragraphs 6.2 and 6.3 below.

6. CUSTOMER DEPOSITS AND FUNDING

The following table sets out summary information relating to the Group's customer deposits for the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2015 and 2016.

	Six months ended 30 June	Year ended 31 December		
	2016	2015	2014	2013
		(£000)		
Current/demand accounts	34.8	39.5	37.8	36.4
Term deposits	1,007.8	993.6	570.6	400.2
Customer deposits	1,042.6	1,033.1	608.4	436.6

The Group's deposit-taking activities primarily comprise both on demand and fixed term deposit accounts (including term bonds). While the Group has a fee-based current account offering this was closed to new entrants in 2015. In addition, the Group has a historic product offering, the OneBill account which offered a regular deposit account and bill management service, which was closed to new entrants in 2009. Further details of these accounts are set out below.

6.1 Deposit accounts

For the six months ended 30 June 2016, customer deposits totalled £1,042.6 million of which term deposits represented 96.7 per cent. The Group's deposit accounts comprise instant access accounts, notice accounts and fixed term, fixed price bonds which are offered and withdrawn to match the Group's funding requirements from time to time. The Group enters the market for deposits, as necessary, to maintain its funding strategy of broadly matching the term and tenor of its customer deposits to the desired maturity profiles of the Group which are primarily determined by the interest rates and terms offered on loans and advances to customers. This strategy seeks to help mitigate maturity transformation and interest basis risks. For example, the Group's policy, during the six months' ended 30 June 2016, was to increase its deposit term length in preparation for any market uncertainty ahead of the EU referendum vote.

The Group is able to adjust the mix of interest rate offered and term of deposit or notice period in a manner that allows it to raise funding quickly and may include deposit accounts ranging from instant access to seven year bonds. As part of this funding strategy, the Group may only offer deposit accounts for limited periods of time and, from time to time, may not offer deposit accounts to customers at all. The Group will cease offering deposit products when the Group's need for deposit funding at that time has been satisfied.

The key terms of the deposit accounts that may be offered by the Group from time to time are summarised below.

Current / demand accounts

- Instant access, minimum deposit of £1, maximum deposit of £100,000.

Term deposits

- Mixture of term deposits ranging from 60 to 183 day notice periods and term bonds with one to seven year maturities.
- Minimum balance of £1,000.
- Maximum balance of £1 million for sole account holders and £2 million for business and joint accounts.
- A tracker account, which has a minimum balance of £1,000 for personal customers and £10,000 for non-personal customers. It has a maximum balance of £50,000 for sole account holders and £100,000 for non-personal and joint accounts, and a 60 day notice period.

The Group has also issued five one year fixed rate bonds to businesses that exceed the limit of £2 million above, of which the maximum amount is £7.5 million.

The Group is able to offer competitive deposit interest rates and has been successful in attracting term deposits from a wide range of customers. The methods employed by the Group for attracting such deposits include providing information about the deposit accounts offered by the Group on price comparison websites (such as Moneysupermarket) as well as best buy tables and newspaper articles.

6.2 Fee-based current account

The fee-based current account product previously offered by the Group was closed to new applicants at the end of 2015 and all current accounts were closed by the end of September 2016.

6.3 *OneBill*

The OneBill account had been in operation for many years and was designed to aid customers with their household budgeting and payments process. Customers provided the Group with details of their annual bills (including rent, utility bills, insurance and telephone line rental) which the Group aggregated and then calculated a fixed weekly or monthly payment schedule to ensure the bills were paid on time. This enabled customers to spread the cost of their bills throughout the year in addition to receiving direct debit discounts and all supplier contact being handled by the Group. The Group charges a monthly fee for this service.

The product was closed to new customers in 2009 due to the manual processes involved in setting up and servicing the accounts and the resultant lack of scalability. As a result the number of customers for this product is on a declining trend. As at 30 June 2016, the Group had 20,494 OneBill customers. For the financial year ended 31 December 2015, the OneBill product produced income of £6.5 million compared with £7.1 million in the previous financial year.

6.4 Funding for Lending

The Group is predominately funded through customer deposits but has been permitted to draw down funds from 2013 under the FLS. FLS monies are maintained as a liquidity buffer, above that required to support lending. As at 30 June 2016, the Group had £15 million drawn under this facility, representing only 1.4 per cent. of the Group's loan balances. The Group has also applied to participate in the Bank of England TFS. This facility will be used in conjunction with the FLS to provide the Group with access to secured wholesale funding.

6.5 Wholesale and interbank markets

While the Group is almost entirely funded by customer deposits, with no funding from wholesale or interbank markets, and the Group would expect to remain a predominantly deposit funded business, to the extent that the Group created a significant portfolio of longer term residential mortgage loans, in the medium term, it would consider whether alternative sources of funding, such as entry into the wholesale markets or securitisation, might represent viable alternative sources of funding.

7. Infrastructure

7.1 Head office

The Group operates mainly from its head office premises in Solihull where the Group employs staff fulfilling management, finance, risk, compliance, customer services, collections, IT, property, marketing and business development, HR and training and administration roles.

In addition, the Group has satellite offices where several of its key divisions are managed from, with its retail finance division managed from Cardiff, its commercial finance division from Manchester and its debt collections operations from Rotherham. The Group also occupies premises in London consisting of certain administrative functions and its Real Estate Finance business, and an additional site in Bourne End.

7.2 Information technology platform

The Group uses a variety of recently developed proprietary systems and third party packages.

7.3 Shared services

Since the AIM IPO of Secure Trust Bank in 2011, the Group's business has been conducted at arms' length from other members of the Arbuthnot group. At the time of the AIM IPO, a services agreement was entered into in relation to certain shared services between the Company and Arbuthnot. This agreement will end on Admission and a new services agreement (the "**Services Agreement**") will be put in place to govern the terms of use for certain limited services that will continue to be shared by the Company and Arbuthnot at Admission. These shared services include the provision by Arbuthnot to the Company of use of part of Arbuthnot's head office at Arbuthnot House, 7 Wilson Street, London. Further information about the Services Agreement is disclosed in Part 16: "*Additional Information—Material Contracts—Services Agreement*".

7.4 Internal audit services

The Group internal audit services are under the direction of its Chief Internal Auditor who was appointed in 2015. Following his appointment, the Group has invested in recruiting its internal audit team. This team is supported by a panel of subject matter expert advisers which are appointed on particular internal audit projects as required. The Chief Internal Auditor reports to the chairman of the Audit Committee.

8. EMPLOYEES

The average number of employees (full-time equivalent) of the Group during the following periods is shown below:

	Six months ended 30 June	Year ended 31 December		
	2016	**2015**	**2014**	**2013**
Directors (including non-executive directors)	6	7	7	6
Management	81	78	69	50
Administration	604	621	532	474
Total	691	706	608	530

The Group had a total of 630 full-time equivalent employees as at 30 June 2016, and 710 employees as at the date of this document, including 6 executive and non-executive directors. All of the Group's employees are based in the UK.

9. CREDIT RISK MANAGEMENT

9.1 Credit underwriting policies/procedures by product

Real Estate Finance, Commercial Finance and Asset Finance new business is reviewed individually on a manual basis assessing the financial strength and historic track record of the company as well as the relative strength of any assets or proposed developments. Deals are underwritten and approved in a Credit Committee process. Underwriting mandates and credit sanctioning authorities are approved at the Group's Board Risk Committee and reviewed on a regular basis.

The Group has a largely automated underwriting processes for its personal unsecured lending business, motor finance and retail point of sale finance businesses. The underwriting policies and procedures for each of the core lending products are detailed below. The Group is a member of a reciprocal fraud intelligence scheme ("**CIFAS**"), a database used by financial institutions to share information relating to fraud.

Following a successful motor or personal loan application and underwriting process, the appropriate documentation is sent to the payout team to complete the settlement process. The payout process requires authorisation in addition to the requirement to complete a series of validation checks to ensure all information has been received prior to payout.

Portfolio performance is monitored on a monthly basis by the Credit Risk Committee which includes new business volumes, scorecard and policy rule performance, provisioning levels and provisioning methodology. The minutes and key metrics of Credit Risk Committee meetings are reviewed monthly by the Group's Executive Committee, comprised of the Executive Directors and senior management, and reviewed quarterly at the Board Risk Committee. The monthly financial management accounts provide the Board and Executive Committee with detailed portfolio performance data by lending product.

(a) *Personal unsecured lending*

Personal unsecured lending decisions are made using automated underwriting processes with manual underwriters employed to work referred applications. The Group receives information from the applicant regarding their personal circumstances and this, together with additional credit information sought from an initial credit reference agency, is entered into a credit assessment tool provided by Redline. This calculates a credit score for the applicant which is checked against the Group's own credit matrix. Where an application is referred, it is assessed by an underwriter and if they are proposing to recommend an acceptance, a credit search is undertaken at a second credit reference agency, to ensure there is no additional detrimental information that is not reported by the first credit reference agency that could change the underwriter decision.

If the application is accepted, all required documentation is obtained from the customer and stored by the Group.

The business utilises automated underwriting systems which, in addition to providing significant cost advantages, ensure that consistent credit decisions are made which improves ongoing performance monitoring and future policy decision making. Differential pricing that reflects the credit risk of the underlying customer is standard for the

Group. These systems have enabled the business to control risk whilst retaining the speed of service needed to support introducers.

(b) *Motor Finance*

All Motor Finance applications are credit scored using a bespoke scorecard that splits customers into six risk tiers (prime 1, prime 2, platinum, gold, purple and red) based on the applicant's historical payment performance on credit reference agency reported credit commitments, a quantitative assessment of the applicant's ability to repay the loan from an affordability perspective and vehicle characteristics including loan to value, vehicle age, vehicle mileage and engine size. The vehicle being financed must also pass a hire purchase vehicle history check (a "**HPI Check**") which is obtained by the Group. A HPI Check is intended to identify where another finance provider already has an interest in the vehicle. Pricing is determined by the risk tier with strict underwriting criteria followed. In certain circumstances, additional identity and validation checks are performed as part of the underwriting process.

If an application is accepted, the customer's signature and all required documentation are electronically sent by the intermediary and stored by the Group. A document checklist and a warrant representation are also signed by the intermediary. The process is paperless, other than the receipt of agreement documentation, and is largely automated with system-driven credit, identification and vehicle checks. In certain instances an application is referred to an underwriter for approval against the Group's defined underwriting policy. The Group registers its financial interest in every vehicle funded with HPI.

(c) *Retail Finance*

Retail point of sale finance loan applications are received from retailers via two channels-in store and online, through the Group's internet portal. The vast majority of lending decisions are automated through a combination of the Group's proprietary decision engine, a customer scorecard provided by Decision Metrics and credit and indebtedness data supplied by a credit reference agency.

If the application is accepted the customer's signature and all required documentation are obtained electronically from the retailer, and stored by the Group. Like Motor Finance, the process is paperless, other than the receipt of agreement documentation, and is largely automated.

9.2 **Bad debt provisions**

The Group maintains a bad debt provisioning policy in accordance with applicable accounting standards, which will change following the introduction of IFRS 9 in 2018. Further disclosure is contained in paragraph 3.21 entitled "*– changes in the Group's accounting policies or accounting standards could materially affect how it reports its financial condition and results of operations*" of Part 2: "*Risk Factors*". Bad debt provisions are accrued from the first occurrence of a loss event, which usually involves a missed payment. The Group holds a full provision (less an estimate of recovery through proceeds of selling the debt, or from selling any motor asset) against all consumer loans that are either 120 days past due or in the case of motor finance, when the asset has been recovered and sold at auction. The provisioning methodology for each product line is reviewed bi-annually by the Board.

The bad debt charge as a percentage of lending assets for the year ended 31 December 2015 was 2.3 per cent. and for the six month period to 30 June 2016 was 2.6 per cent. on an annualised basis. Of the Group's loan book, as at 30 June 2016, 93.6 per cent. was neither past due nor impaired and 6.4 per cent. was impaired.

9.3 **Collections, arrears management and recoveries**

The Group has two dedicated collections departments responsible for arrears management across its consumer lending portfolios, one responsible for the collection of personal loan and motor finance debt, and a further team dedicated to the collection of retail finance debt. Where required, for example in busy periods, the Group also utilises resource from Debt Managers. The recovery of Commercial debt is the responsibility of each individual division.

Collections procedures are required to adhere to the FCA's Consumer Credit Rules. The Group's policy is for all calls to be recorded with at least three calls per collector per month being subject to audit checks. All arrangements relating to loan arrears made with customers are tracked.

Collections procedures

If a customer falls into arrears or shows early indications of pending arrears (for example cancellation of a direct debit), the customer is allocated to a collector queue and a letter, telephone call and SMS strategy is employed. A dialler is used to optimise efficiency for outbound dialling to arrears customers. Key responsibilities of the collections team are to assess what the customer can afford and to put in place a plan to pay arrears whilst maintaining contractual payments.

The Group also considers external placement of balances outstanding including debt sale, debt collection activity or legal proceedings. Debt Managers is used on a contingency basis for consumer debt.

10. **CAPITAL**

The Group's capital management policy is focused on optimising shareholder value over the long-term. Processes exist to ensure that capital is allocated to achieve targeted risk adjusted returns whilst ensuring appropriate surpluses are held above the minimum regulatory requirements. The Board reviews the capital position at every Board meeting.

In accordance with the EU's Capital Requirements Directive ("**CRD**") and the required parameters set out in the EU's Capital Requirements Regulation ("**CRR**"), the Group's Internal Capital Adequacy Assessment Process ("**ICAAP**") is embedded in the risk management framework of the Group. It is subject to ongoing updates and revisions where necessary, but as a minimum an annual review is undertaken as part of the business planning process. The ICAAP brings together the risk management framework, including stress testing using a range of scenarios, and the financial disciplines of business planning and capital management.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a 'Pillar I plus' approach to determine the level of capital the Group needs to hold.

This method takes the Pillar I capital formula calculations as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequate to cover anticipated risks. Where it is considered that the Pillar I calculations do not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Individual Capital Guidance ("**ICG**") issued to the Group by the PRA.

The Group's regulatory capital is divided into:

- Common Equity Tier 1 which comprises shareholders' funds, after deducting intangible assets and deferred tax assets which have arisen due to losses.
- Tier 2 which comprises the collective allowance for impairment.

The ICAAP includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. All regulated entities within the Group have complied during the financial year with all of the externally imposed capital requirements to which they are subject.

The Group operates the standardised approach to credit risk, whereby risk weightings are applied to the Group's on and off balance sheet exposures. The weightings applied are those stipulated in the CRR.

The Group is required by the PRA to report its capital on a solo consolidated basis. The solo-consolidated group includes all entities where a solo consolidation waiver has been received from the PRA; this excludes the V12 Finance Group and DMS.

The table below shows the Group's capital resources and Total Risk Exposure ("**TRE**"). In accordance with CRR, the TRE reflects both credit risks and operational risks.

	As at 30 June 2016	**As at 31 December 2015** *(unaudited)*	**2015**	**2014**	**2013(1)**
		(£ million)			
Capital:					
Common Equity Tier 1 (CET 1) Capital	219.6	126.0	135.8	121.4	58.4
Total Tier 2 capital	3.0	2.0	3.1	2.0	1.6
Total capital	222.6	128.0	138.9	123.4	60.0
Total Risk Exposure (TRE)	1,090.8	840.8	998.6	649.2	303.4
CRD IV ratios:					
Common Equity Tier 1 (CET 1) ratio (solo consolidated)	20.1 %	15.0 %	13.6 %	18.7 %	19.7 %
Leverage Ratio	15.8 %	11.9 %	10.4 %	14.7 %	14.9 %

(1) For the year ended 31 December 2013, capital ratios are presented on a Basel II basis. Total risk exposure at this year-end represents risk weighted assets only.

The increase in CET1 capital during the year ended 31 December 2015 was been driven by retained profit marginally offset by an increase in intangibles. The further increase in the six months ended 30 June 2016 principally arose from the profit on disposal of the ELG as well as the Group's retained profit for the period. An analysis of CET1 capital can be found at Note 6 in the Historical Financial Information.

TRE increased by 54 per cent. to £998.6 million during the year ended 31 December 2015, and, by 9 per cent. to £1,090.8 million during the six months ended 30 June 2016, reflecting the significant growth in both the Business Finance and Consumer Finance divisions.

The CET1 capital ratio is the ratio of CET1 divided by the TRE and was 20.1 per cent. at 30 June 2016 compared to 13.6 per cent. at 31 December 2015, reflecting the above factors, with the sale of the ELG increasing the CET1 capital ratio and providing additional capital for future planned growth.

11. LIQUIDITY

11.1 Funding

The Group is funded by capital and customer deposits, principally comprising on demand and term deposit accounts. The Group has limited borrowings under the FLS of £15 million representing 1.4 per cent. of lending balances as at 30 June 2016 but, other than these borrowings, it has no exposure to the bank wholesale markets.

11.2 Liquidity management

The Group is regulated under the EU CRR (Regulation (EU) No 575/2013) and is authorised by the PRA and regulated by the FCA. The Group has a formal governance structure in place to manage and mitigate liquidity risk on a day to day basis. The Board sets and approves the Group's liquidity risk management strategy. The Asset and Liability Committee, comprising senior executives of the Group, monitors liquidity risk. Key liquidity risk management information is reported by the finance team and monitored by the Chief Executive Officer and Chief Financial Officer on a daily basis. The Asset and Liability Committee meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and ILAA metrics.

As an authorised UK banking institution, the Group has agreed a liquidity policy with the regulator under which it will maintain at all times adequate liquidity resources, both in terms of amount and quality. The Board routinely reviews a liquidity policy that satisfies the regulator's requirements and, amongst other things, the systems and controls in place for liquidity management.

Liquidity is measured at a solo Company level as per the regulator's requirements, including the preparation of an Individual Liquidity Adequacy Assessment Process ("**ILAAP**"). The ILAAP is updated annually and forms an integral part of the Group's three year planning and budgeting process.

The Group also manages its liquidity risk by seeking to match the maturity profile of its customer deposits and lending assets, which are generally short to medium term in nature. The Group's customer loans and deposits are broadly matched in maturity over a five year period with no lending exceeding five years, deposit accounts ranging from instant access to seven year bonds, and over a third of the loan book having a maturity of 12 months or less.

The Group continues to manage its liquidity on a conservative basis by holding high quality liquid assets and utilising predominantly retail funding from customer deposits, with only limited funding coming from the wholesale markets. In December 2012, the Group was admitted as a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework, to participate in the Discount Window Facility. From July 2013, the Group was permitted to draw down facilities under the FLS. FLS monies are maintained as a liquidity buffer, above that required to support lending.

As at 30 June 2016, the Group had significant surplus liquidity over the minimum requirements due to its stock of high quality liquid assets, in the form of the Bank of England reserve account and Bank of England Treasury Bills. As shown in the table below, total liquid assets increased by 20 per cent. to £175.7 million, with the high quality liquid assets balance of £161.6 million representing a proportional increase from 63 per cent. at 31 December 2013 to 92 per cent. of total liquid assets as at 30 June 2016.

The Group invests its surplus funds principally in UK Government securities and deposits (which are deposited at the Bank of England). As at 30 June 2016 £141.8 million was deposited with the Bank of England account.

The Group has no liquid asset exposures outside of the United Kingdom and no amounts that are either past due or impaired.

The Liquidity Coverage Ratio ("**LCR**"), introduced by the Basel Committee on Banking Supervision in 2013, applied to the Group from 1 October 2015. The objective of the LCR is to promote the short term resilience of the liquidity risk profile of banks, by ensuring that they have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

The PRA completed its consultation on the minimum LCR requirements to apply in the United Kingdom in 2015, and set levels marginally higher than those prescribed in the CRR during the transition period. The PRA have set the minimum at 80 per cent. from 1 October 2015, 90 per cent. from 1 January 2017 and 100 per cent. from 1 January 2018, coming into line with the CRR at this point.

While the Group's LCR is significantly higher than required due to a well matched funding profile predominantly comprising of fixed term and notice deposits, following the sale of ELG it increased to 1012 per cent. (as at 30 June 2016).

	As at 30 June		As at 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Liquid Assets:					
Aaa—Aa3	161.6	107.4	135.6	97.5	57.1
A1—A3	14.1	11.2	6.2	19.8	21.3
Unrated	—	10.0	5.3	5.0	11.6
	175.7	**128.6**	**147.1**	**122.3**	**90.0**
Less assets held for sale	—	—	(1.7)	—	—
Statutory balance sheet total	**175.7**	**128.6**	**145.4**	**122.3**	**90.0**

For further information on the maturity periods of the Group's loans and deposits, please refer to Note 3 in the Historical Financial Information.

11.3 Interest rate risk management

Interest rate risk is monitored at the monthly Asset and Liability Committee meetings and consideration is given to hedging any interest rate risk, for example through the use of interest rate caps.

11.4 Leverage

The Basel III framework introduced a relatively simple, transparent, non-risk based leverage ratio to act as a supplementary measure to the risk-based capital requirements. The leverage ratio is intended to restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy, whilst reinforcing the risk-based requirements with a complementary simple, non-risk based 'backstop' measure.

The Basel III leverage ratio is defined by the CRR as Tier 1 capital divided by on and off balance sheet asset exposure values, expressed as a percentage. The minimum leverage ratio requirement of 4 per cent. will be imposed on the Group from 2018, subject to a review in 2017.

As shown in the capital table above, the Group has a leverage ratio at 31 December 2015 of 10.4 per cent., comfortably ahead of the minimum requirement.

12. COMPETITION

The UK retail and SME finance markets in which the Group operates are competitive, with competition from the more established systemically important banks and more recent entrants to the market. Despite this, the recent trend has seen the systemically important banks implementing a reduction of higher risk weighted asset exposure leading to opportunities for the Group to expand and the Director's believe that this trend could continue. This may have implications for non-bank lenders who rely on wholesale funding from the systemic banks as well.

The Group is one of the best capitalised banks in its sector and the Director's believe it is well positioned to continue to expand in its targeted markets, in line with its strategic priorities.

13. DIVIDEND POLICY

The Directors have recently reviewed the dividend policy of the Company and have adopted a progressive dividend policy which takes into account the Company's capital requirements, earnings and cash flow in the long term.

The Directors will have regard to current and projected capital, liquidity, earnings and market expectations in determining the amount of the dividend. On occasion, the Company may declare and pay a special dividend resulting from special circumstances, however no such special dividend is currently envisaged.

14. REASONS FOR ADMISSION

The Directors believe that Admission will help unlock substantial potential by providing the Group with a more liquid market and a greater range of potential investors for its Shares as well as raise its corporate profile and brand awareness. The Directors believe that, as the Group has increased in scale, a premium listing is more appropriate for the Group. The Group is not raising any new capital at the time of Admission.

PART 8
DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

1. DIRECTORS

The Company's Directors are:

Name	Age	Position	Date appointed to the Board	Notice Period
Sir Henry Angest.	76	Non-Executive Chairman	28 January 1982	6 months
Paul Lynam	48	Chief Executive Officer	13 September 2010	12 months
Neeraj Kapur	50	Chief Financial Officer	31 May 2011	12 months
Paul Marrow	63	Independent Non-Executive Director	3 March 2011	6 months
Lord Forsyth	61	Independent Non-Executive Director	1 March 2014	6 months
Andrew Salmon.	53	Non-Executive Director	8 July 2003	6 months

The business address of each of the Directors is Secure Trust Bank PLC, One Arleston Way, Shirley, Solihull, West Midlands B90 4LH.

The management expertise and experience of each of the Directors is set out below:

Sir Henry Angest, Non-Executive Chairman

Sir Henry Angest was appointed to the Board by Arbuthnot. He is an experienced and respected banker. He is a past Master of the Worshipful Company of International Bankers, Chairman and Chief Executive of Arbuthnot Banking Group PLC and Chairman of Arbuthnot Latham & Co., Limited. He gained extensive national and international experience as an executive of the DOW Chemical Company and DOW Banking Corporation. He was chairman of the banking committee of the London Investment Banking Association and a director of the Institute of Directors. He has a law degree from the University of Basel, Switzerland and is an honorary fellow of the University of the Highlands and Islands.

Subject to regulatory approval, Lord Forsyth will become the Chairman of the Board and Sir Henry will become a non-executive director following Admission.

Paul Lynam, Chief Executive Officer

Paul Lynam is an experienced and well qualified career banker. He joined the Company in September 2010 as Chief Executive Officer, having spent 22 years working for NatWest and RBS. He is an Associate of the Chartered Institute of Bankers and has Associate Membership of the Association of Corporate Treasurers. Paul was a governor and trustee of IFS University College for whom he has taught and written examination materials for their BSc level students. Prior to leaving RBS, Paul was the Managing Director, Banking, for RBS/NatWest's SME banking business across the UK. This comprised nearly 7,000 staff and over 1.1 million customers. Before that Paul spent four years as the Managing Director of Lombard North Central PLC, running the largest asset finance and leasing business in Europe. During his career Paul has undertaken roles in branch banking, business banking, corporate and commercial banking, strategy, performance management, lending and central head office functions. Paul is also a director of Arbuthnot. Paul is the chairman of the British Bankers Association Challenger Bank Panel and a member of the board of the British Bankers Association.

Neeraj Kapur, Chief Financial Officer

Neeraj Kapur has over 22 years' financial services experience spent in both the accounting and banking industries. He holds a degree in Aeronautical Engineering from Imperial College, London, is a fellow of the Chartered Institute of Bankers in Scotland, a fellow of the Institute of Directors, a fellow and a member of the Council of the Institute of Chartered Accountants in England & Wales ("**ICAEW**"), and Chair of the ICAEW Financial Services Faculty. Neeraj qualified as a Chartered Accountant in 1993 at Arthur Andersen and spent 11 years working in professional practice. He joined RBS in 2001 and has undertaken a number of roles which included Chief Financial Officer of Lombard North Central PLC.

Paul Marrow, Independent Non-Executive Director

Paul Marrow has over 40 years' banking experience and has, in the past, been responsible for the Commercial Banking and Specialist Corporate Banking business divisions of RBS Group in the UK and been the chair of JCB Finance Limited. Paul holds banking qualifications, gained by examination. Paul is also an independent non-executive director of Arbuthnot Latham & Co. Limited, a wholly owned subsidiary of Arbuthnot and provides consultancy services to Arbuthnot Latham & Co., Limited. Notwithstanding Paul's role as a non-executive director of Arbuthnot Latham & Co. Limited and as a provider of consultancy services to Arbuthnot Latham & Co., Limited, the Board has determined that for the purposes of the UK Corporate Governance Code, he should be treated as an independent Non-Executive Director of the Company. The Board reached its determination having regard to the criteria for independence in the UK Corporate Governance Code and the manner in which Paul has discharged his duties as a director of the Company since his appointment.

Michael Forsyth, The Rt. Hon. Lord Forsyth of Drumlean, Independent Non-Executive Director

Lord Forsyth is a director of J&J Denholm and Denholm Logistics, former Chairman of Hyperion Insurance Group, and former Deputy Chairman of JP Morgan UK and Evercore Partners International. He was appointed to the Privy Council in 1995, knighted in 1997, and joined the House of Lords in 1999. He was a member of the House of Commons for 14 years and served in Government for 10 years, latterly as a Cabinet Minister. He was appointed to the Board on 1 March 2014.

Subject to regulatory approval which is expected to be received after Admission, Lord Forsyth will, upon the retirement of Sir Henry Angest as chairman of the Company be appointed as the Chairman of the Board.

Andrew Salmon, Non-Executive Director

Andrew Salmon was appointed to the Board by Arbuthnot. He joined Arbuthnot in 1997 and is currently the Chief Operating Officer and Head of Business Development of Arbuthnot. He was appointed to the Board on 8 July 2003. He was previously a director of Hambros Bank Limited and qualified as a Chartered Accountant with KPMG.

Future Potential Board Appointments

As detailed below, the Group is in the process of appointing additional independent Non-Executive Directors, however any such appointments will be made following Admission and subject to completion of the relevant regulatory authorisation procedures.

2. SENIOR MANAGEMENT

In addition to the executive management appointed to the Board of the Company, the following senior managers are considered relevant to establishing that the Company has the appropriate expertise and experience for the management of its business:

Name	Age	Position
Kevin Hayes	54	Chief Risk Officer
David Nield	53	Chief Operating Officer
John Bevan	51	Managing Director Commercial Finance
Jon Bowers	53	Managing Director Real Estate and Asset Finance
Roy Aston	58	Chief Technology Officer
Alan Karter	61	General Counsel and Company Secretary
Anne McKenning	50	Group Head of HR & Training
Adrian Walters	48	Chief Internal Auditor
Paul Kilbride	39	Group Head of Compliance and Money Laundering Reporting Officer

The business address of each of the Senior Managers is Secure Trust Bank PLC, One Arleston Way, Shirley, Solihull, West Midlands B90 4LH.

Kevin Hayes, Chief Risk Officer

Kevin Hayes is an experienced and qualified banker. He spent 28 years undertaking various senior roles in banking, asset finance, international banking and project roles with ABN AMRO, NatWest and RBS prior to joining the Company in late 2010. Kevin also holds a degree in Chemistry from Merton College, Oxford.

David Nield, Chief Operating Officer

David Nield has over 25 years' financial services experience gained from undertaking director level roles in Barclays including Head of Asset Finance, Deputy CEO Iveco Capital Europe. Prior to joining Barclays, David was a member of the executive committee of GE Capital Motor Finance. David joined the Company in July 2009. David also holds a post-graduate diploma in marketing.

John Bevan, Managing Director Commercial Finance

John has over 33 years banking experience, including 21 years in the receivables sector. Latterly the Managing Director of Barclays Trade and Working Capital UK&I, and in 2012 held the position of Chairman of the Asset Based Finance Association (ABFA) and also sat on the Executive Board of the International Factors Group. John joined the Company in August 2014.

Jon Bowers, Managing Director Real Estate and Asset Finance

Jon Bowers has over 28 years' financial services experience undertaking director level roles within banking and specialist finance (corporate asset finance and international trade) with NatWest and RBS. This included board roles in a number of Lombard North Central PLC offshore subsidiaries. Jon has professional qualifications in the areas of corporate governance and company direction, banking and international trade. Jon joined the Company in March 2011.

Roy Aston, Chief Technology Officer

Roy Aston has over 40 years IT and Systems related experience. Prior to joining the Company in March 2014, Roy held executive roles in financial services with Beneficial Bank, Citigroup and Lloyds Banking Group. Immediately prior to joining the Group, Roy was an interim executive at the Ministry of Justice where he was responsible for transitioning service relationship management to a third party service.

Alan Karter, General Counsel and Company Secretary

Alan Karter is a Scottish and English qualified solicitor. He initially qualified as a Scottish solicitor before relocating to London in 1980. He was a partner in international law firm Simmons & Simmons LLP from 1988 until the end of 2011. He advised the Group on its admission to trading on AIM in 2011. He joined Arbuthnot Banking Group PLC as Head of Legal Affairs in February 2012 and was appointed Company Secretary of Secure Trust Bank on 31 August 2014. On 1 September 2016 he ceased to be employed by Arbuthnot Banking Group PLC and was appointed General Counsel of Secure Trust Bank. He remains the Company Secretary of Secure Trust Bank.

Anne McKenning, Group Head of HR & Training

Anne McKenning has worked in the financial services industry for over 25 years with the last 17 years in various HR roles. Previous employers include Lloyds TSB, Countrywide Assured and Barclays. She is FCIPD qualified, a qualified Employment Law Specialist Paralegal and holds an MSc in Human Resource Management. Anne joined the Company in June 2007.

Adrian Walters, Chief Internal Auditor

Adrian is a Chartered Accountant and a Chartered Internal Auditor. He qualified as a Chartered Accountant with Coopers & Lybrand (which later became PricewaterhouseCoopers LLP) in 1995 and was employed in the firm's Assurance practice for 18 years. In 2010 he joined Experian PLC as a Head of Internal Audit and in February 2015 he joined the Company as Chief Internal Auditor. He is also Chief Internal Auditor of Arbuthnot Latham & Co., Limited under transitional arrangements that will cease as soon as a permanent successor is in place for that role.

Paul Kilbride, Group Head of Compliance and Money Laundering Reporting Officer

Paul Kilbride has 15 years' experience in the financial services industry and is a qualified banker. Prior to joining the Company in February 2013 he had performed the roles of Chief Executive and Director, Society Secretary and Money Laundering Reporting Officer for Chesham Building Society.

3. CORPORATE GOVERNANCE AND BOARD APPOINTMENTS

On Admission, save with regard to the independence requirements of the membership of the Nomination Committee and the Remuneration Committee, as set out below, the Board intends to comply with the applicable requirements of the UK Corporate Governance Code (the "**UK Corporate Governance Code**") published in April 2016 by the Financial Reporting Council and, thereafter, will report to the shareholders on compliance with the UK Corporate Governance Code in accordance with the Listing Rules.

The UK Corporate Governance Code recommends that at least half the members of the board of directors (excluding the chairman) of a UK premium-listed company should be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. However a smaller company (being a company that is below the FTSE 350 throughout the year immediately prior to the reporting year), is not expected to comply with this requirement, but the UK Corporate Governance Code recommends that it should have at least two independent non-executive directors.

On Admission, the Board will be composed of six members, consisting of the Non-Executive Chairman, two Executive Directors, two Independent Non-Executive Directors and one Non-Executive Director. Accordingly, on Admission the Company will comply with the applicable provisions of the UK Corporate Governance Code for smaller companies.

Sir Henry Angest and Andrew Salmon were appointed to the Board by Arbuthnot when Arbuthnot owned the Company's entire issued share capital and will remain Non-Executive Directors of the Company following Admission. There is an understanding between the Company and Arbuthnot that for so long as Arbuthnot holds ten per cent. or more of the issued share capital of the Company, Arbuthnot would expect two directors of the Company to be nominees of Arbuthnot. While the Board expects to appoint additional independent non-executive directors following Admission, there is no guarantee that such new directors will be appointed and therefore the Arbuthnot nominees may continue to comprise a third of the Board.

The UK Corporate Governance Code also recommends that the Board should appoint one of the independent non-executive directors as senior independent director. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate. Paul Marrow has been appointed as the senior independent director.

The Chairman's role is to ensure good corporate governance. His responsibilities include leading the Board, ensuring the effectiveness of the Board in all aspects of its role, ensuring effective communication with shareholders, setting the Board's agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision making process of the Board.

In addition to the requirements of the UK Corporate Governance Code, the Group also complies with PRA requirements relating to the management body of a PRA authorised person.

4. BOARD COMMITTEES

As envisaged by the UK Corporate Governance Code, the Board has established Nomination, Remuneration, Audit and Risk Committees, each with formally delegated duties and responsibilities and with written terms of reference. Further information in relation to these committees is set out in Part 12: "*Risk Management*". From time to time, other committees may be set up by the Board to consider specific issues when the need arises.

4.1 Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition of the Board. The Nomination Committee is responsible for, amongst other matters, evaluating the balance of skills, experience, independence and knowledge on the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters. 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 UK Corporate Governance Code provides that a majority of the members of the Nomination Committee should be independent non-executive directors and the chairperson should be the chairman or an independent non-executive director, but the chairman should not chair the Nomination Committee when it is dealing with the appointment of his/her successor.

The Nomination Committee is currently composed of four members, two of whom are independent Non-Executive Directors (Lord Forsyth and Paul Marrow), Sir Henry Angest, the Non-Executive Chairman of the Company and Andrew Salmon, a Non-Executive Director. The chairman of the Nomination Committee is Sir Henry Angest. The Company is therefore not compliant with the UK Corporate Governance Code recommendations regarding the composition of the Nomination Committee however it is the intention of the Board to change the composition of the Nomination Committee following Admission once additional non-executive directors have been appointed to the Board.

The Nomination Committee meets formally at least once a year and otherwise as required.

4.2 Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including, amongst other matters, making recommendations to the Board on the Company's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level.

The UK Corporate Governance Code provides that the Remuneration Committee should consist of at least three members who are all independent non-executive directors. For smaller companies, such as the Company, the Remuneration Committee should consist of at least two independent non-executive directors. In both cases, the Chairman of the Company may be a member of, but not chair, the Committee if he/she was considered independent on appointment as Chairman.

The Remuneration Committee is currently composed of four members, two of whom are independent Non-Executive Directors (Lord Forsyth and Paul Marrow), Sir Henry Angest, the Non-Executive Chairman of the Company and Andrew Salmon, both of whom are Non-Executive Directors. The chairman of the Remuneration Committee is Sir Henry Angest. The Company is therefore not compliant with the UK Corporate Governance Code recommendations regarding the composition of the Remuneration Committee, however it is the intention of the Board to change the composition of the Remuneration Committee following Admission once additional non-executive directors have been appointed to the Board.

The Remuneration Committee meets formally at least twice a year and otherwise as required.

4.3 **Audit Committee**

The Audit Committee assists the Board in, amongst other matters, discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment, reappointment, removal and independence of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The UK Corporate Governance Code recommends that the Audit Committee should consist of at least three members who should all be independent non-executive directors, and that at least one member should have recent and relevant financial experience. For smaller companies, such as the Company, the Board should establish an Audit Committee of at least two independent non-executive directors. In addition, the Chairman of the Company may be a member of, but not chair, the Committee if he/she was considered independent on appointment as Chairman.

The Audit Committee is currently composed of three members, two of whom are independent non-executive directors (Lord Forsyth and Paul Marrow) and Andrew Salmon, who is a non-executive director. Andrew Salmon is considered by the Board to have recent and relevant financial experience. The chairman of the Audit Committee is Paul Marrow. The Company is therefore compliant with the UK Corporate Governance Code recommendations regarding the composition of the Audit Committee for smaller companies. It is the intention of the Board to change the composition of the Audit Committee following Admission once additional non-executive directors have been appointed to the Board.

The Audit Committee meets formally at least three times a year and otherwise as required.

4.4 **Risk Committee**

The Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of the Group and future risk strategy, reviewing and approving various formal reporting requirements and promoting a risk awareness culture within the Group and ensuring that the Group's strategy, principles, policies and resources are aligned to its risk appetite.

The Risk Committee is currently composed of three members, Andrew Salmon, a Non-Executive Director and Paul Marrow, an independent Non-Executive Director and Paul Lynam. The chairman of the Risk Committee is Paul Marrow. It is the intention of the Board to change the composition of the Risk Committee following Admission once additional non-executive directors have been appointed to the Board.

The Risk Committee will meet formally at least six times a year and otherwise as required.

5. SHARE DEALING AND MARKET ABUSE

The Company has adopted policies and procedures to comply with the Market Abuse Regulation which came into force on 3 July 2016, including a share dealing policy. The policy applies to the Directors and other relevant employees of the Group.

PART 9
SUPERVISION AND REGULATION

1. EUROPEAN UNION LEGISLATION

The regulatory framework for banking and financial services within the UK is currently shaped to a large degree by legislation emanating from the EU. Regulations of the EU apply directly in Member States while directives are required to be implemented into national law by Member States.

The following principal items of current and proposed EU legislation have particular relevance for the Group.

1.1 Capital Requirement Regulation and Directive

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

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

The Basel Committee on Banking Standards is currently consulting on revisions to the standardised approach for credit risk. The main proposals are to introduce a "risk drivers" approach to some types of credit risk, with these risk drivers determining the standardised risk weights. For example, corporate exposures will no longer be risk-weighted by reference to the borrowing firm's external credit rating, but will instead be based on the firm's revenue and leverage; and similarly, bank exposures will no longer be risk-weighted by reference to the bank's external credit rating or that of its sovereign of incorporation, but will instead be based on two "risk drivers" (namely the bank's capital adequacy and its asset quality). The first consultation period closed on 27 March 2015 and the final date for comments on the second consultation document was 11 March 2016. As of August 2016, no formal statement as to the outcome of the consultation has been published by the Basel Committee on Banking Standards.

The Basel III reforms have been implemented in the EU by the Capital Requirements Regulation (the "**Capital Requirements Regulation**") and the associated Capital Requirements Directive (the "**CRD IV Directive**", known together with the Capital Requirements Regulation as "**CRD IV**") which were adopted by the European Parliament and European Council on 26 June 2013. CRD IV substantially reflects the Basel III capital and liquidity standards. CRD IV introduced new capital limits and buffers for banks, and includes a requirement to hold CET1 capital to account for capital conservation, countercyclical and systemic risk buffers. CRD IV also established rules on the remuneration of bank staff. Certain further details remain to be clarified in binding technical standards, reports and guidelines to be issued by the European Banking Authority (some of which are not expected before 31 December 2017). CRD IV entered into force on 1 January 2014 although many provisions will be phased in over time, with full implementation of CRD IV required by January 2024. However individual Member States may implement the stricter requirements of contributing instruments and/or implement increases to the required levels of capital more quickly than envisaged. As a regulation, the Capital Requirements Regulation is directly effective in all Member States.

1.2 Consumer Credit Directive

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

In essence, the Consumer Credit Directive requires member states to ensure that suppliers of consumer credit provide a comprehensible set of information to consumers in good time before a consumer credit agreement is entered into, the aim being to permit consumers to more easily compare consumer credit agreements and to better understand the features and obligations of such agreements. The pre-contractual information required to be provided by creditors must follow the Standard European Consumer Credit Information standardised form. In addition, member states must implement two essential rights for consumers: the right to withdraw from the credit agreement without giving any reason within a period of 14 days after the conclusion of the contract and the right to repay their credit early at any time. In respect of the latter, the creditor can ask for a fair and objectively justified compensation.

1.3 **European Market Infrastructure Regulation ("EMIR")**

EMIR was adopted by the European Parliament and European Council on 4 July 2012. EMIR provides for certain over-the-counter derivative contracts to be submitted to central clearing and imposes, among other things, margin posting and other risk mitigation techniques, reporting and record keeping requirements. The clearing and margin requirements are being phased in and certain reporting obligations are already in force. The Group is a "Category 3" financial institution for the purposes of EMIR and is will therefore be required to centrally clear any derivatives from 21 June 2017 onwards. The Group is working towards compliance with any such provisions that may apply to it in the future.

1.4 **Bank Recovery and Resolution Directive ("BRRD")**

The BRRD was published in the Official Journal of the EU on 12 June 2014 and Member States were required to have put in place national legislation implementing the provisions of the BRRD by 1 January 2015. The provisions of the BRRD (including those relating to bail-in) have been implemented in the UK by means of a mixture of legislative provisions, new rules in the FCA Handbook and the PRA Rulebook and amendments to HM Treasury's SRR Code of Practice.

1.5 **Deposit Guarantee Schemes Directive**

The existing Deposit Guarantee Schemes Directive required each Member State to introduce at least one deposit guarantee scheme, with implementation by 1 July 1995. The Deposit Guarantee Schemes Directive has been reviewed and a new directive to recast and replace the existing rules was adopted by the European Parliament and European Council on 16 April 2014 and published in the Official Journal on 12 June 2014. The UK deposit guarantee scheme is the Financial Services Compensation Scheme ("**FSCS**"). The main changes include a tighter definition of deposits, mandatory part pre-funding of deposit guarantee schemes, a requirement that deposit guarantee schemes repay customers within a week and that banks must be able to provide information at any time.

1.6 **Payment Services Directive**

Directive 2007/64/EC on payment services in the internal market harmonises the regulatory regime across the EU for payment services (the "**PSD**"). The PSD was implemented in the UK through the Payment Services Regulation 2009 and related amending legislation. The regulations create a separate authorisation and registration regime which differs from the authorisation requirements under FSMA, for businesses which provide payment services (including credit card services) in the UK. Credit institutions are only subject to the conduct of business requirements in the regulations to the extent that they provide payment services.

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

1.7 **General Data Protection Regulation** ("**GDPR**")

In 2012 the European Commission published a proposal for the GDPR, which would replace the Data Protection Act 1998 (and the equivalent laws in other EU and EEA Member States) with an EU regulation having direct effect in the UK. A political agreement was reached on 15 December 2015 and the GDPR (Regulation (EU) 2016/679) was published on the Official Journal on 4 May 2016. The GDPR is due to come into force on 25 May 2018. In essence, the GDPR increases compliance requirements and includes significant financial penalties of up to four per cent. of the annual worldwide turnover of company groups.

1.8 **Fourth EU Anti Money Laundering Directive**

The Fourth EU Anti Money Laundering Directive (Directive 2015/849) amends Regulation No 648/2012 and repeals Directive 2005/60/EC. Member states are required to have incorporated it into national law by 26 June 2017. Financial institutions, accountants, tax advisers, lawyers, trust providers and estate and letting agents with whom trustees form a business relationship must comply starting 26 June 2017. The updated Directive has made changes to customer due diligence and the central register of beneficial ownership, introduced enhanced measures for local politically-exposed persons, removed the automatic exemption from enhanced customer due diligence and expanded the scope of the Directive to companies with majority-owned subsidiaries located in countries outside of the EU, while emphasising a risk-based approach.

1.9 **European Directive on Takeover Bids ("the Takeover Directive")**

Directive 2004/25/EC was adopted in May 2004 and implemented into national law on 20 May 2006. It sets out six general principles governing the conduct of takeovers:

- all target shareholders of the same class must be afforded equal treatment;
- target shareholders must have sufficient time and information to enable them to reach a properly informed decision on the bid;
- the target board must act in the interests of the company as a whole and must not deny the shareholders the opportunity to decide on the merits of a bid;
- false markets must not be created in the shares of the bidder, the target, or any other company involved in the bid, such that the price of the securities concerned artificially rises or falls and the normal functioning of the markets is distorted;
- a bidder must announce a bid only after taking all reasonable measures to secure the implementation in full of the consideration offered; and
- a target company must not be hindered in the conduct of its business by a bid for its shares for longer than is reasonable.

2. UK REGULATION

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

The Prudential Regulation Authority

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

In discharging its functions, the PRA's general objective is promoting the safety and soundness of PRA-authorised firms. The PRA is required to advance this objective primarily by seeking to: (i) ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and (ii) minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system. Additionally, the Banking Reform Act 2013 introduces, from 1 January 2019, additional requirements on how the PRA is to advance its general objective in relation to certain matters related to ring-fenced bodies.

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

The Financial Conduct Authority

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

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

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

The Financial Policy Committee

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

2.1 Financial Services and Markets Act 2000 ("FSMA")

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

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

Threshold conditions

Authorised firms must at all times meet certain "threshold conditions" specified by FSMA. Dual-regulated firms, such as the Bank, must meet both the PRA and FCA threshold conditions. The FCA threshold conditions are, in summary, that: (i) the firm is capable of being effectively supervised by the FCA; (ii) the firm maintains appropriate non-financial resources; (iii) the firm itself is a fit and proper person, having regard to the FCA's objectives; and (iv) the firm's strategy for doing business is suitable for a person carrying on regulated activities that it carries on or seeks to carry on, having regard to the FCA's operational objectives. The PRA threshold conditions require that (i) a firm is either a body corporate or partnership; (ii) if the firm is incorporated in the UK, its head office is in the UK and if it has a registered office, that office is in the UK; (iii) the business of the firm must be conducted in a prudent manner and to satisfy this it must have appropriate financial and non-financial resources; (iv) the firm itself is a fit and proper person, having regard to the PRA's objectives; and (v) the firm is capable of being effectively supervised by the PRA.

Change of control

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

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

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

FCA/PRA Handbooks and other guidance

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

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

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

Enforcement

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

2.2 **Consumer credit regulation**

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

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

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

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

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

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

2.3 **Financial Services Compensation Scheme ("FSCS")**

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

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

- for deposits, 100 per cent. of the first £75,000;
- for mortgage advice and arranging, 100 per cent. of the first £50,000; and
- for insurance, 90 per cent. of the claim with no upper limit (except compulsory insurance is protected in full).

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

2.4 **Financial Ombudsman Service ("FOS")**

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

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

2.5 **Senior managers regime, certification regime and conduct rules**

The senior managers and certification regime, which came into force on 7 March 2016 has three elements, as set out below. The new framework encourages individuals to take greater responsibilities for their actions, which in turn should make it easier for both firms, and regulators, to hold individuals to account:

- **The Senior Managers Regime (SMR)**: This regime is intended: (i) to ensure that the key responsibilities within banks are assigned to specific individuals, who carry out a senior management function, ("senior managers") and (ii) that senior managers are made fully aware of those responsibilities and made to understand that they will be held to account for how they carry them out. Senior managers are pre-approved by the regulators. The regime replaces the concept of significant influence function under the Approved Persons Regime.
- **The Certification Regime**: This regime, which sits alongside the Senior Managers Regime, applies to other bank staff whose actions or behaviour could significantly harm the bank or any of its customers. Such staff are not pre-approved by the regulators. Instead, banks must certify that these individuals are fit and proper for their roles on an on-going basis.
- **Conduct Rules**: The conduct rules are high-level requirements that apply to persons within scope of the SMR and the certification regime. They will also apply to most employees of banks based in the UK or those who deal with customers in the UK. These rules replace the Statement of Principle and Code of Practice for Approved Persons.

2.6 **Other relevant legislation and regulation**

*Payment Services Regulations 2009 ("**PSR**")*

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

UK Money Laundering Regulations 2007

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

*UK Bribery Act 2010 ("**Bribery Act**")*

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

Modern Slavery Act 2015

The Modern Slavery Act 2015 requires every organisation with a total global annual turnover of £36 million or more that is carrying out a business, or part of a business, in the UK to publish a slavery and human trafficking statement each financial year. It must be signed by a director and a link to it must be found on the company's website homepage. This statement must detail the steps taken, if any, by the organisation to identify and eliminate modern slavery from its business and its supply chain.

Data Protection Act 1998

The Data Protection Act 1998 regulates the processing of data relating to individual customers. Those responsible for using data must follow data protection principles, which ensure data is accurate, used fairly, lawfully and for limited purposes, and securely kept, for no longer than is necessary.

Consumer Rights Act 2015

The Consumer Rights Act 2015 came into force on 1 October 2015. It gives effect in the UK to the Unfair Contract Terms Directive and revokes the Unfair Terms in Consumer Contracts Regulations 1999. It deals with unfair contract terms and consumer notices. The main effect of this legislation in to consolidate the rules dealing with the fairness of contractual terms when dealing with a consumer as well as clarifying the remedies that consumers have.

*Foreign Account Tax Compliance Act ("**FATCA**")*

The United States has enacted rules that generally impose a new reporting and withholding regime with respect to certain U.S. source payments made by, and financial accounts held with, entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with the United Kingdom.

The FATCA provisions impose substantial burdens on UK businesses in identifying U.S. taxpayers, and registering and reporting information. Further, significant aspects of how FATCA will apply in the future remain unclear and, as a result, the scope of compliance may change.

*Financial Reporting Council ("**FRC**")*

The FRC is an independent UK regulatory body responsible for promoting high quality corporate governance and reporting to foster investment. Among other things, the FRC sets codes and standards for governance, accounting, auditing and actuarial work. It also deals with compliance by public companies with the applicable financial reporting framework and investigates misconduct by professional accountants and actuaries.

*International Accounting Standards ("**IAS**")*

The IAS Regulation is Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards. It is one of the steps taken by the EU to assist the overall convergence of accounting standards on an international scale.

The main aim of the IAS Regulation is to ensure that publicly traded companies in the EU apply a single set of high quality international accounting standards for the preparation of their consolidated financial statements (known as group accounts under the Companies Act). Under the Companies Act, "international accounting standards" is used to refer to the international accounting standards within the meaning of the IAS Regulation.

*International Financial Reporting Standard 9 ("**IFRS 9**")*

The new accounting standard governing the impairment of financial assets is effective for annual reporting periods beginning on or after 1 January 2018. The standard fundamentally changes the calculation and recognition of credit losses by introducing the requirement to base impairment provisions on expected credit losses over the life of the financial asset. It also requires credit losses to be recognised for all loans, in contrast with the current standard (IAS 39) which requires recognition of losses only when there is evidence of impairment. The models used to calculate expected credit losses need to include forward looking factors including macro-economic variables.

The Group has initiated a project to develop and implement the modelling, data, processes, systems and disclosures required to comply with IFRS 9. The Group intends to run the provision modelling and accounting processes over the course of 2017 to assess the impact of the standard.

Competition regulation

In November 2014, the CMA launched an in-depth market investigation into the personal current account and SME retail banking sectors after identifying concerns about the effectiveness of competition in these sectors. The CMA published its provisional findings and possible remedies on 22 October 2015, the provisional decision on remedies on 17 May 2016 and published a final report on 9 August 2016 which concluded that although the personal current account and SME retail banking markets are concentrated, and have become more so following recent mergers, there was insufficient evidence to support a finding that the current concentrated market structure is having adverse effects on competition and detrimental effects on customers in the personal current account or SME lending markets.

*The Panel on Takeovers and Mergers and the City Code on Takeovers and Mergers ("**the Panel**" and "**the Code**", respectively)*

Established in 1968, the Panel is an independent body whose main functions are to issue and administer the Code, and to supervise and regulate takeovers and other matters to which the Code applies, in accordance with the rules set out in the Code.

The Code is designed to ensure that shareholders in an offeree company are treated fairly and are not denied an opportunity to decide on the merits of a takeover, and that shareholders in the offeree company of the same class are afforded equivalent treatment by an offeror. The Code also provides an orderly framework within which takeovers are conduct. It is designed to promote, in conjunction with other regulatory regimes, the integrity of the financial markets.

2.7 **Regulatory and other changes resulting from the UK exit from the European Union**

As a significant proportion of the current and anticipated regulatory regime applicable to the Group in the UK is derived from EU directives and regulations, the UK exiting the EU could materially change the legal and regulatory framework applicable to the Group's operations, including in relation to its regulatory capital requirements. For more information see Part 2: "*Risk Factors—Regulatory and other changes resulting from the UK exit from the European Union could impact the Group's results*".

2.8 **Other**

In addition to those laws and regulations described above, the Group is also subject to, and complies with, a number of legal and regulatory requirements that relate to, amongst others, employment, health and safety and data protection laws and regulations.

PART 10
SELECTED FINANCIAL INFORMATION AND KEY PERFORMANCE INDICATORS

The following tables present selected financial information of the Group as at the dates and for the periods indicated. The selected financial information in the tables headed consolidated statement of comprehensive income, consolidated statement of financial position and consolidated cash flow statement below have been extracted without material adjustment from the Historical Financial Information included in Section B of Part 14: "Historical Financial Information".

Consolidated statement of comprehensive income

	For the six months ended 30 June 2016			For the six months ended 30 June 2015		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
					(unaudited)	
			(£ million)			
Interest receivable and similar income	62.7	11.1	**73.8**	45.7	18.5	**64.2**
Interest expense and similar charges	(13.2)	—	**(13.2)**	(9.8)	—	**(9.8)**
Net interest income	**49.5**	**11.1**	**60.6**	**35.9**	**18.5**	**54.4**
Fee and commission income	8.7	0.1	**8.8**	8.3	1.1	**9.4**
Fee and commission expense	(0.9)	(0.1)	**(1.0)**	(1.4)	(0.2)	**(1.6)**
Net fee and commission income	**7.8**	**—**	**7.8**	**6.9**	**0.9**	**7.8**
Operating income	**57.3**	**11.1**	**68.4**	**42.8**	**19.4**	**62.2**
Net impairment losses on loans and advances to customers	(13.3)	(2.6)	**(15.9)**	(8.0)	(3.2)	**(11.2)**
Gain from a bargain purchase	—	—	—	—	—	—
Costs arising from acquisitions	—	—	—	—	—	—
Operating expenses	(31.5)	(6.0)	**(37.5)**	(24.4)	(10.6)	**(35.0)**
Profit before income tax	**12.5**	**2.5**	**15.0**	**10.4**	**5.6**	**16.0**
Income tax expense	(2.2)	(0.5)	**(2.7)**	(2.0)	(1.1)	**(3.1)**
Profit after income tax	**10.3**	**2.0**	**12.3**	**8.4**	**4.5**	**12.9**
Gain recognised on disposal	—	116.8	**116.8**	—	—	—
Profit for the period	**10.3**	**118.8**	**129.1**	**8.4**	**4.5**	**12.9**
Other comprehensive income, net of income tax:						
Available-for-sale reserve—Net amount transferred to profit or loss	(2.1)	—	(2.1)	—	—	—
Cash flow hedging reserve—Net amount transferred to profit or loss	—	—	—	—	—	—
Other comprehensive income for the period, net of income tax	**(2.1)**	—	**(2.1)**	—	—	—
Total comprehensive income for the period	**8.2**	**118.8**	**127.0**	**8.4**	**4.5**	**12.9**
Profit attributable to:						
Equity holders of the Company	**10.3**	**118.8**	**129.1**	**8.4**	**4.5**	**12.9**
Total comprehensive income attributable to:						
Equity holders of the Company	**8.2**	**118.8**	**127.0**	**8.4**	**4.5**	**12.9**
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in pence per share);						
Basic earnings per share	57.0	652.9	**709.9**	46.3	24.5	**70.8**
Diluted earnings per share	55.9	640.8	**696.7**	45.5	24.0	**69.5**

	Year ended 31 December 2015			Year ended 31 December 2014			Year ended 31 December 2013		
	Cont.	**Discont.**	**Total**	**Cont.**	**Discont.**	**Total**	**Cont.**	**Discont.**	**Total**
					(£ million)				
Interest receivable and similar income	100.5	39.2	139.7	63.4	30.2	93.6	51.6	22.2	73.8
Interest expense and similar charges	(21.6)	—	(21.6)	(14.2)	—	(14.2)	(12.9)	—	(12.9)
Net interest income	**78.9**	**39.2**	**118.1**	**49.2**	**30.2**	**79.4**	**38.7**	**22.2**	**60.9**
Fee and commission income	16.9	1.5	18.4	16.1	4.1	20.2	17.0	5.7	22.7
Fee and commission expense	(3.7)	(0.3)	(4.0)	(1.6)	(0.1)	(1.7)	(2.8)	(1.8)	(4.6)
Net fee and commission income	**13.2**	**1.2**	**14.4**	**14.5**	**4.0**	**18.5**	**14.2**	**3.9**	**18.1**
Operating income	**92.1**	**40.4**	**132.5**	**63.7**	**34.2**	**97.9**	**52.9**	**26.1**	**79.0**
Net impairment losses on loans and advances to customers	(16.8)	(7.5)	(24.3)	(8.7)	(6.6)	(15.3)	(9.6)	(6.0)	(15.6)
Gain from a bargain purchase	—	—	—	—	—	—	0.4	—	0.4
Costs arising from acquisitions	—	—	—	—	—	—	(0.9)	—	(0.9)
Operating expenses	(50.5)	(21.2)	(71.7)	(37.5)	(19.0)	(56.5)	(29.7)	(16.1)	(45.8)
Profit before income tax	**24.8**	**11.7**	**36.5**	**17.5**	**8.6**	**26.1**	**13.1**	**4.0**	**17.1**
Income tax expense	(5.5)	(2.3)	(7.8)	(3.6)	(2.0)	(5.6)	(2.9)	(1.9)	(4.8)
Profit after income tax	**19.3**	**9.4**	**28.7**	**13.9**	**6.6**	**20.5**	**10.2**	**2.1**	**12.3**
Gain recognised on disposal	—	—	—	—	—	—	—	—	—
Profit for the period	**19.3**	**9.4**	**28.7**	**13.9**	**6.6**	**20.5**	**10.2**	**2.1**	**12.3**
Other comprehensive income, net of income tax:									
Available-for-sale reserve—Net amount transferred to profit or loss	—	—	—	—	—	—	—	—	—
Cash flow hedging reserve—Net amount transferred to profit or loss	—	—	—	0.4	—	0.4	—	—	—
Other comprehensive income for the period, net of income tax	**—**	**—**	**—**	**0.4**	**—**	**0.4**	**—**	**—**	**—**
Total comprehensive income for the period	**19.3**	**9.4**	**28.7**	**14.3**	**6.6**	**20.9**	**10.2**	**2.1**	**12.3**
Profit attributable to:									
Equity holders of the Company	**19.3**	**9.4**	**28.7**	**13.9**	**6.6**	**20.5**	**10.2**	**2.1**	**12.3**
Total comprehensive income attributable to:									
Equity holders of the Company	**19.3**	**9.4**	**28.7**	**14.3**	**6.6**	**20.9**	**10.2**	**2.1**	**12.3**
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in pence per share);									
Basic earnings per share	106.1	51.7	**157.8**	82.8	39.5	**122.3**	64.9	13.4	**78.3**
Diluted earnings per share	104.1	50.7	**154.8**	81.2	38.7	**119.9**	63.6	13.1	**76.7**

Consolidated statement of financial position

	As at 30 June 2016	Year ended 31 December 2015	2014	2013
		(£ million)		
ASSETS				
Cash and balances at central banks	141.8	131.8	81.2	—
Loans and advances to banks	19.1	9.8	39.8	110.0
Loans and advances to customers	1,128.3	960.6	622.5	391.0
Debt securities held-to-maturity	19.8	3.8	16.3	—
Investment securities available-for-sale	13.7	—	—	—
Property, plant and equipment	8.5	8.5	8.1	5.0
Intangible assets	7.0	7.0	8.2	9.9
Deferred tax assets	0.9	0.3	1.0	1.9
Other assets	6.2	7.1	5.2	8.1
Assets held for sale		118.5	–	
Total assets	1,345.3	1,247.4	782.3	525.9
LIABILITIES AND EQUITY				
Liabilities				
Due to banks	15.0	35.0	15.9	0.1
Deposits from customers	1,042.6	1,033.1	608.4	436.6
Current tax liabilities	0.2	3.2	3.6	1.4
Deferred tax liabilities	—	—	—	0.4
Dividend payable	30.0	—	—	—
Other liabilities	29.1	26.2	29.5	25.8
Liabilities held for sale	—	8.7	–	
Total liabilities	1,116.9	1,106.2	657.4	464.3
Equity attributable to owners of the parent				
Share capital	7.3	7.3	7.3	6.3
Share premium	79.3	79.3	79.3	28.2
Retained earnings	143.7	54.4	38.1	27.3
Available-for-sale reserve	(2.1)	—	—	—
Cash flow hedging reserve	—	—	—	(0.4)
Revaluation reserve	0.2	0.2	0.2	0.2
Total equity	228.4	141.2	124.9	61.6
Total liabilities and equity	1,345.3	1,247.4	782.3	525.9

Consolidated statement of cash flows

	For the six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Cash flows from operating activities					
Profit for the period	10.3	8.4	19.3	13.9	10.2
Adjustments for:					
Income tax expense	2.2	2.0	5.5	3.6	2.9
Depreciation of property, plant and equipment	0.3	0.2	0.5	0.4	0.3
Amortisation of intangible assets	0.7	0.8	1.3	1.2	1.1
Gain from a bargain purchase	—	—	—	—	(0.4)
Impairment losses on loans and advances to customers	13.3	8.0	16.8	8.7	9.6
Share based compensation	0.2	0.1	0.2	0.5	2.5
Cash flows from operating profits before changes in operating assets and liabilities	27.0	19.5	43.6	28.3	26.2
Changes in operating assets and liabilities:		—			
— net (increase)/decrease in debt securities held to maturity	(16.0)	—	12.5	—	—
— net (increase)/decrease in loans and advances to banks	(5.0)	24.3	15.0	(11.3)	54.9
— net increase in loans and advances to customers	(181.0)	(226.4)	(448.8)	(227.7)	(76.1)
— net decrease/(increase) in other assets	0.9	—	(2.6)	2.9	(2.8)
— net increase/(decrease) in amounts due to banks	(20.0)	(15.9)	19.1	15.8	0.1
— net increase in deposits from customers	9.5	226.7	424.7	171.8	37.7
— net increase/(decrease) in other liabilities	2.9	0.4	(6.0)	(1.3)	6.2
Income tax paid	(5.3)	(0.5)	(4.2)	(0.8)	(2.8)
Net cash inflow/(outflow) from operating activities	(187.0)	28.1	53.3	(22.3)	43.4
Cash flows from investing activities					
Borrowings repaid on acquisition of subsidiary undertakings	—	—	—	—	(36.9)
Cash acquired on purchase of subsidiary undertakings	—	—	—	—	1.6
Purchase of subsidiary undertakings	—	—	—	—	(3.9)
Sale of subsidiary undertaking	209.9	—	—	—	—
Purchase of property, plant and equipment	(0.3)	(0.7)	(1.1)	(3.5)	(0.1)
Purchase of computer software	(0.7)	(0.6)	(2.3)	(0.8)	(0.5)
Proceeds from sale of property, plant and equipment	—	—	—	—	0.3
Proceeds from sale of computer software	—	—	—	—	1.9
Net cash flows from investing activities	208.9	(1.3)	(3.4)	(4.3)	(37.6)
Cash flows from financing activities					
Net inflow on issue of share capital	—	—	—	52.1	—
Dividends paid	(10.0)	(9.5)	(12.6)	(10.2)	(9.1)
Net cash flows from financing activities	(10.0)	(9.5)	(12.6)	41.9	(9.1)
Net increase/(decrease) in cash and cash equivalents-Continuing operations	11.9	17.3	37.3	15.3	(3.3)
Net increase/(decrease) in cash and cash equivalents-Discontinued operations	0.7	(1.7)	—	0.7	(0.7)
Cash and cash equivalents at 1 January	143.3	106.0	106.0	90.0	94.0
Cash and cash equivalents at end of period	155.9	121.6	143.3	106.0	90.0

Key performance indicators

The key performances indicators presented below are derived from the audited historical financial information of the group set out in Part 14: "*Historical Financial Information*" of this prospectus. Some of the key performance indicators are calculated using underlying data from the consolidated statement of comprehensive income and consolidated statement of financial position as presented in this section Part 10: "*Selected Financial Information and Key Performance Indicators*" above.

	As at 30 June		As at 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Gross revenue margin[(1)]	13.6 %	16.7 %	15.3 %	20.8 %	23.2 %
Cost of funding[(2)]	2.5 %	3.1 %	2.9 %	3.8 %	4.5 %
Net interest margin[(3)]	9.5 %	11.4 %	10.6 %	13.1 %	13.6 %
Net revenue margin[(4)]	11.0 %	13.6 %	12.4 %	17.0 %	18.7 %
Cost of risk[(5)]	2.6 %	2.5 %	2.3 %	2.3 %	3.4 %
Cost: income ratio[(6)]	55.0 %	57.0 %	54.8 %	58.9 %	56.1 %
Underlying PBT (£m)[(7)]	17.4	11.3	26.7	23.8	17.2
Underlying PAT (£m)([8])	14.3	9.1	20.8	18.8	13.3
Annualised underlying ROAA[(9)]	2.5 %	2.5 %	2.2 %	3.5 %	3.3 %
Annualised underlying ROAE[(10)]	17.5 %	15.3 %	15.8 %	21.2 %	23.1 %
Annualised underlying RORE[(11)]	27.1 %	28.7 %	24.3 %	40.9 %	38.9 %
Loan originations (£m)[(12)]	462.5	379.4	808.5	467.8	246.8
Loan book (£m)[(13)]	1,128.3	852.3	960.6	622.5	391.0
Loan to deposit ratio[(14)]	108.2 %	102.1 %	93.0 %	102.3 %	89.6 %
Liquidity ratio[(15)]	12.0 %	10.7 %	10.9 %	12.5 %	10.8 %

Capital and CRD IV Ratios

	As at 30 June		As at 31 December		
	2016	2015	2015	2014	2013[(16)]
		(unaudited)			
			(£ million)		
Capital:					
Common Equity Tier 1 (CET 1) Capital	219.6	126.0	135.8	121.4	58.4
Total Tier 2 capital	3.0	2.0	3.1	2.0	1.6
Total capital	222.6	128.0	138.9	123.4	60.0
Total Risk Exposure (TRE)	1,090.8	840.8	998.6	649.2	303.4
CRD IV ratios:					
Common Equity Tier 1 (CET 1) ratio	20.1 %	15.0 %	13.6 %	18.7 %	19.7 %
Leverage Ratio	15.8 %	11.9 %	10.4 %	14.7 %	14.9 %

Liquid Assets

	As at 30 June		As at 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Liquid Assets:					
Aaa—Aa3	161.6	107.4	135.6	97.5	57.1
A1—A3	14.1	11.2	6.2	19.8	21.3
Unrated	—	10.0	5.3	5.0	11.6
	175.7	128.6	147.1	122.3	90.0
Less assets held for sale	—	—	(1.7)	—	—
Statutory balance sheet total	175.7	128.6	145.4	122.3	90.0

(1) Gross revenue margin is calculated as interest income plus net fees and other income as a percentage of average loan book.[(17)]

(2) Cost of funding is calculated as interest expense and similar charges as a percentage of average loan book.[(17)]

(3) Net interest margin is calculated as interest receivable and similar income less interest expense and similar charges as a percentage of average loan book.[(17)]

(4) Net revenue margin is calculated as operating income as a percentage of average loan book.[(17)]

(5) Cost of risk is calculated as net impairment losses on loans and advances to customers as a percentage of average loan book.[(17)]

(6) Cost:income ratio is calculated as operating expenses as a percentage of operating income.

(7) Underlying profit before tax (PBT) is profit before tax arising from continuing operations after adding back acquisition costs, fair value amortisation, costs associated with share based payments, Arbuthnot management charges and deducting income from acquired portfolios. Other exceptional items are added back or deducted as deemed appropriate. (21)

(8) Underlying profit after tax (PAT) is profit after tax arising from continuing operations after adding back acquisition costs, fair value amortisation, costs associated with share based payments, Arbuthnot management charges and deducting income from acquired portfolios. Other exceptional items are added back or deducted as deemed appropriate. (21)

(9) Annualised underlying return on average assets is calculated as the underlying profit after tax for the previous 12 months as a percentage of average assets.(18)

(10) Annualised underlying return on average equity is calculated as the underlying profit after tax for the previous 12 months as a percentage of average equity. Average equity is calculated as the mean of the total equity at the 13 previous month ends.

(11) Annualised underlying return on required equity is calculated as the underlying profit after tax for the previous 12 months as a percentage of average required equity. Required equity is calculated to achieve a CET1 ratio of 12 per cent., excluding equity required against the ELG portfolio. Average required equity is calculated as the mean of the total required equity at the 13 previous month ends.

(12) Loan originations is the sum total of new loans and advances to customers entered into during the financial period arising from continuing operations.

(13) Loan book is the total of loans and advances to customers.

(14) The loan to deposit ratio is calculated as loans and advances to customers divided by deposits from customers.

(15) The liquidity ratio is calculated as high quality liquid assets (Bank of England Reserve Account and UK Treasury Bills) divided by total assets.

(16) For the year ended 31 December 2013, capital ratios are presented on a Basel II basis. Total risk exposure at this year-end represents risk weighted assets only.

(17) The calculation of average loan book is the average of the monthly balance of loans and advances to customers, net of provisions and excluding ELG.

(18) The calculation of average assets is the average of the monthly balance of total assets, excluding ELG.

(19) All revenue, income, profit and earnings figures used in the calculation of key performance indicators are on a continuing operations basis.

(20) The following data has been used in the calculation of certain of the key performance indicators set out above:

	As at 30 June		**As at 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Average Loan Book (£m)	1,039.9	628.3	741.9	374.6	283.6
Average Equity (£m)	163.4	118.7	131.4	88.5	57.5
Average Required Equity (£m)	105.4	63.4	85.5	46.0	34.2

(21) The following table reconciles reported profit before tax from continuing operations to underlying profit before tax and underlying profit after tax:

	As at 30 June		**As at 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Profit before income tax arising from continuing operations	12.5	10.4	24.8	17.5	13.1
Add back:					
Costs of acquisition	—	—	—	0.2	0.9
Fair value amortisation	0.4	0.5	0.9	4.4	0.9
Share based incentive schemes	0.3	0.3	0.7	1.5	2.2
Net management charges payable to ABG	0.2	0.1	0.3	0.2	0.1
Current account closure costs	0.1	—	—	—	—
Bonus payments arising from sale of ELG	3.5	—	—	—	—
Additional collective impairment charge	1.2	—	—	—	—
Deduct:					
Other items arising from sale of ELG	(0.8)	—	—	—	—
Underlying profit before tax	17.4	11.3	26.7	23.8	17.2
Income tax expense	(3.1)	(2.2)	(5.9)	(5.0)	(3.9)
Underlying profit after tax	14.3	9.1	20.8	18.8	13.3

PART 11
OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of the Group's results of operations and financial condition for the financial years as at and ended 31 December 2013, 2014 and 2015 and the six month periods as at and ended 30 June 2015 and 2016 should be read in conjunction with the whole of this Prospectus, including, the Group's historical consolidated financial statements and the related notes included in Part 14: "Historical Financial Information" and should not just rely on the key or summarised information contained in Part 10: "Selected Financial Information and Key Performance Indicators" and Part 2: "Risk Factors". The Group's historical consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The financial information in this Part 11: "Operating and Financial Review" has been extracted without material adjustment from Part 14: "Historical Financial Information" or has been extracted without material adjustment from the Company's accounting records.

The following discussion contains "forward-looking statements". Those statements are subject to risks, uncertainties and other factors that could cause the Company's future results of operations or financial condition to differ materially from the results of operations or financial condition expressed or implied in such forward-looking statements-factors that may cause such a difference include, but are not limited to, those discussed in the Risk Factors and Important Information regarding forward-looking statements sections in this Prospectus.

1. OVERVIEW OF THE GROUP

Secure Trust Bank is an established, well funded and capitalised UK retail bank. The Group's strategy is to build on its current position as an established UK retail bank through a focus on carefully selected and attractively priced segments of the consumer and business markets, prudent underwriting and a prudent approach to capital and liquidity. The Group intends to continue growing its business through professional and responsible lending across existing and new lending divisions and selective acquisitions of loan books and businesses, funded by capital and customer deposits.

The Group, which has a 64 year trading track record, operates principally from its head office in Solihull, West Midlands, and had 630 employees (full-time equivalent) as at 30 June 2016. The Group's diversified lending portfolio currently focuses on Business Finance and Consumer Finance, almost entirely funded by customer deposits, with substantially no exposure to wholesale funding. The Group's fundamental strategic aims are: (i) to maximise shareholder value through strong lending growth by delivering positive customer outcomes in both its existing markets and new markets; (ii) to protect the reputation, integrity and sustainability of the Group for all of its customers and stakeholders via prudent balance sheet management, investment for controlled growth and robust risk and operational control; (iii) to ensure that the fair treatment of customers is central to corporate culture; and (iv) to ensure that the Group provides a supportive environment for its employees to deliver good service levels for its customers.

The Group's diversified lending portfolio focuses on two sectors (i) Business Finance through its Real Estate Finance, Asset Finance and Commercial Finance divisions and (ii) Consumer Finance through its Personal Lending, Motor Finance and Retail Finance divisions. Lending customers are primarily sourced through carefully selected business partners and through online channels. The Group has developed underwriting technology and processes in its Consumer Finance segment to enable it to make lending decisions quickly, often on an automated basis, and has high customer satisfaction scores.

Through carefully targeted lending products, the absence of large fixed overheads in the form of a branch network and a policy of not cross-subsidising loss making products with profitable ones, the Group is able to offer competitive deposit interest rates and has been successful in attracting deposits from a wide range of customers. The Group's strategy is to broadly match customer loans and deposits of similar maturity. Deposit accounts offered to customers at any one time are therefore differentially promoted to broadly match the Group's funding needs and desired maturity profiles and may include deposit accounts ranging from instant access to seven year bonds. This strategy seeks to help mitigate maturity transformation and interest basis risks.

The Group's strong financial record is evidenced by the consistent growth in the Group's equity, profits and the payment of dividends since the beginning of 2013.

As at 30 June 2016 the Group's total customer base exceeded 600,000, representing an increase of 35.3 per cent. from the position as at 30 June 2015.

2. RECENT DEVELOPMENTS

The Group has traded in line with the Directors' expectations during the third quarter of 2016.

The Group's consumer lending activities in the Motor Finance, Retail Finance and Personal Lending divisions have continued to see strong demand. The Group has not seen any discernible shift in the behaviour of its customers following the EU referendum decision.

Over the last twelve months, the non-prime sector of the motor finance market has seen significant competition from non-bank owned new market entrants and certain existing lenders who historically focused only on prime lending. These new entrants competed by charging relatively low rates of interest to borrowers, offering very high introducer commission rates and competing aggressively to attract staff. The Group considers this approach to growth to be unsustainable and chose not to compete for the segments of business being targeted on these terms. Notwithstanding this challenge, the Group has been able to achieve strong lending growth in its Motor Finance division reporting a 35 per cent. increase in customer lending balances for the twelve month period ending 30 June 2016 through a focus on originating across a broader spectrum of the market. More recently, the Directors believe that these competitors have been retrenching, with at least one completely withdrawing from the market. The retrenchment and withdrawal of these lenders may present organic opportunities for the Group to write additional business on a sustainable risk adjusted yield basis consistent with the Group's strategy.

The Group continues to adopt a cautious approach to its SME lending activities. Exposures to Central London residential developers are being carefully managed and the balance of the Real Estate Finance division's portfolio continues to shift towards residential investment lending which has continued to grow in line with expectations. Recent new business origination in the Asset Finance division has been focused on lower loan to value lending. This is designed to protect the Group in the event that the 2017-18 economic slowdown forecast by the Organisation for Economic Co-operation and Development and Standard & Poor's, amongst others, results in lower values of used assets. The Directors consider this approach to be prudent pending the emergence of greater clarity regarding macro-economic trends. The Directors are pleased to note that having commenced operations in September 2014, the Group's Commercial Finance division has generated profitable growth in customer numbers during the third quarter of 2016.

The Group continues to monitor developments in the housing market generally and the residential owner occupied mortgage market in particular. Though the rate of UK house price growth is slowing according to recent data, the Directors believe that the fundamental supply and demand dynamics continue to support the UK housing market even given the increased levels of uncertainty following the EU referendum decision. The Directors believe that the Group can enter the mortgage market and over time build a profitable and sustainable business. The Group's residential mortgage proposition is expected to launch early next year.

The Group completed the closure of its personal current account product, as planned, in September 2016. The closure of this product simplifies the Group's operating model and removes the management challenges and risks associated with the product. This product generated less than 3 per cent. of the Group's operating income in the year ended 31 December 2015 and its closure is not expected to have a material impact on earnings.

The Group has continued to see strong demand for its deposit products. It has taken steps to reflect lower market prices whilst continuing to offer attractive market facing rates on savings. The implementation of a new digital deposit platform is progressing in line with expectations.

On 27 July 2016, the Company paid a special dividend of 165 pence per Share, which was conditionally announced on 17 March 2016 and on 23 September 2016, the Company paid an interim dividend of 17 pence per Share.

3. FACTORS AND TRENDS AFFECTING RESULTS OF OPERATIONS

The following section describes the key factors and trends which have influenced the results of the Group over the period covered by this operating and financial review (the "**period under review**") and/or which are expected to have an impact in the future.

3.1 Macroeconomic environment and market conditions

The Group operates exclusively within the UK and its performance is influenced by the macroeconomic environment in the UK. The economy affects demand for the Group's products, margins that can be earned on lending assets and the levels of loan impairment.

For the majority of the period under review, the macroeconomic environment has been relatively benign for the Group. The UK economy began to recover in 2013 and steady growth in GDP continued up to the quarter ended June 2016, despite uncertainty ahead of the referendum to leave the EU. This recovery, combined with lower inflation, lower unemployment and an increase in consumer and business confidence resulted in favourable market conditions for the Group, allowing it both to expand its existing business lines and to diversify into new sectors through the introduction of Business Finance lending.

The Bank of England base rate was reduced to 0.5 per cent. in 2009 following the financial crisis, and remained there until August 2016. On 4 August 2016, the Monetary Policy Committee announced a further cut to 0.25 per cent.. Base rate falls have an impact on the net interest margins of lenders. The Group is less exposed to net interest margin compression than the systemically important banks and building societies, and is therefore well positioned to take advantage should these organisations curtail their lending. As rising interest rates may expose borrowers to difficulties making interest payments, the continuing low base rate position has a mitigating effect on credit risk.

House prices recovered to pre-crisis levels in 2013 and have since continued to rise. UK housing stock remains in short supply, and the Government has reiterated its commitment to doubling the rate of house building. The Group will continue to monitor the mortgage market as it prepares to launch its residential mortgage product.

The effects of the vote to leave the EU are not yet clear, though it brought immediate volatility to the currency and stock markets. The Group expects that the increase in liquidity in the market and increases in the capital held by banks since the last downturn will act as mitigants against any downward economic pressure. The Group's diverse lending portfolio, strong capital and liquidity positions and relatively low exposure to net interest margin compression leave the Group well placed to compete in the evolving UK economy.

3.2 **New business volumes and balance sheet growth**

The volume, mix and quality of new business have a significant impact on the results of the Group. Growth of the lending portfolio increases the levels of interest income earned, which is the Group's most significant income stream. The mix of product type and risk profile of loans within the Group's portfolio impacts on the interest margins earned and the levels of impairment losses experienced.

Over the period under review, loans and advances to customers has increased by £737.3 million, or 188.6 per cent., from £391.0 million as at 31 December 2013 to £1,128.3 million as at 30 June 2016. Within the Business Finance sector, comprising Real Estate Finance, Asset Finance and Commercial Finance divisions, loans and advances to customers increased from £1.8 million as at 31 December 2013 to £143.3 million as at 31 December 2014 and to £468.0 million as at 31 December 2015. As at 30 June 2016, loans and advances to customers within the Business Finance sector totalled £528.5 million (an increase of 12.9 per cent. from the position as at 31 December 2015), representing 46.9 per cent. of the Group's total loans and advances to customers. The growth of the Business Finance sector began with the recruitment of an experienced team and writing of selective Real Estate Finance business in 2013. The launch of the Asset Finance and Commercial Finance businesses followed in 2014.

Real Estate Finance products are sold via introducers who are served by a team of regional managers. The focus is primarily on residential property with a broadly even split between investment and development loans. The Group has remained cautious in lending on commercial property and, as at 30 June 2016, exposure to the commercial property market totalled £31 million. During 2015, the Group broadened its geographical profile outside the South East and increased its compliment of experienced staff. Loans and advances to customers within the Real Estate Finance division increased from £1.8 million as at 31 December 2013 to £133.8 million as at 31 December 2014 and to £368.0 million as at 31 December 2015. As at 30 June 2016, loans and advances to customers within the Real Estate division totalled £361.7 million (a decrease of 1.7 per cent. from the position as at 31 December 2015), representing 32.1 per cent. of the Group's total loans and advances to customers.

The Asset Finance division was launched in conjunction with Haydock, a well-established asset finance company operating across the UK. Products are distributed via introducers who are supported by internal marketing resources and a targeted web and social media presence. The Group is focused on building this book in partnership with Haydock and exploring the introduction of products that complement the current profile. Loans and advances to customers within the Asset Finance division increased from £4.5 million as at 31 December 2014 to £70.7 million as at 31 December 2015. As at 30 June 2016, loans and advances to customers within the Asset Finance division totalled £112.3 million (an increase of 58.8 per cent. from the position as at 31 December 2015), representing 10.0 per cent. of the Group's total loans and advances to customers.

The Commercial Finance division has been successful in acquiring a wide range of clients across the UK with a broad variety of funding requirements and solutions. Loans and advances to customers within the Commercial Finance division increased from £5.0 million as at 31 December 2014 to £29.3 million as at 31 December 2015. As at 30 June 2016, loans and advances to customers within the Commercial Finance division totalled £54.5 million (an increase of 86.0 per cent. from the position as at 31 December 2015), representing 4.8 per cent. of the Group's total loans and advances to customers.

Loans within the Business Finance sector are secured and are lower risk than the Group's Consumer Finance sector. The Group has incurred impairment charges of less than £1 million in total in respect of these loans since the businesses were launched. Interest rates earned on these loans are lower than those within the Consumer Finance sector.

The generally benign UK economy and improving consumer confidence over the period has maintained a demand for consumer finance credit in the markets in which the Group operates. The Group has increased its loans and advances to customers in the Consumer Finance sector by expanding its distribution channels and product propositions. Within the Consumer Finance sector, comprising Personal Finance, Motor Finance and Retail Finance divisions, loans and advances to customers increased from £262.6 million as at 31 December 2013 to £342.1 million as at 31 December 2014 and to £460.4 million as at 31 December 2015. As at 30 June 2016, loans and advances to customers within the Consumer Finance sector totalled £541.9 million (an increase of 17.7 per cent. from the position as at 31 December 2015), representing 48.0 per cent. of the Group's total loans and advances to customers.

Motor Finance products are distributed under the Group's Moneyway brand, via UK motor dealers, brokers and internet introducers. A dedicated sales team establishes new dealer relationships, with all new introducers subject to a strict vetting policy. In 2015, the Group began to lend into the prime motor sector, widening the risk curve over which it operates. This move also introduced a higher maximum loan amount of £25,000. The prime product is being launched across all distribution channels in 2016. Loans and advances within the Motor Finance division increased from £114.7 million as at 31 December 2013 to £137.9 million as at 31 December 2014 and to £165.7 million as at 31 December 2015. As at 30 June 2016, loans and advances to customers within the Motor Finance division totalled £205.6 million (an increase of 24.1 per cent. from the position as at 31 December 2015), representing 18.2 per cent. of the Group's total loans and advances to customers.

The significant increase in loans and advances to customers within the Retail Finance division was aided by the acquisition of the V12 Finance Group in 2013 which allowed the Group to operate an online e-commerce service to retailers across a broad range of sectors. Growth in this area has been achieved through a combination of increasing market share in the core business sectors: sport and leisure; furniture and consumer electronics, and the growth of sectors such as the market for cycles. Loans and advances to customers within the Retail Finance division increased from £70.1 million as at 31 December 2013 to £116.7 million as at 31 December 2014 and to £220.4 million as at 31 December 2015. As at 30 June 2016, loans and advances to customers within the Retail Finance division totalled £271.7 million (an increase of 23.3 per cent. from the position as at 31 December 2015), representing 24.1 per cent. of the Group's total loans and advances to customers.

The Group's partnership with RentSmart, for the distribution, underwriting and operation of finance leases, represents another channel for consumer lending.

The Group's Personal Lending division was significantly expanded by the acquisition of ELG in 2012. Margins have been reducing in the personal lending market and the Group's appetite to expand in this market has consequently reduced. The sale of ELG in the first half of 2016 reduced the Group's exposure to this market. The remaining business is distributed under the Moneyway brand via brokers, existing customers, aggregators and business partners. Loans and advances to customers within the Personal Lending division have decreased over the period under review. Excluding ELG, loans and advances to customers increased from £77.8 million as at 31 December 2013 to £87.5 million as at 31 December 2014, and then decreased to £74.3 million as at 31 December 2015. As at 30 June 2016, loans and advances to customers within the Personal Lending division totalled £64.6 million (a decrease of 13.1 per cent. from the position as at 31 December 2015), representing 5.7 per cent. of the Group's total loans and advances to customers.

The Group has been working on a new residential mortgage proposition. Details of the product and the timing of the launch are now being finalised, in the light of the UK vote to leave the EU and consequent uncertainty in the outlook for the UK owner occupied mortgage market.

3.3 Net interest margin

The net interest income earned by the Group and hence its levels of profit depend on the growth of the Group's loan portfolios and the net interest margin in respect of those portfolios. Net interest margin is the interest charged on lending assets minus the interest paid on funding liabilities, divided by the average loans and advances to customers over a given period. All figures below exclude ELG. Net interest income figures for part years are annualised in the net interest margin calculation.

	Six months ended 30 June		**Year ended 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Net interest income	49.5	35.9	78.9	49.2	38.7
Average loan book[1]	1,039.9	628.3	741.9	374.6	283.6
Net interest margin (%)	**9.5 %**	**11.4 %**	**10.6 %**	**13.1 %**	**13.6 %**

(1) The calculation of average loan book is the average of the monthly balance of loans and advances to customers, net of provisions and excluding ELG.

Competition between lenders can place downward pressure on lending asset yields and hence on net interest margins. Given the Group's strategy of targeting specialist areas of the market, many of which are under-served by larger lenders, competition has not had a significant impact on the margins achieved over the period under review. Margin adjustments are also often linked to movements in the Bank of England base rate, which remained at 0.5 per cent. throughout the period.

The decrease in net interest margin, from 13.6 per cent. in the year ended 31 December 2013 to 9.5 per cent. in the six months ended 30 June 2016, is driven primarily by the diversification of the Group's lending products, which began in 2013 with the launch of the Business Finance division. This change in business mix has introduced higher volumes of secured lending which are lent at a lower margin than the unsecured lending that constituted the majority of the book in 2013. Business mix has had a significant impact on the trend of net interest margin development within each individual product line, limiting the usefulness of such an analysis for the Group.

3.4 Gross interest yield and liability yield

Gross interest yield is the interest charged on lending assets and similar income divided by the average loans and advances to customers over a given period. All figures below exclude ELG. Figures for part years are annualised in the calculation.

	Six months ended 30 June		**Year ended 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Interest receivable and similar income	62.7	45.7	100.5	63.4	51.6
Average loan book	1,039.9	628.3	741.9	374.6	283.6
Gross interest yield (%)	**12.1 %**	**14.5 %**	**13.5 %**	**16.9 %**	**18.2 %**

The decrease in gross interest yield, from 18.2 per cent. in the year ended 31 December 2013 to 12.1 per cent. in the six months ended 30 June 2016, has been partially offset by a decrease in funding costs over the period (shown below), as the Group has been able to replace maturing term deposits with new deposits of the same tenor but at lower fixed rates. This has reduced the liability yield from 4.5 per cent. in the year ended 31 December 2013 to 2.5 per cent. in the six months ended 30 June 2016. Liability yield is the interest expense and similar charges divided by the average loans and advances to customers over a given period. All figures below exclude ELG. Figures for part years are annualised in the calculation.

	Six months ended 30 June		**Year ended 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(*unaudited*)			
			(£ million)		
Interest expense and similar charges	13.2	9.8	21.6	14.2	12.9
Average loan book	1,039.9	628.3	741.9	374.6	283.6
Liability yield (%)	**2.5 %**	**3.1 %**	**2.9 %**	**3.8 %**	**4.5 %**

3.5 Asset quality and impairments

The quality of lending assets and the management of non-performing accounts impact the impairment losses experienced by the Group and hence its financial performance. The pricing of the Group's lending products reflects the credit risk inherent for each product. Credit risk is monitored by the Credit Risk Committee and credit risk management oversee the application of the Group's risk policies and consider the impact of market changes and business opportunities.

Cost of risk is calculated as the annualised impairment losses on loans and advances to customers in a period, as a percentage of the average loan book over that period. All figures below exclude ELG.

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Impairment losses on loans and advances to customers	13.3	8.0	16.8	8.7	9.6
Average loan book	1,039.9	628.3	741.9	374.6	283.6
Cost of risk	**2.6 %**	**2.5 %**	**2.3 %**	**2.3 %**	**3.4 %**

The cost of risk has been impacted by the change in book composition over the period under review. Losses on loans within the Consumer Finance sector and provisions raised against these loans where payments are in arrears constitute the majority of impairment charges. The move from primarily unsecured consumer lending to a broader mix of secured business finance and unsecured consumer lending consequently resulted in a decrease in the cost of risk from 3.4 per cent. in the year ended 31 December 2013 to 2.3 per cent. in the year ended 31 December 2015. The cost of risk increased in the six months ended 30 June 2016, reflecting increased levels of higher risk Motor Finance lending and higher levels of interest bearing lending in Retail Finance, which has a higher risk profile than interest-free lending. The decrease in the cost of risk in the year ended 31 December 2014 was a consequence of a market benchmarking exercise for non-performing loans which resulted in a reduction in the impairment charge for that year.

The impairment losses on loans and advances to customers of £13.3 million for the six months ended 30 June 2016 includes an additional collective impairment charge of £1.2 million. This charge is not driven by the current performance of the loan book and relates to an additional provision introduced due to the current unprecedented uncertainty in European and global markets. Excluding this additional charge, the cost of risk for this period is 2.3 per cent.

Impairment charges in respect of the Business Finance divisions have been minimal; totalling less than £1 million from the launch of those divisions to 30 June 2016. Real Estate Finance lending is secured against UK property with tight control over loan to value ratios. All loans secured are at loan to value ratios with a maximum of 70 per cent. for investment properties and LTGDV maximum of 60 per cent. for development, with valuations performed at the time of advancing the loan and, for development lending, at key stages of development of the property. The Asset Finance and Commercial Finance divisions are also secured lending businesses.

The increase in the percentage of loans and advances to customers within the Business Finance sector to 46.9 per cent. of total loans and advances to customers as at 30 June 2016 from 0.5 per cent. as at 31 December 2013 has consequently increased the proportion of lending that is secured against assets. The Motor Finance division is also secured, against motor vehicles, with loan to values based on management's estimate of the fair value of the vehicles. The loan to value ratio of loans in the Motor Finance division was 115.9 per cent. as at 31 December 2013, 125.9 per cent. as at 31 December 2014, 130.4 per cent. as at 31 December 2015 and 139.6 per cent. as at 30 June 2016.

The change in business mix has improved the overall asset quality of the book. The proportion of loans that were neither past due nor impaired increased from 88.8 per cent. as at 31 December 2013 and 88.6 per cent. as at 31 December 2014 to 94.4 per cent. as at 31 December 2015 and 92.9 per cent. as at 30 June 2016. The Group uses DMS to collect selected tranches of delinquent debt.

The introduction of IFRS 9 in 2018 will fundamentally change the calculation and recognition of credit losses, by introducing a requirement to base impairment provisions on expected credit losses over the life of the financial asset. It also requires credit losses to be recognised for all loans, in contrast to the current standard (IAS 39) which requires recognition of losses only when there is evidence of impairment. The Group has initiated a project to develop and implement the modelling, data, processes, systems and disclosures required to comply with IFRS 9. This includes development of IFRS 9 compliant probability of default models for the Business Finance divisions.

3.6 Liquidity and funding management

Details of the Group's approach to managing liquidity and funding are provided in sections 6.1 and 6.2 below. The Group will continue to fund its lending primarily from customer deposits with limited usage of Bank of England schemes. The Group's loan to deposit ratio increased from 90 per cent. as at 31 December 2013 to 102 per cent. as at 31 December 2014 and reduced to 93 per cent. as at 31 December 2015. As the Group did not need to raise deposits in the second quarter of 2016, following the increase in liquidity brought about by the sale of ELG, the ratio increased to 108 per cent. as at 30 June 2016.

In August 2016, the Monetary Policy Committee announced the Term Funding Scheme ("**TFS**"), to provide funding for banks at interest rates close to the Bank of England base rate. This TFS is intended to assist in the transmission of the base rate cut to 0.25 per cent. to the UK economy and to provide an effective source of funding to support additional lending. The Group intends to apply to the TFS so that it has access to funding that can complement that raised by customer deposits, in a similar manner to its use of the FLS.

In the six months ended 30 June 2016, the Group increased its proportion of fixed term deposits to 62 per cent. of total deposits, as a defensive measure should the vote to leave the EU put pressure on liquidity. This ratio was 57 per cent. as at 31 December 2015, 54 per cent. as at 31 December 2014 and 44 per cent. as at 31 December 2013. Customer retention is strong with the majority of maturing medium term savings bond holders reinvesting funds into the Group's deposit products.

3.7 **Acquisitions**

V12 Retail Finance Group Limited

On 2 January 2013, the Group acquired 100 per cent. of the ordinary share capital of V12 Retail Finance Group Limited, along with its wholly owned subsidiaries V12 Retail Finance Limited and V12 Personal Finance Limited, for cash consideration of £3.5 million. The V12 business has become the cornerstone of the Group's Retail Finance proposition and has driven significant increases in lending volumes in this sector. The acquisition provided the Group with an online end to end platform which has since been used as the single operating system for the Retail Finance division.

Debt Managers (Services) Limited

On 15 January 2013, DMS, a wholly owned subsidiary of the Company, acquired the trade and certain assets of Debt Managers Holdings Ltd, Debt Managers (AB) Limited and Debt Managers Limited, for total cash consideration of £0.5 million. DMS collects debt on behalf of a range of clients, including banks and utility companies as well as selective investment in purchased debt portfolios. It received full FCA authorisation in 2015 and in the first half of 2016 has added to its external client base, as well as providing an internal collection service to the Group.

Everyday Loans Group plc

In December 2015, the Group announced the sale of ELG, which had been acquired in 2012, to NSF. The acquisition of ELG had allowed the Group to significantly expand its Personal Lending business. The ELG portfolio of loans totalled £81.4 million as at 31 December 2013, £93.9 million as at 31 December 2014 and £114.3 million as at 31 December 2015. This represented 51 per cent. of the Group's total Personal Lending division as at 31 December 2013, 52 per cent. as at 31 December 2014 and 61 per cent. as at 31 December 2015. The Group's appetite to further expand in this sector has subsequently reduced due to declining margins.

The sale of ELG to NSF completed on 13 April 2016 generating a gain on disposal of £116.8 million. As a result, a special dividend of £30 million was paid in July 2016 and remaining proceeds have been retained, adding to the Group's reserves of capital and liquidity. The proceeds are expected to be reinvested to secure new income streams. The sale will reduce earnings in the short term. The sale of ELG requires its results to be reported as "discontinued operations" in the Group's financial statements, this section and the Historical Financial Information. The remainder of the Group business is classed as "continuing operations", and unless stated otherwise, commentary on the Group's results within this section describes its continuing operations.

The Group's strong capital and liquidity position places it in a good position to take advantage of acquisition opportunities. Given the uncertainty brought about by the referendum result these will be considered cautiously, but the Group continues to be open to opportunities that would add value at the right valuation.

4. FINANCIAL POSITION

4.1 Consolidated balance sheet

The following table sets out the Group's balance sheet information as at 31 December 2015, 2014 and 2013 and as at 30 June 2016.

	As at 30 June	As at 31 December		
	2016[(1)]	2015	2014	2013
		(£ million)		
Assets				
Cash and balances at central banks	141.8	131.8	81.2	—
Loans and advances to banks	19.1	9.8	39.8	110.0
Loans and advances to customers	1,128.3	960.6	622.5	391.0
Debt securities held-to-maturity	19.8	3.8	16.3	—
Investment securities available-for-sale	13.7	—	—	—
Property, plant and equipment	8.5	8.5	8.1	5.0
Intangible assets	7.0	7.0	8.2	9.9
Deferred tax assets	0.9	0.3	1.0	1.9
Other assets	6.2	7.1	5.2	8.1
Assets held for sale	—	118.5	—	—
Total assets	**1,345.3**	**1,247.4**	**782.3**	**525.9**
Liabilities and Equity				
Liabilities				
Due to banks	15.0	35.0	15.9	0.1
Deposits from customers	1,042.6	1,033.1	608.4	436.6
Current tax liabilities	0.2	3.2	3.6	1.4
Deferred tax liabilities	—	—	—	0.4
Dividend payable	30.0	—	—	—
Other liabilities	29.1	26.2	29.5	25.8
Liabilities held for sale	—	8.7	—	—
Total liabilities	**1,116.9**	**1,106.2**	**657.4**	**464.3**
Equity attributable to owners of the parent				
Share capital	7.3	7.3	7.3	6.3
Share premium	79.3	79.3	79.3	28.2
Retained earnings	143.7	54.4	38.1	27.3
Available-for-sale reserve	(2.1)	—	—	—
Revaluation reserve	0.2	0.2	0.2	0.2
Cash flow hedging reserve	—	—	—	(0.4)
Total equity	228.4	141.2	124.9	61.6
Total liabilities and equity	**1,345.3**	**1,247.4**	**782.3**	**525.9**

(1) On 13 April 2016 the sale of the Group's branch based non-standard consumer lending business, ELG, to NSF completed. The assets and liabilities of ELG were classed as "assets held for sale" and "liabilities held for sale", respectively, as at 31 December 2015, and derecognised on completion. In periods prior to 31 December 2015 the assets and liabilities of ELG were included within the respective balance sheet categories above.

4.2 Assets

Total assets increased by £819.4 million, or 155.8 per cent., from £525.9 million as at 31 December 2013 to £1,345.3 million as at 30 June 2016. This increase was driven primarily by the growth in the Group's loan portfolios, which resulted in an increase in loans and advances to customers of 188.6 per cent. over the same period. Total assets increased by 48.8 per cent. from 31 December 2013 to 31 December 2014, 59.5 per cent. from 31 December 2014 to 31 December 2015, and 7.8 per cent. between 31 December 2015 and 30 June 2016.

(a) *Cash and balances at central banks*

Cash and balances at central banks represents balances held with the Bank of England on the reserve account. The Group established its Bank of England reserve account in July 2014 and holds funds in this account to support its liquidity buffer eligible assets. As at 30 June 2016, the Group's stock of high quality liquid assets totalled £161.6 million, comprising the reserve account and UK Treasury Bills, and represents 89 per cent. of total liquid assets.

(b) ***Loans and advances to banks***

Loans and advances to banks include placements with banks which are included in cash and cash equivalents in the Group's statement of cash flows. Other loans and advances to banks include deposits with Arbuthnot Latham & Co., Limited with a maturity greater than three months.

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
		(£ million)		
Placements with banks included in cash and cash equivalents	14.1	9.8	24.8	90.0
Other loans and advances to banks	5.0	—	15.0	20.0
Total	**19.1**	**9.8**	**39.8**	**110.0**

The table below presents an analysis of loans and advances to banks by rating agency designation, based on Moody's long-term ratings, for the period under review:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
		(£ million)		
Aa1	—	—	—	57.1
A1	—	0.1	—	—
A2	5.8	(1.4)	19.8	21.3
A3	8.3	5.8	—	—
No rating	5.0	5.3	20.0	31.6
Total	**19.1**	**9.8**	**39.8**	**110.0**

The £1.4 million negative balance as at 31 December 2015 represents an overdraft attributable to continuing operations. When amounts attributable to discontinued operations are taken into account in loans and advances to banks as at 31 December 2015, the overall balance is in credit.

Included within loans and advances to banks are amounts placed with Arbuthnot Latham & Co., Limited, which prior to 15 June 2016 was a related company. These amounts totalled £5.0 million as at 30 June 2016, £5.3 million as at 31 December 2015, £20.0 million as at 31 December 2014 and £31.6 million as at 31 December 2013.

(c) ***Loans and advances to customers***

Loans and advances to customers includes secured and unsecured loans and finance lease receivables. The following table analyses the payment status of loans and advances to customers for the period under review:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
		(£ million)		
Neither past due nor impaired	1,089.2	939.1	581.9	371.3
Past due but not impaired	7.6	—	0.3	0.4
Up to 30 days	23.4	16.5	22.3	16.6
30-60 days	6.7	5.5	5.3	4.1
60-90 day	3.9	2.8	2.7	2.7
Over 90 days	41.6	31.0	44.1	23.0
Gross	1,172.4	994.9	656.6	418.1
Less: allowances for impairment losses	(44.1)	(34.3)	(34.1)	(27.1)
Net loan receivables	**1,128.3**	**960.6**	**622.5**	**391.0**

The proportion of loans and advances to customers that were neither past due nor impaired was 88.8 per cent. as at 31 December 2013 and 88.6 per cent. as at 31 December 2014. It increased to 94.4 per cent. as at 31 December 2015 and 92.9 per cent. as at 30 June 2016. This increase was driven primarily by the change in business mix, with the proportion of the portfolio made up by higher risk unsecured portfolios decreasing over the period under review.

The table below shows loans and advances to customers by division for the period under review:

	As at 30 June		As at 31 December					
	2016	2015	2014	2013				
	Loans and advances to customers (£ million)	% of total	Loans and advances to customers (£ million)	% of total	Loans and advances to customers (£ million)	% of total	Loans and advances to customers (£ million)	% of total
Business Finance								
Real Estate Finance	361.7	32.1 %	368.0	34.3 %	133.8	21.5 %	1.8	0.5 %
Asset Finance	112.3	10.0 %	70.7	6.6 %	4.5	0.7 %	—	0 %
Commercial Finance	54.5	4.8 %	29.3	2.7 %	5.0	0.8 %	—	0 %
Consumer Finance								
Personal Lending . .	64.6	5.7 %	74.3	6.9 %	87.5	14.1 %	77.8	19.9 %
Motor Finance	205.6	18.2 %	165.7	15.4 %	137.9	22.2 %	114.7	29.3 %
Retail Finance.	271.7	24.1 %	220.4	20.5 %	116.7	18.7 %	70.1	17.9 %
Other	57.9	5.1 %	32.2	3.0 %	43.2	6.9 %	45.2	11.6 %
Discontinued operations and assets held for sale:								
Personal Lending . . .	—	0 %	114.3	10.6 %	93.9	15.1 %	81.4	20.8 %
Total	**1,128.3**	—	**1,074.9**	—	**622.5**	—	**391.0**	—

The mix of lending has changed significantly, following the introduction and subsequent growth of the Business Finance divisions. The Group's loans and advances to customers were almost entirely comprised within the Consumer Finance segment as at 31 December 2013, with loans and advances to customers within the Business Finance segment representing only 0.5 per cent. of the Group's total loans and advances to customers. As at 30 June 2016, loans and advances to customers within the Business Finance divisions totalled £528.5 million, representing 46.9 per cent. of the Group's total loans and advances to customers. Within the Consumer Finance segment, the business has shifted its focus from the unsecured personal loan market and grown its Motor Finance and Retail Finance divisions, by 79.3 per cent. and 287.6 per cent. respectively, between 31 December 2013 and 30 June 2016. The sale of ELG, classified above as "discontinued operations and assets held for sale", further reduced the Group's portfolio of unsecured personal loans.

The table below shows total loans and advances to customers, net of provisions, showing ELG balances separately for the period under review:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
		(£ million)		
Net loan receivables in respect of continuing operations	1,128.3	960.6	528.6	309.6
Net loan receivables in respect of discontinued operations ELG	—	114.3	93.9	81.4
Total net loan receivables	1,128.3	1,074.9	622.5	391.0

Further details on the composition and development of the lending portfolios are as follows:

Real Estate Finance

The Real Estate Finance division commenced operation in the second half of 2013, providing five main products for customers: residential development, commercial development, residential investment, commercial investment and mixed development. Loans and advances to customers increased by £132.0 million, from £1.8 million as at 31 December 2013 to £133.8 million as at 31 December 2014, and then by £234.2 million, or 175 per cent., to £368.0 million as at 31 December 2015, maintaining an even split between development and investment products. In 2016, growth in residential housing development, especially in Central London, was curtailed as a response to the uncertain result of the EU referendum. As a result, loans and advances to customers decreased by £6.3 million, or 1.7 per cent., from £368.0 million as at 31 December 2015 to £361.7 million as at 30 June 2016. Within this balance, total exposure to the commercial property market is £31 million. As at 30 June 2016, loans and advances to customers within the Real Estate Finance division represented 32.1 per cent. of the Group's total loans and advances to customers.

Asset Finance

The Asset Finance division launched in the final quarter of 2014 and provides SME businesses with the funding to acquire commercial assets. It is operated via a partnership with Haydock, a well-established asset finance company operating across the UK. Facilities offered are hire purchase and finance lease arrangements with terms of up to five years. Loans and advances to customers within the Asset Finance division increased by £66.2 million, from £4.5 million as at 31 December 2014 to £70.7 million as at 31 December 2015, and by a further 59 per cent. to £112.3 million as at 30 June 2016. As at 30 June 2016, loans and advances to customers within the Asset Finance division represented 10.0 per cent. of the Group's total loans and advances to customers.

Commercial Finance

During September 2014 the Group launched the Commercial Finance division to enter the UK Asset Based Lending ("**ABL**") market, and provide a suite of ABL products to customers. The most significant products are invoice discounting and invoice financing. Loans and advances to customers within the Commercial Finance division increased by £24.3 million, or 486.0 per cent., from £5.0 million as at 31 December 2014 to £29.3 million as at 31 December 2015, and by a further 86 per cent. to £54.5 million as at 30 June 2016. As at 30 June 2016, loans and advances within the Commercial Finance division represented 4.8 per cent. of the Group's total loans and advances to customers.

Personal Lending

The Group has offered unsecured personal loans for more than 35 years. During 2012 it acquired ELG, allowing it to build a significant presence in this market. Following the sale of ELG on 13 April 2016, Personal Lending is delivered through the Moneyway brand. Excluding ELG, loans and advances to customers within the Personal Lending division increased by £9.7 million, or 12.5 per cent., from £77.8 million as at 31 December 2013 to £87.5 million as at 31 December 2014 but decreased by £13.2 million, or 15.1 per cent., to £74.3 million as at 31 December 2015 and by a further 13 per cent. to £64.6 million as at 30 June 2016. This decrease is primarily due to the Group's appetite to expand in this sector having reduced as a result of falling margins in this sector within the market. As at 30 June 2016, loans and advances to customer within the Personal Lending division represented 5.7 per cent. of the Group's total loans and advances to customers.

Loans and advances to customers in respect of ELG increased by £12.5 million, or 15.4 per cent., from £81.4 million as at 31 December 2013 to £93.9 million as at 31 December 2014, and by a further 21.7 per cent. to £114.3 million as at 31 December 2015. The loans were derecognised following the sale of ELG on 13 April 2016.

Motor Finance

The Motor Finance division began lending in 2008 under the Moneyway brand and provides hire purchase lending to a wide range of customers including those who might otherwise be declined by other finance companies. Loans and advances to customers within the Motor Finance division increased by £23.2 million, or 20.2 per cent., from £114.7 million as at 31 December 2013 to £137.9 million as at 31 December 2014 and by £27.8 million, or 20.2 per cent., from £137.9 million as at 31 December 2014 to £165.7 million as at 31 December 2015, and increased by a further 24.1 per cent. to £205.6 million as at 30 June 2016. During 2015, the Bank has also started to lend into the prime motor sector. As at 30 June 2016, loans and advances to customers within the Motor Finance division represented 18.2 per cent. of the Group's total loans and advances to customers.

Retail Finance

The Retail Finance division commenced lending in 2009 and provides unsecured, prime lending products to the UK customers of the Group's retail partners, to facilitate the purchase of a wide range of consumer products. The V12 Finance Group was acquired in January 2013 and its business has been integrated with the Group's pre-existing retail lending business. Loans are either interest bearing or have promotional credit subsidised by retailers or suppliers. The three largest sub-markets for this business are the provision of finance for sports and leisure equipment, including cycles, furniture and consumer electronics. Loans and advances to customers within the Retail Finance division increased by £46.6 million, or 66.5 per cent., from £70.1 million as at 31 December 2013 to £116.7 as at 31 December 2014 and by £103.7 million, or 88.9 per cent., from £116.7 million as at 31 December 2014 to £220.4 million as at 31 December 2015, and increased by a further 23.3 per cent. to £271.7 million as at 30 June 2016. As at 30 June 2016, loans and advances to customers within the Retail Finance division represented 24.1 per cent. of the Group's total loans and advances to customers.

Other

The "other" segment includes a number of other products, including legacy books with values individually below £5 million as at 30 June 2016. Two more significant portfolios are included in this segment: STB Leasing Limited and DMS.

The bank, through its subsidiary STB Leasing Limited, funds and operates finance leases through a disclosed agency agreement with RentSmart. This activity commenced in December 2009. RentSmart is paid a commission, for which it acts as an intermediary between the Group and end-customers and undertakes all origination, underwriting, administration and arrears management services on behalf of the Group. RentSmart retains credit risk and provides STB Leasing Limited with a cash collateral amount based upon the balance of customer receivables and expected new agreements. Leases to customers were £25.5 million as at 31 December 2013 and 31 December 2014, £23.5 million as at 31 December 2015 and £21.0 million as at 30 June 2016.

In January 2013, DMS acquired the trade and certain assets from Debt Managers Holdings Limited, Debt Managers (AB) Limited and Debt Managers Limited. DMS collects debts on behalf of a range of clients as well as collecting delinquent debt for the Group. Loans and advances to customers were £0.3 million as at 31 December 2013, £3.1 million as at 31 December 2014, £5.1 million as at 31 December 2015 and £6.8 million at 30 June 2016. The increase in balances over the period was primarily due to purchases of delinquent debt from the Group.

In addition, as at 30 June 2016 the "other" segment includes £29.2 million relating to a loan to NSF as part of its purchase of ELG.

Loans and advances to customers include finance lease receivables as follows:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
		(£ million)		
Gross investment in finance lease receivables:				
No later than 1 year	151.8	121.4	80.2	16.4
Later than 1 year and no later than 5 years	318.7	244.0	164.4	16.0
Later than 5 years	1.5	0.9	—	—
	472.0	366.3	244.6	32.4
Unearned future income on finance leases	(137.9)	(109.0)	(81.2)	(6.9)
Net investment in finance leases	**334.1**	**257.3**	**163.4**	**25.5**
The net investment in finance leases may be analysed as follows:				
No later than 1 year	91.6	73.3	46.0	12.9
Later than 1 year and no later than 5 years	241.1	183.2	117.4	12.6
Later than 5 years	1.4	0.8	—	—
	334.1	**257.3**	**163.4**	**25.5**

(d) ***Debt securities held-to-maturity***

Debt securities represent UK Treasury Bills. The Group's intention is to hold them to maturity and they are therefore stated at amortised cost. All of the debt securities held-to maturity have had a rating agency designation of Aa1, based on Moody's long-term ratings, throughout the period from 31 December 2013 to 30 June 2016. None of the debt securities held-to-maturity were past due or impaired at any point during this period. As at 31 December 2013, £57.1 million of debt securities held-to-maturity were included in loans and advances to banks.

(e) ***Investment securities available-for-sale***

As at 30 June 2016, the Group held £13.7 million of investment securities available-for-sale, being shares in NSF. The NSF shares were acquired at a value of £16.3 million. The movement in the value of the NSF shares, net of deferred tax, is reflected in the available-for-sale reserve.

(f) ***Property, plant and equipment***

Property is held at historic cost and subsequent revaluations less depreciation. Plant and equipment is stated at historical cost less depreciation. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which are subject to regular review:

Land	not depreciated
Freehold buildings	50 years
Leasehold improvements	shorter of life of lease or 7 years
Computer equipment	3 to 5 years
Other equipment	5 to 10 years

The net book value of property, plant and equipment was as follows:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
	(£ million)			
Freehold land and buildings	6.4	6.5	6.6	4.0
Leasehold improvements	—	—	0.1	0.2
Computer and other equipment	2.1	2.0	1.4	0.8
Total property, plant and equipment	**8.5**	**8.5**	**8.1**	**5.0**

The Group's freehold properties are the registered office of the Group, which is fully utilised for the Group's own purposes, and Secure Trust House, Boston Drive, Bourne End SL8 5YS. This property was acquired in 2014 and, up to the sale of ELG, the majority of it was used for the Group's own purposes. Since the sale of ELG, it is only partially used for the Group's own purposes.

The net book value of computer and other equipment has grown from £0.8 million as at 31 December 2013 to £2.1 million as at 30 June 2016, to enable the growth of the business.

(g) ***Intangible assets***

The net book value of intangible assets was as follows:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
	(£ million)			
Goodwill	1.0	1.0	1.0	1.0
Computer software	5.0	4.5	3.5	3.8
Other intangible assets	1.0	1.5	3.7	5.1
Total Intangible Assets	**7.0**	**7.0**	**8.2**	**9.9**

Goodwill represents the excess of the cost of the acquisitions of V12 (£0.7 million) and a previous retail lending portfolio (£0.3 million) over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is reviewed for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. The latest such review was undertaken as at 30 June 2016 and it was confirmed that goodwill was not impaired.

Computer software comprises acquired computer software licences and costs associated with developing computer software, where it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance. Costs of software licences are amortised on the basis of their expected useful lives, which are between 3 to 10 years. Computer software balances increased by 32 per cent. between 31 December 2013 and 30 June 2016, reflecting the development of the Group's IT estate to enable the growth of the business.

Other intangible assets include trademarks, customer relationships, broker relationships and technology. The majority of these assets were acquired as part of the acquisitions of ELG and V12, in accordance with IFRS 3 "Business Combinations". The assets were recorded at fair value and have subsequently been amortised over their expected useful lives; three years for ELG broker relationships and between five and ten years for the remainder. The intangible asset relating to ELG was reclassified as an asset held for sale as at 31 December 2015 and subsequently disposed of.

(h) ***Deferred tax assets***

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised of the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary timing differences can be utilised.

The Group had deferred tax assets of £0.9 million and £0.2 million as at 30 June 2016 and 30 June 2015 respectively, resulting primarily from short term timing differences.

The Group had deferred tax assets of £0.3 million, £1.0 million and £1.9 million as at 31 December 2015, 2014 and 2013, respectively. The balances as at 31 December 2013 and 31 December 2014 related to carried forward losses; thereafter, they related to short term timing differences.

(i) ***Other assets***

Other assets consist of the following:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
	(£ million)			
Trade receivables	0.7	1.5	0.9	0.6
Amounts due from related companies	—	1.3	0.8	4.1
Prepayments and accrued income	5.5	4.3	3.5	3.4
Total other assets	**6.2**	**7.1**	**5.2**	**8.1**

Amounts due from related companies are amounts receivable from Arbuthnot, which was the Group's parent company prior to 15 June 2016. Trade receivables, prepayments and accrued income have increased from a total of £4.0 million as at 31 December 2013 to £6.2 million at 30 June 2016, in line with the growth of the business.

(j) ***Assets held for sale***

On 4 December 2015, the Group agreed to the conditional sale of ELG to NSF. The assets of ELG, which were £118.5 million as at 31 December 2015, were therefore reclassified as assets held for sale. The majority of these assets (£114.3 million) were loans and advances to customers.

The disposal completed on 13 April 2016 and, on completion, NSF repaid intercompany debt of £108.1 million to the Group. Consideration of £106.9 million in cash and £16.3 million of NSF ordinary shares was received, yielding a gain on disposal of £116.8 million.

The disposal improved the Group's Core Tier 1 ratio to 20.1 per cent. and Leverage ratio to 15.8 per cent. as at 30 June 2016, compared with 15.0 per cent. and 11.9 per cent. respectively as at 30 June 2015, on an unadjusted basis which includes the reserves and risk weighted assets of ELG in Core Tier 1 and Leverage ratio for June 2015. This generated a substantial capital surplus and significant headroom over PRA requirements, which supports the strong growth in lending of the Group.

4.3 **Liabilities**

Total liabilities increased by £652.6 million, or 140.6 per cent., from £464.3 million as at 31 December 2013 to £1,116.9 million as at 30 June 2016. This increase was driven primarily by the increase in deposits from customers of 138.8 per cent. over the same period, providing funding for the Group's lending activities.

(a) ***Due to banks***

The Group's liabilities due to banks primarily represent monies arising from the sale and repurchase of drawings under the FLS. The Group uses the FLS as a liquidity buffer above that used to support lending. Amounts due were £0.1 million as at 31 December 2013, £15.9 million as at 31 December 2014, £35.0 million as at 31 December 2015 and £15.0 million as at 30 June 2016.

(b) ***Deposits from customers***

Customer deposits include term, notice and sight deposits, as well as the Group's Current Account and OneBill products.

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
		(£ million)		
Current/demand accounts	34.8	39.5	37.8	36.4
Term deposits	1,007.8	993.6	570.6	400.2
Total deposits	**1,042.6**	**1,033.1**	**608.4**	**436.6**

The Current Account was closed to new business in 2015 and full closure of the product was announced in the first half of 2016, influenced by an agreement between HM Government and the large high street banks, whereby they agreed to provide a fee free basic bank account to all customers. OneBill is a household budgeting product which was closed to new customers in 2009 but continues to provide a service to the existing customer base. As at 30 June 2016, deposits from customers in respect of the Current Account and OneBill products totalled £18.4 million and £14.2 million respectively, with the balance of current/demand accounts being £2.2 million of sight deposits.

Term deposits increased by £170.4 million, or 42.6 per cent., from £400.2 million as at 31 December 2013 to £570.6 million as at 31 December 2014, and by a further £423.0 million, or 74.1 per cent., to £993.6 million as at 31 December 2015. The sale of ELG in April 2016 generated significant liquidity and the Group used this surplus to fund lending in the second quarter of 2016 in preference to raising additional deposits, consequently, term deposits only increased by £14.2 million, or 1.4 per cent., from £993.6 million as at 31 December 2015 to £1,007.8 million as at 30 June 2016.

(c) ***Current tax liabilities***

Current tax liabilities as at 30 June 2016 were £0.2 million. The level of the liability has been reduced by previous tax payments on account.

(d) ***Dividend payable***

Following the sale of ELG, a special dividend of 165 pence per share was declared, totalling £30 million. The dividend was paid on 27 July 2016.

(e) ***Other liabilities***

Other liabilities consist of the following:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
		(£ million)		
Trade payables	10.7	13.8	10.9	9.8
Amounts due to related companies	—	0.1	0.3	2.2
Accruals and deferred income	18.4	12.3	18.3	13.8
Total other liabilities	**29.1**	**26.2**	**29.5**	**25.8**

Trade payables have increased from £9.8 million as at 31 December 2013 to £10.7 million at 30 June 2016, in line with the growth of the business. Trade payables includes cash collateral held from RentSmart, the balance of which was £3.7 million, £4.3 million and £4.3 million as at 31 December 2015, 31 December 2014 and 31 December 2013 respectively. As at 30 June 2016, the balance had decreased to £3.3 million.

Accruals and deferred income relate primarily to the Group's operating expenditure. The most significant items included in this balance include: Financial Ombudsman adjudication costs, customer deposit interest, national insurance payable on employee share options, accrued annual employee bonuses, legal and professional fees, FCA and PRA annual fees, commissions to third party motor lending introducers and IT costs. Also included are provisions for the Group's contribution to the Financial Services Compensation Scheme (**"FSCS"**). The FSCS levy consists of a management expenses levy and a more significant compensation levy. The compensation levy is based upon the level of Protected Deposits held by an institution at the accounting reference date; amounts invoiced in this respect have been less than £0.4 million in each of the periods under review.

Also included in accruals and deferred income is a provision for outstanding potential claims to the Financial Ombudsman Scheme (**"FOS"**) for the OneBill and lending products. The provision was £1.3 million as at 30 June 2016, £2.0 million as at 31 December 2015, £2.0 million as at 31 December 2014 and £1.1 million as at 31 December 2013.

(f) ***Liabilities held for sale***

On 4 December 2015, the Group agreed to the conditional sale of ELG to NSF. The liabilities of ELG, which were £8.7 million as at 31 December 2015, were therefore reclassified as assets held for sale. These liabilities comprised £3.4 million current tax liability and £5.3 million of other liabilities.

4.4 Equity

On 8 July 2014 an additional 2,083,333 ordinary shares were issued by the Company, at a price of 2,400 pence each, raising gross proceeds of £50 million. On 3 November 2014 an additional 460,412 ordinary shares were issued following the exercise of share options, at a price of 720 pence each, raising gross proceeds of £3.3 million. The effect of these issuances was to increase share capital to £7.3 million and share premium to £79.3 million.

Retained earnings increased by £10.8 million, or 39.6 per cent., from £27.3 million as at 31 December 2013 to £38.1 million as at 31 December 2014, and by a further £16.3 million, or 42.8 per cent., to £54.4 million as at 31 December 2015. With the inclusion of the profit on disposal of ELG, retained earnings increased by a further £89.3 million, or 164.2 per cent., to £143.7 million as at 30 June 2016.

5. RESULTS OF OPERATIONS

The following table sets out the Group's results of operations for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016:

	Six months ended 30 June		**Year ended 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Interest receivable and similar income	62.7	45.7	100.5	63.4	51.6
Interest expense and similar charges	(13.2)	(9.8)	(21.6)	(14.2)	(12.9)
Net interest income	49.5	35.9	78.9	49.2	38.7
Fee and commission income	8.7	8.3	16.9	16.1	17.0
Fee and commission expense	(0.9)	(1.4)	(3.7)	(1.6)	(2.8)
Net fee and commission income	7.8	6.9	13.2	14.5	14.2
Operating income	**57.3**	**42.8**	**92.1**	**63.7**	**52.9**
Net impairment losses on loans and advances to customers	(13.3)	(8.0)	(16.8)	(8.7)	(9.6)
Gain from a bargain purchase	—	—	—	—	0.4
Costs arising from acquisitions	—	—	—	—	(0.9)
Operating expenses	(31.5)	(24.4)	(50.5)	(37.5)	(29.7)
Profit before income tax	**12.5**	**10.4**	**24.8**	**17.5**	**13.1**
Income tax expense	(2.2)	(2.0)	(5.5)	(3.6)	(2.9)
Profit for the period—Continuing operations	10.3	8.4	19.3	13.9	10.2
Profit for the period—Discontinued operations	2.0	4.5	9.4	6.6	2.1
Gain recognized on disposal	116.8	—	—	—	—
Profit for the period	**129.1**	**12.9**	**28.7**	**20.5**	**12.3**

On 13 April 2016 the sale of the Group's branch based non-standard consumer lending business, ELG, to NSF completed generating a gain on disposal of £116.8 million. Results relating to ELG have therefore been analysed as discontinued operations in all of the periods covered in this paragraph 5 following the accounting treatment required by IFRS 5. The table above and the analyses presented below relate to continuing operations, which represents all of the Group's divisions, excluding ELG.

The table below reconciles the profit relating to continuing operations to the total profit for the period as reported in the annual report and accounts.

	Six months ended 30 June		**Year ended 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Profit for the period—Continuing operations	10.3	8.4	19.3	13.9	10.2
Profit for the period—Discontinued operations	2.0	4.5	9.4	6.6	2.1
Gain recognized on disposal	116.8	—	—	—	—
Profit for the period	**129.1**	**12.9**	**28.7**	**20.5**	**12.3**

5.1 Interest receivable and similar income (continuing operations)

Interest receivable and similar income was derived from the following sources:

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Cash and balances at central banks	0.4	0.4	0.7	0.3	—
Loans and advances to banks	—	0.2	0.2	0.1	0.2
Loans and advances to customers	62.3	45.1	99.6	62.8	51.4
Debt securities held-to-maturity	—	—	—	0.2	—
Interest receivable and similar income	**62.7**	**45.7**	**100.5**	**63.4**	**51.6**

The following table shows the interest receivable and similar income earned by division:

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Real Estate Finance	13.9	8.1	20.2	2.5	0.1
Asset Finance	3.5	0.6	2.4	—	—
Commercial Finance	0.6	0.1	0.4	—	—
Motor Finance	18.4	15.8	33.2	27.2	23.0
Retail Finance	15.4	9.6	22.5	12.8	9.4
Personal Lending	8.0	8.5	17.2	15.1	12.7
Other	2.9	3.0	4.6	5.8	6.4
Continuing operations	62.7	45.7	100.5	63.4	51.6
Discontinued operations: Personal Lending	11.1	18.5	39.2	30.2	22.2
Total	**73.8**	**64.2**	**139.7**	**93.6**	**73.8**

Interest receivable and similar income increased by £17.0 million, or 37.2 per cent., from £45.7 million for the six months ended 30 June 2015 to £62.7 million for the six months ended 30 June 2016. This increase was the result of the increase in interest receivable from loans and advances to customers from £45.1 million as at 30 June 2015 to £62.3 million as at 30 June 2016. The increase in interest receivable from loans and advances to customers was driven by significant growth in the Business Finance divisions from £8.8 million as at 30 June 2015 to £18.0 million as at 30 June 2016, resulting from the establishment of the Commercial Finance and Asset Finance products, which were launched in September 2014 and December 2014 respectively, and growth within the Real Estate Finance portfolio.

Interest receivable and similar income increased by £37.1 million, or 58.5 per cent., from £63.4 million for the year ended 31 December 2014 to £100.5 million for the year ended 31 December 2015. This increase was primarily the result of increases in interest receivable from loans and advances to customers from £62.8 million as at 31 December 2014 to £99.6 million as at 31 December 2015. The increase in interest receivable from loans and advances to customers was driven by significant growth in the Business Finance divisions from £2.5 million as at 31 December 2014 to £23.0 million as at 31 December 2015, resulting from the establishment of the Asset Finance and Commercial Finance divisions and growth within the Real Estate Finance division which increased by £17.7 million, or 708.0 per cent., from £2.5 million as at 31 December 2014 to £20.2 million as at 31 December 2015.

Interest receivable and similar income increased by £11.8 million, or 22.9 per cent., from £51.6 million for the year ended 31 December 2013 to £63.4 million for the year ended 31 December 2014. This increase was primarily the result of increases in interest receivable from loans and advances to customers from £51.4 million as at 31 December 2013 to £62.8 million as at 31 December 2014. The increase in interest receivable from loans and advances to customers was primarily driven by growth in the Consumer Finance division from £45.1 million as at 31 December 2013 to £55.1 million as at 31 December 2014.

While increases in loans and advances to customers principally drove increases in interest receivable and similar income during the period under review, the increase in interest receivable and similar income over the period is proportionately lower than the increase in loans and advances to customers over the same period. This is a result of the shift from predominantly Consumer Finance lending as at 31 December 2013 to lower interest-bearing Business Finance lending as at 30 June 2016, which accounts for 46.9 per cent. of loans and advances to customers.

5.2 Interest expense and similar charges (continuing operations)

Interest expense and similar charges represents interest in respect of deposits from customers. Interest expense and similar charges increased by £3.4 million, or 34.7 per cent., from £9.8 million for the six months ended 30 June 2015 to £13.2 million for the six months ended 30 June 2016. This increase was primarily due to an increase in customer deposits from £835.1 million as at 30 June 2015 to £1,042.6 million as at 30 June 2016.

Interest expense and similar charges increased by £7.4 million, or 52.1 per cent., from £14.2 million for the year ended 31 December 2014 to £21.6 million for the year ended 31 December 2015. This increase was primarily due to an increase in customer deposits from £608.4 million as at 31 December 2014 to £1,033.1 million as at 31 December 2015.

Interest expense and similar charges increased by £1.3 million, or 10.1 per cent., from £12.9 million for the year ended 31 December 2013 to £14.2 million for the year ended 31 December 2014. This increase was primarily due to an increase in customer deposits from £436.6 million as at 31 December 2013 to £608.4 million as at 31 December 2014.

The increase in interest expense and similar charges is proportionately lower than the increase in deposits from customers over the same period. This reflects the market for funding, in which the Group has been able to replace maturing term deposits with new deposits of the same tenor but at lower fixed rates. In the year from 30 June 2015 to 30 June 2016 the increase in interest expense and similar charges was slightly higher than the increase in balances due to the weighted average cost of funds being relatively flat over this period.

5.3 Net fee and commission income (continuing operations)

Fee and commission income consists principally of weekly and monthly fees from the OneBill and Current Account products, and commissions earned on debt collection activities in DMS. These products are included within the "other" category in the table below. Fee and commission expense consists primarily of fees and commissions relating to the Current Account product.

The following table shows the fee and commission income earned by division:

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Real Estate Finance	0.1	—	0.1	—	—
Asset Finance	—	—	—	—	—
Commercial Finance	1.1	0.4	1.2	0.1	—
Motor Finance	0.4	—	0.1	—	—
Retail Finance	1.2	0.7	1.7	0.8	0.4
Personal Lending	—	—	—	—	—
Other	5.9	7.2	13.8	15.2	16.6
Continuing operations	8.7	8.3	16.9	16.1	17.0
Discontinued operations: Personal Lending	0.1	1.1	1.5	4.1	5.7
Total	**8.8**	**9.4**	**18.4**	**20.2**	**22.7**

The fee income relating to Current Account and OneBill has decreased year on year as these products have been closed to new business; OneBill in 2009 and Current Account in 2015. This income has been replaced in part by increasing levels of fees earned on Commercial Finance and Retail Finance lending.

Fee and commission income increased by £0.4 million, or 4.8 per cent., from £8.3 million for the six months ended 30 June 2015 to £8.7 million for the six months ended 30 June 2016. This increase was primarily due to increased fees and commissions earned by the Commercial Finance, Motor Finance and Retail Finance divisions. However, these increases were offset by a decrease in the fee and commission income earned by the Current Account and One Bill products over this period. Fee and commission income attributed to the "Other" category decreased by £1.3 million, or 18.0 per cent., from £7.2 million for the six months ended 30 June 2015 to £5.9 million as at 30 June 2016. Fee and commission expense decreased by £0.5 million, or 35.7 per cent., from £1.4 million for the six months ended 30 June 2015 to £0.9 million for the six months ended 30 June 2016 primarily due to a decrease in the commissions payable in relation to the OneBill and Current Account product.

Fee and commission income increased by £0.8 million, or 5.0 per cent., from £16.1 million for the year ended 31 December 2014 to £16.9 million for the year ended 31 December 2015. This increase was primarily due to increased fees and commissions earned by the Commercial Finance division which was established in September 2014 and by the Retail Finance division. However, these increases were partially offset by a decrease in the fee and commission income earned by the Current Account and One Bill products over this period. Fee and commission income attributed to the "Other" category decreased by £1.4 million, or 9.2 per cent., from £15.2 million for the year ended 31 December 2014 to £13.8 million for the year ended 31 December 2015. Fee and commission expense increased by £2.1 million, or 131.3 per cent., from £1.6 million for the year ended 31 December 2014 to £3.7 million for the year ended 31 December 2015 primarily due to an increase in the fees and commissions payable in relation to the OneBill product.

Fee and commission income decreased by £0.9 million, or 5.3 per cent., from £17.0 million for the year ended 31 December 2013 to £16.1 million for the year ended 31 December 2014. This decrease was primarily due to a decrease in the fee and commission income earned by the OneBill product over this period. Fee and commission income attributed to the "Other" category decreased by £1.4 million, or 8.4 per cent., from £16.6 million for the year ended 31 December 2013 to £15.2 million for the year ended 31 December 2014. Fee and commission expense decreased by £1.2 million, or 42.9 per cent., from £2.8 million for the year ended 31 December 2013 to £1.6 million for the year ended 31 December 2014 primarily due to a decrease in the fees and commissions payable in relation to the OneBill product.

5.4 **Net impairment losses on loans and advances to customers (continuing operations)**

The Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired on an on-going basis. Objective evidence is the occurrence of a loss event, after the initial recognition of the asset, that impacts on the estimated future cash flows of the financial asset or group of assets, and can be reliably estimated. The Group considers evidence of impairment for loans and advances at both a specific asset and collective level.

The following table shows the net impairment losses on loans and advances to customers by division:

	Six months ended 30 June		**Year ended 31 December**		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Real Estate Finance	—	0.3	—	—	—
Asset Finance	0.2	—	—	—	—
Commercial Finance	—	—	0.3	—	—
Motor Finance	6.1	3.1	7.3	3.9	3.6
Retail Finance	4.8	2.3	5.2	1.2	1.0
Personal Lending	2.2	2.3	4.8	3.3	4.4
Other	—	—	(0.8)	0.3	0.6
Continuing operations	13.3	8.0	16.8	8.7	9.6
Discontinued operations: Personal Lending	2.6	3.2	7.5	6.6	6.0
Total	**15.9**	**11.2**	**24.3**	**15.3**	**15.6**

Impairment charges in respect of the Business Finance divisions represent specific and collective provisions and have been minimal; totalling less than £1 million over the period under review. Impairment charges in respect of the Consumer Finance divisions are primarily specific provisions raised against loans where payments are in arrears.

Net impairment losses on loans and advances to customers increased by £5.3 million, or 66.3 per cent., from £8.0 million for the six months ended 30 June 2015 to £13.3 million for the six months ended 30 June 2016. This increase was primarily due to the growth of the business, with gross loans and advances to customers increasing by £279.4 million, or 31.3 per cent., from £893.0 as at 30 June 2015 to £1,172.4 million as at 30 June 2016. Net impairment losses on loans and advances to customers for the six month period ended 30 June 2016 of £13.3 million includes a collective impairment charge of £1.2 million. This charge relates to an additional provision introduced as a result of the current unprecedented uncertainty in European and global markets and is not driven by the current performance of the loan book. Net impairment losses on loans and advances to customers within the Motor Finance, Retail Finance and Personal Lending divisions represented 3.0 per cent., 1.8 per cent. and 3.4 per cent., respectively, of loans and advances to customers within these divisions for the six months ended 30 June 2016.

Net impairment losses on loans and advances to customers increased by £7.2 million, or 75.0 per cent., from £9.6 million for the year ended 31 December 2013 to £16.8 million for the year ended 31 December 2015. This increase was primarily due to increased net impairment losses on loans and advances to customers in the Consumer Finance divisions which experienced significant growth over the period. In particular, within the Motor Finance and Retail Finance divisions, net impairment losses on loans and advances to customers represented 3.1 per cent. and 1.4 per cent., respectively, of loans and advances to customers within these divisions for the year ended 31 December 2013, increasing to 4.4 per cent. and 2.4 per cent., respectively, for the year ended 31 December 2015.

For the Motor Finance division, this increase is primarily due to increased levels of higher risk lending. For the Retail Finance division, this increase is primarily due to higher levels of interest bearing lending, which has a higher risk profile than interest free lending.

5.5 Operating expenses (continuing operations)

The following table sets out the Group's operating expenses for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016:

	Six months ended 30 June		Year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Staff costs, including those of directors					
Wages and salaries	16.3	12.3	24.7	16.4	12.1
Social security costs	1.5	1.0	2.6	1.3	1.0
Pension costs	0.4	0.4	0.7	0.4	0.2
Share based payment transactions	—	—	1.4	1.5	2.2
Depreciation of property, plant and equipment	0.3	0.2	0.5	0.4	0.4
Amortisation of intangible assets	0.7	0.7	1.4	1.2	1.2
Operating lease rentals	0.8	0.6	1.2	0.7	0.5
Other administrative expenses	11.5	9.2	18.0	15.6	12.1
Continuing operations	31.5	24.4	50.5	37.5	29.7
Discontinued operations	6.0	10.6	21.2	19.0	16.1
Total operating expenses	37.5	35.0	71.7	56.5	45.8
Cost: income ratio(1)	**55.0** %	**57.0** %	**54.8** %	**58.9** %	**56.1** %

(1) Cost:income ratio is calculated, for continuing operations, as operating expenses as a percentage of operating income.

Operating expenses have increased steadily over the period under review. Operating expenses increased by £7.8 million, or 26.3 per cent., from £29.7 million for the year ended 31 December 2013 to £37.5 million for the year ended 31 December 2014, and by a further £13.0 million, or 34.7 per cent., to £50.5 million for the year ended 31 December 2015. Operating expenses increased by £7.1 million, or 29.1 per cent., from £24.4 million for the six months ended 30 June 2016 to £31.5 million for the six months ended 30 June 2016. These increases were primarily due to increased staff costs over the period under review. Staff costs represent the Group's most significant component of operating expenses, and have increased in line with business growth. Staff costs were 52.2 per cent. of total operating expenses for the year ended 31 December 2013, 58.2 per cent. for the year ended 31 December 2015 and 57.8 per cent. for the six months ended 30 June 2016. The most significant costs included within other administrative expenses are employee expenses, legal and professional fees, credit search costs, IT and infrastructure costs, printing and stationery and marketing and communications expenditure. Other administrative expenses have remained broadly level over the period, from 40.7 per cent. of total operating expenses for the year ended 31 December 2013 to 36.5 per cent. of total operating expenses for the six months ended 30 June 2016.

Over the period under review, costs have increased at broadly the same rate as operating income. The cost to income ratio was 56.1 per cent. in the year to 31 December 2013, 58.9 per cent. in the year to 31 December 2014, 54.8 per cent. in the year to 31 December 2015 and 55.0 per cent. in the period to 30 June 2016.

The acquisitions of V12 and DMS took place in January 2013. The costs shown in the table therefore include costs relating to those entities throughout the periods covered by this review.

The operations of ELG were managed as a distinct business unit with operating expenses, including staff costs, reported in the accounts of ELG. Costs of ELG are shown in the table above as discontinued operations.

Depreciation and amortisation have increased over the period, reflecting the purchase of property plant and equipment and the purchase and development of computer software, as the Group has built up its operations. Operating lease rentals, which relate to motor vehicles and computer hardware, have similarly increased.

5.6 **Income tax expense**

Income tax expense comprises charges for current and deferred tax, as follows:

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Corporation tax charge—current period	2.3	2.1	5.4	3.3	3.1
Corporation tax charge—adjustment in respect of prior years	—	—	0.6	—	0.5
Current taxation	**2.3**	**2.1**	**6.0**	**3.3**	**3.6**
Deferred tax charge—current period	(0.1)	(0.1)	(0.5)	0.2	(0.2)
Deferred tax charge—adjustment in respect of prior years	—	—	—	0.1	(0.5)
Deferred taxation	**(0.1)**	**(0.1)**	**(0.5)**	**0.3**	**(0.7)**
Income tax expense: continuing operations	2.2	2.0	5.5	3.6	2.9
Income tax expense: discontinued operations	0.5	1.1	2.3	2.0	1.9
Total income tax expense	**2.7**	**3.1**	**7.8**	**5.6**	**4.8**
Tax reconciliation					
Tax at prevailing rate	3.0	3.2	7.4	5.6	4.0
Permanent differences	(0.3)	(0.1)	(0.3)	(0.2)	(0.2)
Prior period adjustments	—	—	0.7	0.2	1.0
Total income tax expense	**2.7**	**3.1**	**7.8**	**5.6**	**4.8**

Income tax expense decreased by £0.4 million, or 12.9 per cent., from £3.1 million for the six months ended 30 June 2015 to £2.7 million for the six months ended 30 June 2016. This decrease was primarily due to the sale of ELG, and consequent reduced profit contribution from that business line in the period to 30 June 2016.

Income tax expense increased by £0.8 million, or 16.7 per cent., from £4.8 million for the year ended 31 December 2013 to £5.6 million for the year ended 31 December 2014 and by a further £2.2 million, or 39.3 per cent, to £7.8 million for the year ended 31 December 2015 These increases were primarily due to the Group's levels of profit over this period and the prevailing rate of tax.

5.7 **Segmental analysis**

The Group considers its reportable segments to be:

Business Finance

(1) Real Estate Finance: residential and commercial investment and development loans secured by UK real estate.

(2) Asset Finance: loans to small and medium sized enterprises to acquire commercial assets.

(3) Commercial Finance: invoice discounting and invoice factoring.

Consumer Finance

(4) Personal Lending: unsecured consumer loans sold to customers via brokers, aggregators and business partners.

(5) Motor Finance: hire purchase agreements secured against the vehicle being financed.

(6) Retail Finance: point of sale unsecured finance for in-store and online retailers.

Other

Other includes Current Account, OneBill, STB Leasing Limited, debt collection and the £30 million loan to NSF as part of their purchase of ELG.

The segmental analysis used by management and in statutory reporting considers the following factors, which are detailed elsewhere in this Part 11: *"Operating and Financial Review"*:

- Section 4.2(c): Loans and advances to customers
- Section 5.1: Interest receivable and similar income
- Section 5.3: Net fee and commission income

- Revenue from external customers: the aggregate of interest receivable and similar income and fee and commission income
- Section 5.4: Net impairment losses on loans and advances to customers

As interest, fee and commission and operating expenses are not aligned to operating segments for day to day management of the business and cannot be allocated on a reliable basis, profit by operating segment has not been disclosed.

All of the Group's operations are conducted wholly within the United Kingdom.

6. LIQUIDITY AND CAPITAL RESOURCES

6.1 Funding and Liquidity

The Group's funding strategy is to seek to limit exposure to short term wholesale funding and interbank markets and to broadly match fixed term fixed rate customer lending with customer deposits of the same tenor and interest rate basis.

From July 2013, the Group was permitted to draw down facilities under the FLS. FLS monies are maintained as a liquidity buffer, above that required to support lending.

In August 2016 the Monetary Policy Committee announced a new TFS, to provide funding for banks at interest rates close to the Bank of England base rate. The Group intends to apply to be admitted to the TFS so that it can utilise this funding in the same way that it has used the FLS.

The following table shows the Group's liquidity position for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30June 2015 and 2016.

	As at 30 June		As at 31 December		
	2016[(1)]	2015	2015[(1)]	2014	2013
		(unaudited)			
			(£ million)		
Liquid assets	175.7	128.6	145.4	122.3	90.0
High Quality Liquid Assets as a proportion of total liquid assets	92%	84%	93%	67%	63%
Loan-to-deposit ratio	108%	102%	104%	102%	90%
Fixed term deposits as a proportion of total deposits	62%	57%	57%	54%	44%

(1) On 13 April 2016 the sale of the Group's branch based non-standard consumer lending business, ELG, to NSF completed generating a gain on disposal of £116.8 million. Balances relating to ELG were classed as assets held for sale as a 31 December 2015, and so are excluded in the analysis above for that year.

Fixed term deposits have risen as a proportion of total deposits, from 44 per cent. as at 31 December 2013 to 62 per cent. as at 30 June 2016. The Group increased this proportion in the six months to 30 June 2016 to mitigate against any liquidity pressures brought about by a referendum vote to leave the EU.

The loan to deposit ratio increased from 104 per cent. as at 31 December 2015 to 108 per cent. as at 30 June 2016. This was as a result of the Group using surplus liquidity arising from the sale of ELG in the second quarter of 2016, rather than raising additional deposits.

The Group has maintained a stock of high quality liquid assets in the form of Bank of England Treasury Bills and, from 2014 onwards, the Bank of England reserve account. This stock as a proportion of total liquid assets has increased over the period, from 63 per cent. as at 31 December 2013 to 92 per cent. as at 30 June 2016. The sale of ELG significantly increased the Group's liquid assets, as shown in the increase from £128.6 million as at 30 June 2015 to £175.7 million as at 30 June 2016.

6.2 Matching of duration of assets and liabilities

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England reserve account to cover any short-term fluctuations and, longer term funding to address any structural liquidity requirements.

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. The Assets and Liabilities Committee ("**ALCO**"), comprising senior executives of the Company, monitors liquidity risk. Key liquidity risk management information is reported by the Treasury function and monitored by the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and ILAAP metrics.

The following tables analyse the contractual undiscounted cash flows for the Group's financial liabilities and assets into relevant maturity groupings.

As at 30 June 2016	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
			(£ million)			
Non-derivative financial liabilities:						
Due to banks	(15.0)	(15.0)	(15.0)	—	—	—
Deposits from customers	(1,042.6)	(1,081.7)	(117.9)	(550.9)	(376.8)	(36.1)
Dividend payable	(30.0)	(30.0)	(30.0)	—	—	—
Other financial liabilities	(10.7)	(10.7)	(10.7)	—	—	—
	(1,098.3)	**(1,137.4)**	**(173.6)**	**(550.9)**	**(376.8)**	**(36.1)**
Non-derivative financial assets:						
Cash and balances at central banks	141.8	141.8	141.8	—	—	—
Loans and advances to banks	19.1	19.1	19.1	—	—	—
Debt securities held to maturity	19.8	19.8	19.8	—	—	—
Loans and advances to customers	1,128.3	1,252.4	242.7	286.6	723.1	—
Other financial assets	2.8	2.8	2.8	—	—	—
	1,311.8	**1,435.9**	**426.2**	**286.6**	**723.1**	**—**
Liquidity mismatch	**213.5**	**298.5**	**252.6**	**(264.3)**	**346.3**	**(36.1)**

As at 31 December 2015	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
			(£ million)			
Non-derivative financial liabilities:						
Due to banks	(35.0)	(35.0)	(35.0)	—	—	—
Deposits from customers	(1,033.1)	(1,078.0)	(442.9)	(142.7)	(449.5)	(42.9)
Other financial liabilities	(13.8)	(13.8)	(13.8)	—	—	—
Liabilities held for sale	(8.7)	(8.7)	(8.7)	—	—	—
	(1,090.6)	**(1,135.5)**	**(500.4)**	**(142.7)**	**(449.5)**	**(42.9)**
Non-derivative financial assets:						
Cash and balances at central banks	131.8	131.8	131.8	—	—	—
Loans and advances to banks	9.8	9.8	9.8	—	—	—
Debt securities held to maturity	3.8	3.8	3.8	—	—	—
Loans and advances to customers	960.6	1,194.5	130.8	335.6	728.1	—
Other financial assets	2.9	2.9	2.9	—	—	—
Assets held for sale	118.5	118.5	118.5	—	—	—
	1,227.4	**1,461.3**	**397.6**	**335.6**	**728.1**	**—**
Liquidity mismatch	**136.8**	**325.8**	**(102.8)**	**192.9**	**278.6**	**(42.9)**

As at 31 December 2014	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
				(£ million)		
Non-derivative financial liabilities:						
Due to banks	(15.9)	(15.9)	(15.9)	—	—	—
Deposits from customers	(608.4)	(635.2)	(87.3)	(257.6)	(255.0)	(35.3)
Other financial liabilities	(17.8)	(17.8)	(17.8)	—	—	—
	(642.1)	**(668.9)**	**(121.0)**	**(257.6)**	**(255.0)**	**(35.3)**
Non-derivative financial assets:						
Cash and balances at central banks	81.2	81.2	81.2	—	—	—
Loans and advances to banks	39.8	39.8	24.8	15.0	—	—
Debt securities held to maturity	16.3	16.3	11.3	5.0	—	—
Loans and advances to customers	622.5	788.4	109.9	186.2	486.1	6.2
	759.8	**925.7**	**227.2**	**206.2**	**486.1**	**6.2**
Liquidity mismatch	**117.7**	**256.8**	**106.2**	**(51.4)**	**231.1**	**(29.1)**

As at 31 December 2013	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
				(£ million)		
Non-derivative financial liabilities:						
Due to banks	(0.1)	(0.1)	(0.1)	—	—	—
Deposits from customers	(436.6)	(457.0)	(64.3)	(208.7)	(181.1)	(2.9)
Other financial liabilities	(17.0)	(17.0)	(17.0)	—	—	—
	(453.7)	**(474.1)**	**(81.4)**	**(208.7)**	**(181.1)**	**(2.9)**
Non-derivative financial assets:						
Loans and advances to banks	110.0	110.0	110.0	—	—	—
Loans and advances to customers	391.0	483.3	81.2	143.9	257.9	0.3
	501.0	**593.3**	**191.2**	**143.9**	**257.9**	**0.3**
Liquidity mismatch	**47.3**	**119.2**	**109.8**	**(64.8)**	**76.8**	**(2.6)**

6.3 **Cash flows**

The following table summarises the Group's cash flows for the periods indicated:

	As at 30 June		As at 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£ million)		
Net cash flows generated (used in)/from operating activities	(187.0)	28.1	53.3	(22.3)	43.4
Net cash used in investing activities	208.9	(1.3)	(3.4)	(4.3)	(37.6)
Net cash flows from financing activities	(10.0)	(9.5)	(12.6)	41.9	(9.1)
Net increase/(decrease) in cash and cash equivalents—continued operations	**11.9**	**17.3**	**37.3**	**15.3**	**(3.3)**
Net increase/(decrease) in cash and cash equivalents—discontinued operations	0.7	(1.7)	—	0.7	(0.7)
Cash and cash equivalents at the start of the period	143.3	106.0	106.0	90.0	94.0
Cash and cash equivalents at the end of the period	**155.9**	**121.6**	**143.3**	**106.0**	**90.0**

The balance of cash and cash equivalents increased from £90.0 million as at 31 December 2013 to £155.9 million at 30 June 2016, reflecting both the expansion of the business and the cash inflows from the sale of ELG in the period to 30 June 2016. In that same period, the use of this liquidity rather than customer deposits, to fund lending, resulted in a net cash outflow of £187.0 million from operating activities.

Cash flows from financing activities represents dividends paid, plus an inflow of £52.1 million in the year ended 31 December 2014 from the issue of share capital.

The cash outflow of £37.6 million in respect of investing activities, in the year ended 31 December 2013, relates primarily to borrowings repaid on the acquisitions of V12 and DMS.

6.4 Capital

The Group's capital management policy is focused on optimising shareholder value over the long term. Capital is allocated to achieve targeted risk adjusted returns whilst ensuring appropriate surpluses are held above the minimum regulatory requirements. The implementation of the Capital Requirements Directive IV ("**CRD IV**") in 2014 did not have a material impact on the capital resources of the Group.

The Group's capital resources, risk exposures and key capital ratios are shown below:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013(1)
		(£ million)		
Share capital	7.3	7.3	7.3	6.3
Share premium account	79.3	79.3	79.3	28.2
Retained earnings	138.6	53.1	38.7	29.0
Other reserves and adjustments	(5.6)	(3.9)	(3.9)	(5.1)
Common equity tier 1 (CET 1) capital	**219.6**	**135.8**	**121.4**	**58.4**
Collective impairment allowance	3.0	3.1	2.0	1.6
Tier 2 capital	**3.0**	**3.1**	**2.0**	**1.6**
Own Funds	**222.6**	**138.9**	**123.4**	**60.0**
Total risk exposure	1,090.8	998.6	649.2	303.4
Capital ratios:	%	%	%	%
Common Equity Tier 1 (solo consolidation basis)	20.1%	13.6%	18.7%	19.7%
Leverage ratio	15.8%	10.4%	14.7%	14.9%

(1) For the year ended 31 December 2013, capital ratios are presented on a Basel II basis. Total risk exposure at this year-end represents risk weighted assets only.

The Group's CET1 capital comprises share capital, the share premium account, retained earnings and other reserves, minus adjustments to deduct the values of goodwill, intangible assets and deferred tax assets due to losses. The Group holds no Tier 1 capital over and above CET1. Tier 2 capital represents collective allowance for impairment of loans and advances to customers.

Capital resources have increased significantly over the period covered by this Operating and Financial Review. The effect of share issuances in 2014 was to increase share capital to £7.3 million and share premium to £79.3 million, more than doubling CET1 capital. The sale of ELG, after declaring the special dividend of £30 million, increased CET1 capital to £219.6 million. As a result, the Group holds a capital surplus significantly above regulatory requirements as at 30 June 2016, and the leverage ratio is comfortably ahead of the 4 per cent. minimum requirement. The Group is required by the PRA to report its capital on a solo consolidated basis, excluding its DMS and V12 subsidiaries, and on this basis at the end of 30 June 2016 the CET1 ratio had increased to 20.1 per cent.

Prior to the ELG sale, the CET 1 ratio had reduced from 19.7 per cent. as at 31 December 2013, to 18.7 per cent. as at 31 December 2014 and 13.6 per cent. as at 31 December 2015. These decreases were due to the growth in the Group's lending book, with a consequent increase in risk weighted assets. The ratio remained above regulatory requirements throughout the period covered by this Review.

The Group undertakes an ICAAP which includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. In the years up to and including the year ending 31 December 2015, this formed part of the Arbuthnot Banking Group's ICAAP. The PRA sets ICG for each UK bank calibrated by reference to its Capital Resources Requirement, broadly equivalent to 8 per cent. of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel III framework. The ICAAP is a key input into the PRA's ICG setting process, which addresses the requirements of Pillar 2 of the Basel III framework. The PRA's approach is to monitor the available capital resources in relation to the ICG requirement. The Group maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external and internal requirements are adhered to.

6.5 Material indebtedness and other material liabilities

The Group did not have any subordinated debt, cash collateral held by swap counterparties or other material indebtedness, at 30 June 2016 or at any point during the period under review.

At 30 June 2016, the Group had no capital commitments (31 December 2015: £nil, 31 December 2014: £0.1 million relating to the refurbishment of an ELG branch, 31 December 2013: £nil).

At 30 June 2016, the Group had credit commitments of £124.2 million (31 December 2015: £138.6 million, 31 December 2014: £96.0 million, 31 December 2013: £6.6 million) to extend credit to customers. These commitments, which represent loan facilities that have not yet been drawn by customers, have increased in line with the expansion of the Group's lending businesses.

The Group had the following commitments in respect of lease payments for non-cancellable operating leases:

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
	(£ million)			
Land and buildings	1.6	2.9	2.4	2.5
Other	0.6	0.8	0.5	0.6
	2.2	**3.7**	**2.9**	**3.1**

There are 5 leases classified as land and buildings in the Group at 30 June 2016. In the previous periods the Group also had commitments in respect of the leases of ELG branches. Other leases include motor vehicles and computer hardware.

At 30 June 2016, a commitment exists to make further payments with regard to the Financial Services Compensation Scheme Levy for 2016 and thereafter. Due to uncertainties regarding the elements in the calculation of the levy and the Group's share thereof, the directors consider this cost to be unquantifiable.

7. ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGEMENT AND DISCRETION

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are as follows:

Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment at least on a half-yearly basis. The Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and recent actual loss experience.

Where financial assets are individually evaluated for impairment, management uses their best estimates in calculating the net present value of future cash flows. Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral (where held), in determining the expected future cash flows.

In assessing collective impairment the Group uses historical trends of the 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 the actual losses are likely to be significantly different to historic trends.

Share Option Scheme valuations

In 2011 the Group established the Secure Trust Bank Share Option Scheme (the "**Share Option Scheme**") entitling three directors and certain senior employees to purchase shares in the Company. Approximately half of the share options were exercised in November 2014 (SOS1) with the remainder exercisable on 2 November 2016 (SOS2). This is an equity settled scheme, which was valued at the original grant date using Black-Scholes valuation models. Given the short period of time remaining until the vestment date, the probability of pay-out, which is contingent upon performance conditions being met, has been judged as 100 per cent. for SOS2. The Directors have also assumed no attrition rate for the remaining share options over the scheme period.

The remaining key judgement in respect of SOS2 is the estimation of the associated employer's NI liability, being 13.8 per cent. of the expected gain made by the option holders. This is dependent upon the Company's share price when the options are exercised.

On 16 March 2015, a four year "phantom" share option scheme was established in order to provide an effective long-term incentive to senior management of the Group. This is a cash settled scheme, with the award calculated based on the increase in the value of an ordinary share in the Company over an initial value set at £25. The valuation of this scheme was determined as at 31 December 2015 and at 30 June 2016 using Black-Scholes valuation models.

In the opinion of the Directors the terms of the scheme are such that there remain a number of key uncertainties to be considered when calculating the probability of pay-out.

Average life of lending

IAS 39 requires interest earned from lending to be measured under the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of these estimates 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.

Customer redress provisioning

The Group provides for its best estimate of redress payable in respect of historical product sales, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience. The likelihood of potential new claims is projected forward to 2019, as management believe this to be an appropriate time horizon, recognising the significant decline in recent claims experience and the increasing subjectivity beyond that. The accuracy of these estimates would be affected, were there to be a significant change in either the number of future claims or, the incidence of claims upheld by the Financial Ombudsman. The amounts are included within accruals. Further information on customer redress in provided in Part 14: "*Historical Financial Information*".

Accounting standards not yet effective

Note 1.2 to the Historical Financial Information, set out in Part 14: "*Historical Financial Information*", sets out the accounting policies of the Group, accounting standards which have been adopted over the period covered by this Operating and Financial Review, and standards which at 30 June 2016 had been issued but which were not yet effective and had not been adopted early. The only such standards considered to have a material impact on the Group are as follows:

- IFRS 16 'Leases' (effective from 1 January 2019) sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. The impact for the Group will be to bring the operating leases referred to in section 6.5 above onto the balance sheet.
- IFRS 9 'Financial instruments' (effective for annual periods beginning after 1 January 2018), which fundamentally changes the calculation and recognition of credit losses, by introducing the requirement to base impairment provisions on expected credit losses over the life of the financial asset. It also requires credit losses to be recognised for all loans, in contrast to the current standard (IAS 39) which requires recognition of losses only when there is evidence of impairment. The models used to calculate expected credit losses need to include forward looking factors including macro-economic variables. The Group has initiated a project to develop and implement the modelling, data, processes, systems and disclosures required to comply with IFRS 9.

8. **OTHER**

Market Risk

The Group is exposed to market risk, being the risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements. This is primarily limited to interest rate risk being the potential adverse impact on the Group's future cash flows from changes in interest rates arising from the differing interest rate risk characteristics of the Group's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows.

Market risk is managed by the Company's treasury function and is overseen by the ALCO. The Group's policy is not to take significant unmatched own account position in any market.

The Group monitors the interest rate mismatch on a daily basis, throughout the maturity bandings of the book on a parallel scenario for 50 and 200 basis points movements. The Group considers the 50 and 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. This typically results in a pre-tax mismatch of £1.0 million or less for the Group, with the same impact to equity pre-tax.

The key measure used to monitor interest rate risk is the Interest Rate Sensitivity Gap pursuant to which the Group seeks to "match" interest rate risk on either side of the Statement of Financial Position. The following tables summarise the re-pricing periods for the assets and liabilities of the Group, including derivative financial instruments which are principally used to hedge exposure to interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-price and the maturity date.

At 30 June 2016	**Within 3 months**	**More than 3 months but less than 6 months**	**More than 6 months but less than 1 year**	**More than 1 year but less than 5 years**	**More than 5 years**	**Non interest bearing**	**Total**
				(£ million)			
Assets:							
Cash and balances at central banks	141.8	—	—	—	—	—	141.8
Loans and advances to banks	19.1	—	—	—	—	—	19.1
Debt securities held to maturity	9.8	10.0	—	—	—	—	19.8
Loans and advances to customers	250.3	121.8	162.7	637.6	—	(44.1)	1,128.3
Other assets	—	—	—	—	—	36.3	36.3
	421.0	**131.8**	**162.7**	**637.6**	**—**	**(7.8)**	**1,345.3**
Liabilities and Equity:							
Due to banks	—	15.0	—	—	—	—	15.0
Deposits from customers	491.0	42.5	131.7	343.8	33.6	—	1,042.6
Other liabilities	—	—	—	—	—	59.3	59.3
Equity	—	—	—	—	—	228.4	228.4
	491.0	**57.5**	**131.7**	**343.8**	**33.6**	**287.7**	**1,345.3**
Interest rate sensitivity gap	(70.0)	74.3	31.0	293.8	(33.6)	(295.5)	
Cumulative gap	(70.0)	4.3	35.3	329.1	295.5	—	

As at 31 December 2015	**Within 3 months**	**More than 3 months but less than 6 months**	**More than 6 months but less than 1 year**	**More than 1 year but less than 5 years**	**More than 5 years**	**Non interest bearing**	**Total**
				(£ million)			
Assets:							
Cash and balances at central banks	131.8	—	—	—	—	—	131.8
Loans and advances to banks	9.8	—	—	—	—	—	9.8
Debt securities held to maturity	3.8	—	—	—	—	—	3.8
Loans and advances to customers	163.4	138.4	172.2	520.9	—	(34.3)	960.6
Other assets	—	—	—	—	—	22.9	22.9
Assets held for sale	118.5						118.5
	427.3	**138.4**	**172.2**	**520.9**	**—**	**(11.4)**	**1,247.4**
Liabilities and Equity:							
Due to banks	—	35.0	—	—	—	—	35.0
Deposits from customers	97.9	371.0	94.4	432.0	37.8	—	1,033.1
Other liabilities	—	—	—	—	—	29.4	29.4
Liabilities held for sale	8.7	—	—	—	—	—	8.7
Equity	—	—	—	—	—	141.2	141.2
	106.6	**406.0**	**94.4**	**432.0**	**37.8**	**170.6**	**1,247.4**
Interest rate sensitivity gap	320.7	(267.6)	77.8	88.9	(37.8)	(182.0)	
Cumulative gap	320.7	53.1	130.9	219.8	182.0	—	

As at 31 December 2014	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
				(£ million)			
Assets:							
Cash and balances at central banks	81.2	—	—	—	—	—	81.2
Loans and advances to banks	24.8	15.0	—	—	—	—	39.8
Debt securities held to maturity	16.3	—	—	—	—	—	16.3
Loans and advances to customers	102.1	69.9	114.2	366.8	0.2	(30.7)	622.5
Other assets	—	—	—	—	—	22.5	22.5
	224.4	**84.9**	**114.2**	**366.8**	**0.2**	**(8.2)**	**782.3**
Liabilities and Equity:							
Due to banks	15.9	—	—	—	—	—	15.9
Deposits from customers	248.9	18.2	37.3	236.5	29.7	37.8	608.4
Other liabilities	—	—	—	—	—	33.1	33.1
Equity	—	—	—	—	—	124.9	124.9
	264.8	**18.2**	**37.3**	**236.5**	**29.7**	**195.8**	**782.3**
Impact of derivative instruments	(20.0)	20.0	—	—	—	—	
Interest rate sensitivity gap	(60.4)	86.7	76.9	130.3	(29.5)	(204.0)	
Cumulative gap	(60.4)	26.3	103.2	233.5	204.0	—	

As at 31 December 2013	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
				(£ million)			
Assets:							
Loans and advances to banks	110.0	—	—	—	—	—	110.0
Loans and advances to customers	82.4	56.1	84.4	191.8	0.2	(23.9)	391.0
Other assets	—	—	—	—	—	24.9	24.9
	192.4	**56.1**	**84.4**	**191.8**	**0.2**	**1.0**	**525.9**
Liabilities and Equity:							
Due to banks	—	—	—	—	—	0.1	0.1
Deposits from customers	105.9	116.0	13.9	163.3	3.9	33.6	436.6
Other liabilities	—	—	—	—	—	27.6	27.6
Equity	—	—	—	—	—	61.6	61.6
	105.9	**116.0**	**13.9**	**163.3**	**3.9**	**122.9**	**525.9**
Impact of derivative instruments	(20.0)	—	—	20.0	—	—	
Interest rate sensitivity gap	66.5	(59.9)	70.5	48.5	(3.7)	(121.9)	
Cumulative gap	66.5	6.6	77.1	125.6	121.9	—	

The Group has no significant exposure to foreign currency risk, with only a small number of transactions completed in US Dollars and Euro. All such currency exposures are fully hedged using short terms swaps.

Part 12: "*Risk Management*" describes the principal risks inherent in the Group's business, being credit, market, liquidity, operational, capital, conduct and regulatory risks.

Related Party Transactions

Note 29 to the Historical Financial Information, set out in Part 14: "*Historical Financial Information*", discloses the transactions undertaken with related parties. These include key management personnel, their close family members and entities which are controlled, jointly controlled or significantly influenced by key management personnel or their close family members. Until 15 June 2016, Arbuthnot, being the Group's parent company, and Arbuthnot Latham & Co., Ltd, were also classed as related parties.

Related party transactions included banking transactions entered into in the normal course of business on normal commercial terms. This includes a loan of £0.4 million at 30 June 2016, which is part of a £2.5 million facility agreed by the Real Estate Finance business with a company in which a director holds 50 per cent. of the voting shares, which is secured by property and personal guarantees. Other banking transactions with Key Management Personnel were deposits from directors.

Details of Directors' remuneration are disclosed in Part 16: "*Additional Information*".

PART 12
RISK MANAGEMENT

1. Overview

A fundamental element of the Group's strategy is the effective management of risk in order to protect the Group's depositors, borrowers and shareholders, and to ensure that the Group maintains sufficient capital, liquidity and operational control at all times, and acts in a reputable way. This is reflected in the Group's strategy and values, in particular the "Sustain" strategy and "risk awareness" value, which demonstrate the Group's commitment to protect the reputation, integrity and sustainability of the Bank for all of its customers and stakeholders via prudent balance sheet management, investment for growth and robust risk and operational control.

The Group's Chief Risk Officer is responsible for leading the Group's Risk Function, which is independent from the Group's operational and commercial functions. The Risk Function is responsible for ensuring that appropriate risk management processes and controls are in place, and that they are sufficiently robust, so as to ensure that key risks are identified, assessed, monitored and mitigated. The Chief Risk Officer is responsible for providing assurance to the Board that the Group's principal risks are appropriately managed and that it is operating within its risk appetite.

The Group's risk management framework, policies and procedures are regularly reviewed and updated to ensure that they accurately identify the risks that the Group faces in its business activities and are appropriate for the nature, scale and complexity of the Group's business.

2. Risk appetite statement

The Group's risk appetite statement confirms the risk parameters within which the strategic aims and vision of the Group are to be achieved. The Board has identified risk themes, risk drivers and major risk categories relevant to the business to enable it to produce the following risk appetite statements which underpin the strategy of the Group:

Key themes	Risk appetite statement	Risk categories
Profitability	The Group is profit and growth orientated whilst seeking to maintain a conservative and controlled risk profile. The Group manages credit risk through a pricing for risk model, which drives a potential post tax return on equity in excess of 20 per cent. in aggregate.	Market risk Credit risk
Financial strength	The Group's financial strength is safeguarded by a strong capital base and a prudent approach to liquidity management. The Group's governance and capital planning processes and procedures are designed to ensure that capital levels will not fall below the Group's individual capital guidance requirements. Liquidity is maintained at a level above the overall liquidity adequacy requirement with the majority of loans funded typically by retail deposits.	Credit risk Liquidity risk
Conduct with customers and reputation	The Group conducts its business in a way that seeks to avoids negative outcomes for customers by consistently treating them fairly. The Group is straightforward and fair with its customers and seeks to achieve excellent customer service standards. The Group's aim is to be seen as a sound and professional business in the marketplace. It has no appetite for reputational risk arising from the way in which it or its partners behave. It seeks to remain fully compliant with all relevant regulatory requirements.	Conduct risk Reputational risk
Business processes and people	The appetite of the Group for operational risk is to have well defined, scalable and controlled processes, running on robust and resilient systems, effective delivery of change and business continuity management. It does not tolerate operational losses above its pillar 1 capital requirement.	Operational risk Regulatory risk

The Group's risk appetite statements are subject to regular monitoring and review.

3. Risk management framework

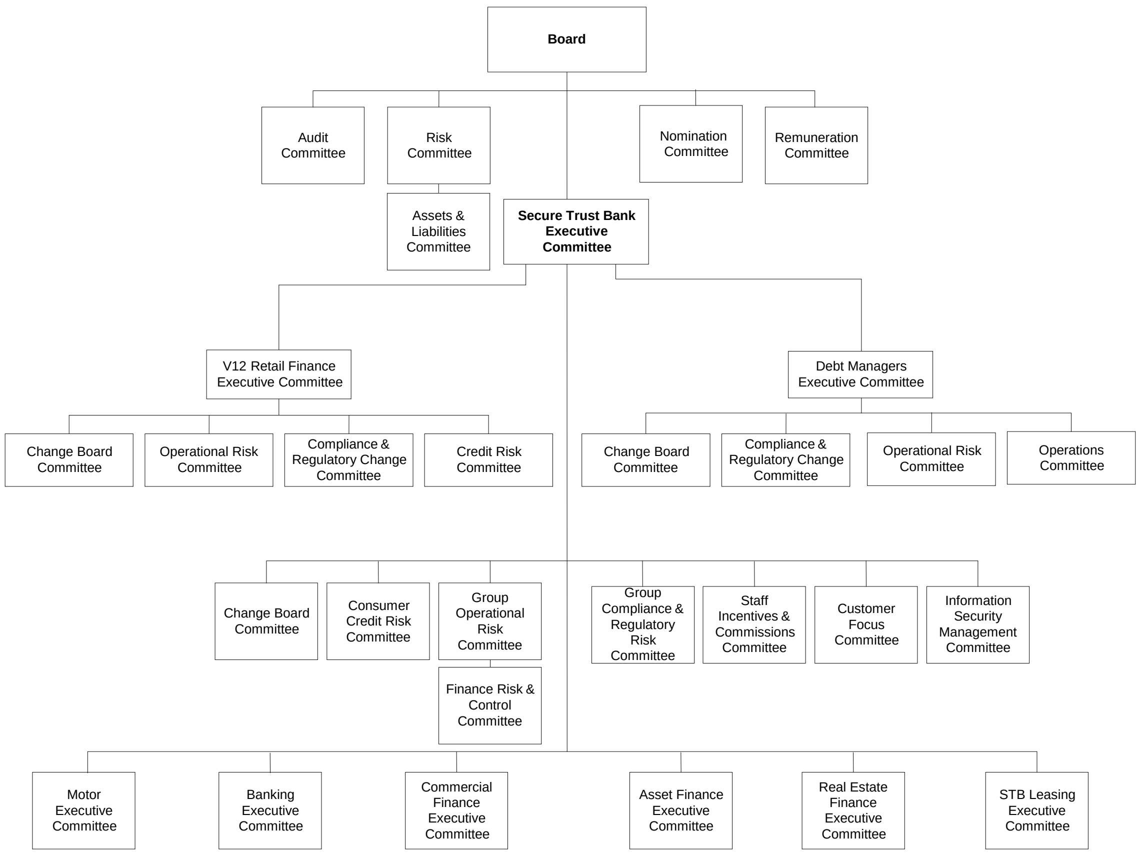
The Group's risk management framework supports decision-making across the Group and is designed to ensure that each risk is managed, monitored and overseen through a dedicated risk-specific committee. The Group operates a

"Three Lines of Defence" model for the management of its risks in which each risk has a defined risk appetite which is controlled and managed through documented policies and frequent reporting, and is overseen by one or more committees as part of the Group's governance process.

The Group's risk management framework is summarised in the table below, which sets out for each risk the relevant policy governing the risk, the method of reporting and the responsible committee(s).

Risk	Credit	Market	Liquidity	Operational	Capital	Conduct	Regulatory
Key control documents	Consumer Credit Risk Policy Business & Commercial Credit Risk Policy	Treasury Policy	Treasury Policy	Operational Risk Policy and Framework	ICAAP	Conduct Risk Policy	Compliance Manual
Reporting	Credit Risk reports	ALCO & Treasury Reports	ALCO & Treasury Reports	Operational Risk MI and Reporting	ICAAP reports	Conduct Risk MI and Reporting	Compliance reports
Monitoring committee	Consumer Credit Risk Committee SME Credit Committee	Assets and Liabilities Committee	Assets and Liabilities Committee	Group and Business Level Operational Risk Committees	Assets and Liabilities Committee and Finance Risk Committee	Customer Focus Committee	Group Compliance and Regulatory Risk Committee
Oversight committee	Risk Committee	Assets and Liabilities Committee	Assets and Liabilities Committee	Risk Committee	Assets and Liabilities Committee and Risk Committee	Risk Committee	Risk Committee

The Group's governance framework is outlined below:



4. **Risk governance**

The "Three Lines of Defence" model is implemented by the following individuals and/or units within the Group. These are:

(1) the Business Line Managers and Risk Owners;

(2) the Risk and Compliance Functions; and

(3) Internal Audit.

Each line of defence effectively ensures a robust operational risk framework within the Group. The Group ensures that each line understands its respective responsibilities and those of the other lines, and has the appropriate resource and expertise in order to fulfil its responsibilities.

First Line of Defence—Business Line Managers and Risk Owners

As the First Line of Defence, the management and staff of each business unit are responsible and accountable for identifying, assessing, controlling and mitigating operational risks. They are the owners of the risks and controls that operate within their business. However there may be additional controls that are managed for them elsewhere within the business or functional teams.

Each business unit or subsidiary is responsible for the recording and maintenance of its own risks, and is subject to an annual review and challenge, presented to the Group Operational Risk Committee and the Board Risk Committee. Risks may be managed by a designated manager, but the risk owner is ultimately accountable for the risks in their business.

Second Line of Defence—Information Security, Operational Risk, Financial Crime and Compliance Teams

The role of the Second Line of Defence is to support and guide the Group in order to operate within the risk appetite, by assisting the business in assessing and controlling operational risks, and by reporting to the Board and group risk committees on the effectiveness of the controls.

The Second Line of Defence enables the Group to adopt a common strategy and approach to operational risk management. It sets Group-wide policies and designs an operational risk management framework that helps businesses to control risks and that provides consistent insight into the risk profile.

Third Line of Defence—Group Internal Audit

Group Internal Audit periodically gives independent assurance on the organisational setup and effectiveness of operational risk management within the Group. The Third Line of Defence acts as an additional control to prevent risks from remaining unidentified.

Internal Audit provides the Audit Committee, the Board and Senior Managers with detailed independent and objective assurance on the effectiveness of the governance, operational risk management, and internal controls. This includes the manner in which the First and Second Lines of Defence achieve risk management and control objectives.

The scope of this assurance covers a broad range of objectives, including:

- efficiency and effectiveness of operations
- safeguarding of assets
- reliability and integrity of reporting processes
- compliance with laws, regulations, policies, procedures, and contracts.

All elements of the risk management and internal control framework are considered to be within its scope including the internal control environment and the overall risk management framework. The remit extends to a number of areas: group-wide processes; subsidiaries; business units and enabling functions, business processes including customer lifecycle, sales, marketing and operations, and enabling functions such as finance, HR, operational risk, compliance and IT.

5. **Risk management governance structure**

The monitoring and control of risk is a fundamental part of the management process within the Group.

5.1 The Board and its Committees

The Board

The Board meets regularly throughout the year and substantive agenda items have briefing papers which are circulated in a timely manner before each meeting. The Board will ensure that it is satisfied that it is supplied with all the information that it requires and requests in a form and quality to enable it to fulfil its duties. In addition to ongoing matters concerning the strategy and management of the Group, the Board has determined certain items which are reserved for decision by itself. These matters include the acquisition and disposal of other than minor businesses, the issue of capital by any Group company and any transaction by a subsidiary company that cannot be made without its own resources or that is not in the normal course of its business.

Board Committees

The Board has delegated certain responsibilities to its Audit, Risk, Nomination and Remuneration Committees. The Group's board committees are summarised in paragraph 4 of Part 8: "*Directors, Senior Management and Corporate Governance*".

Assets and Liabilities Committee

The Assets and Liabilities Committee is a sub-committee of the Risk Committee and is responsible for implementing and controlling the liquidity and asset and liability management risk appetite of the Group, ensuring the high level control over the Group's balance sheet and associated risks. The committee sets and controls capital deployment, Treasury strategy guidelines and limits focusing on the effects of the future plans and strategy on the Group's assets and liabilities.

5.2 The Executive Committee and its sub-committees

Executive Committee

This committee provides an executive oversight of the on-going safe and profitable operation of the Group. It reports to the Board through the Chief Executive Officer and the Chief Financial Officer. It is also responsible for the execution of the strategy of the Group at the direction of the Chief Executive Officer and the Chief Financial Officer.

Change Board Committee

This committee reviews the current change agenda, reviews, approves or rejects all major change projects, reviews on-going projects, agrees priority projects, reviews post implementation output and reviews change initiative benefit realisation.

Consumer Credit Risk Committee

This committee ensures that there is control of credit and lending decisions and related risks. Retail, Motor and Personal Lending loans are reviewed in alternate months to ensure a detailed analysis is undertaken of the entire portfolio. This committee determines whether the credit strategies and risk polices are working and will make recommendations on any changes required.

SME Credit Committees

The Group operates a Credit Committee structure for its SME business with lending authorities approved at the Board Risk Committee. There is no local sales authority with all deals going via the respective Credit Risk functions for manual underwrite and where required under the mandate approval at the STB Credit Committee level.

Group Operational Risk Committee

This committee reviews and monitors the adequacy, the implementation and the level of embeddedness of the operational risk management framework across the Group. It recommends and undertakes improvements where required. The committee assesses the operational risks across the Group and recommends, initiates and monitors any further mitigating action is required.

Group Compliance and Regulatory Risk Committee

This committee reviews and monitors regulatory change with which the Group is required to comply and it provides oversight that appropriate co-ordinated and controlled action is taken to deliver the required changes to an acceptable standard, which achieves compliance in a timely manner. This committee also reviews and approves the compliance risk management framework, the compliance universe and annual monitoring plan, anti-money laundering and financial crime systems of governance and control. It ensures that the Compliance function offers close and continual support to the first line of defence in understanding regulatory requirements and delivery required outcomes.

Staff Incentives and Commissions Review Committee

This committee approves and has oversight of the Groups staff incentives, commission and bonus schemes.

Customer Focus Committee

This committee reviews and challenges customer experience ensuring its treating customers fairly principles, conduct risk, and customer service excellence requirements are met and good customer outcomes are achieved.

Information Security Management Committee

This committee manages the personal information of its customers.

5.3 **Principal Risks**

The principal risks inherent in the Group's business are credit, market, liquidity, operational, capital, conduct and regulatory risks.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Counterparties include the consumers to whom the Group lends unsecured and the SMEs to whom the Group lends secured as well as the market counterparties with whom the Group deals. Credit risk is managed through the Group's internal controls and credit risk policies and is monitored on a monthly basis by the Credit Risk Committee, with oversight provided by the Board Risk Committee. The Credit Risk Committee reviews the performance of significant portfolios including new business volumes, collections performance, provisioning levels and provisioning methodology across the Group's consumer and commercial business areas.

(a) *Concentration risk*

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the well diversified nature of the Group's lending operations, the directors do not consider there to be a material exposure arising from concentration risk. The increase in lending balances and loan commitments in the London region is principally due to the increase in Real Estate Finance activities during the period.

(b) *Forbearance*

The Group does not reschedule contractual arrangements where customers default on their repayments. Under its Collections and Revenues policies, the Group sets out its approach to treating customers in arrears fairly. It may offer the customer the option to reduce or defer payments for a short period. If the request is granted, the account continues to be monitored in accordance with the Group's impairment provisioning policy. Such debts retain the customer's normal contractual payment due dates and will be treated the same as any other defaulting cases for impairment purposes. Arrears tracking will continue on the account with any impairment charge being based on the original contractual due dates for all products.

Mitigation

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits on the level of credit risk are approved periodically by the Board and actual exposures against limits monitored daily.

Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy could result in losses that are different from those provided for at the statement of financial position date. Management therefore carefully manages its exposure to credit risk as it considers this to be the most significant risk to the business.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral. The assets undergo a scoring process to mitigate risk and are monitored by the Board.

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

Motor Finance loans are secured against motor vehicles. The new SME lending products, Real Estate Finance and Asset Finance loans, are secured against property and tangible assets respectively.

Consumer Credit Risk

In 2015, the Group commissioned a risk consultancy to review its near prime Motor Finance credit risk management. This work will result in improvements to the existing risk based pricing.

The Group has also developed its methodology for its unsecured personal loan businesses. These changes are expected to deliver more accurate credit risk assessment and improved risk based pricing, while maintaining credit quality.

Retail Finance has seen considerable growth from both existing retailers and new additions to the retail panel. The addition of new retailers, coupled with significant growth from existing introducers and buoyant consumer confidence resulted in significant year on year growth. This growth has been managed through the existing scorecard and rule set without compromising credit quality. The performance of all the consumer portfolios continue to be monitored closely through monthly Credit Committee governance meetings which review scorecard and rule performance and new application quality and delinquency trends.

Commercial Credit Risk

The growth in lending to the SME sector has been built around strong risk management practices. The Group has employed experienced bankers who have operated through both positive and challenging economic cycles, and have brought their experience to bear alongside the application of robust risk governance, credit appetite and lending policies.

For Real Estate Finance and Commercial Finance, lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in the lending policies. Asset Finance lending is outsourced to Haydock, who operate in line with the Group's credit policies and risk appetite. The Group's employees based in Haydock's premises assess this lending for compliance with policy. A programme to develop probability of default modelling for each of the SME businesses commenced in 2015 and is expected to be delivered in the second half of 2016.

With the SME businesses in the early stage of their growth, impairments and arrears have been minimal to date. Management continue to closely monitor the SME portfolios and the external events and environment that could impact on each of them.

Market risk

Market risk is the risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements. For the Group, market risk is primarily limited to interest rate risk, being the potential adverse impact on the Group's future cash flows from changes in interest rates arising from the differing interest rate risk characteristics of the Group's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows.

The Group is also exposed to market risk as a result of the NSF Shareholding resulting from the ELG disposal. Any deterioration in NSF's financial performance could negatively impact the price of NSF's shares and reduce the value of the Group's holding in NSF exposing the Group to potential losses.

The principal currency in which the Group operates is Sterling, although a small number of transactions are completed in US dollars and Euro in the Commercial Finance business. The Group has no significant exposures to foreign currencies and therefore there is no significant currency risk.

Mitigation

Market risk is managed by the Company's Treasury function and is overseen by the Board ALCO. The Group's policy is not to take significant unmatched own account position in any market. The key measure used to monitor the risk is the Interest Rate Sensitivity Gap pursuant to which, the Group seeks to 'match' interest rate risk on either side of the Statement of Financial Position. However, this is not a perfect match and interest rate risk is present on money market deposits of a fixed rate nature, fixed rate loans and fixed rate savings products. The Group monitors the interest rate mismatch on a daily basis in conjunction with liquidity and capital.

The interest rate mismatch is monitored, throughout the maturity bandings of the book on a parallel scenario for 50 and 200 basis points movements. The Group considers the 50 and 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. This typically results in a pre-tax mismatch of £1.0 million or less for the Group, with the same impact to equity pre-tax.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England reserve account to cover any short-term fluctuations and, longer term funding to address any structural liquidity requirements.

Mitigation

The Group has a formal governance structure in place to manage and mitigate liquidity risk on a day to day basis. The Board sets and approves the Group's liquidity risk management strategy. The ALCO, comprising senior executives of the Group, monitors liquidity risk. Key liquidity risk management information is reported by the Treasury function and monitored by the chief executive officer and chief financial officer on a daily basis. This committee meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and ILAAP metrics.

The Group is funded by capital and customer deposits, comprising deposit accounts and fee-based accounts. The Group has limited borrowings under the FLS, but besides these, it has no exposure to wholesale markets. During the year ended 31 December 2015, the Group issued over £172 million of fixed rate deposit bonds to customers over terms ranging from one to seven years. These were issued to broadly match the term lending by the Group.

The PRA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. government securities in the liquidity asset buffer), and it maintains a prudent funding profile. The liquidity assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

The primary measures used by management to assess the adequacy of liquidity are the Overall Liquidity Adequacy Requirement ("**OLAR**"), which is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP. The Group maintained liquidity in excess of the OLAR through the year ended 31 December 2015.

The Group has a Board approved ILAAP. The liquidity buffer required by the ILAAP has been put in place and maintained since that time. Liquidity resources outside of the buffer are made up of deposits placed at the Bank of England. The ILAAP is updated annually.

The LCR regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of high quality liquid assets. The Group has set a more prudent internal limit than that proposed in guidance from the regulator. The actual LCR has significantly exceeded both limits throughout the year ended 31 December 2015.

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered to be loans and advances to banks and cash and balances at central banks. For the six months ended 30 June 2016 this ratio was 15.4 per cent. (2015: 13.7 per cent.).

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified above. Operational risks arise from all of the Group's operations and include fraud, human error, failure to document transactions properly or to obtain proper authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, failure of the Company's disaster recovery contingency plans, or the failure of external systems, including those of suppliers or counterparties. Businesses in the financial services sector are also dependent on a number of procedures operating as intended, including credit underwriting systems and controls, collections procedures and recovery procedures.

Mitigation

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group's policy requires compliance with all applicable legal and regulatory requirements.

The Group has adopted an operational risk framework as contemplated by the "Principles for the Sound Management of Operational Risk" issued by the Basel Committee on Banking Supervision and has a system of internal controls which are used to mitigate against operational risk. These include holding regular Board meetings and reserving certain decisions, such as material acquisitions and disposals, to the Board. An operational risk department within the Group also supports and provides assurance to the business in recognising, assessing and managing risk. Compliance with Group standards is supported by a programme of periodic reviews undertaken by an internal audit function. The results of the internal audit reviews are discussed with the Group's Senior Managers with summaries submitted to the Group's Audit Committee.

In 2015, the Group invested in resource, expertise and systems to support the development of its operational risk capabilities. A formal Operational Risk Management System was introduced along with an enhanced Operational Risk Framework covering all the key principles for the sound management of Operational Risk as defined by the Basel Committee. In the year ended 31 December 2015, the Group focussed on a number of areas including:

- developing and clearly defining the governance structure and procedures over how key business decisions are made and operational risks are managed, controlled and escalated within the business;
- developing systems and controls over the management of third party suppliers and how the services supported by them are maintained, secured and improved;
- enhancing IT systems so that they are resilient in order to continue to provide the service expectations of customers;
- developing more robust Business Continuity Plans so that they are responsive to a range of potential internal and external issues the Group could face; and
- continuing to improve its defences against cyber risk through the use of enhanced monitoring and response tools and procedures.

Capital risk

Capital risk is the risk that the Group will have insufficient capital resources to support the business. The Group adopts a conservative approach to managing its capital and at least annually assesses the robustness of the capital requirements as part of the Group's ICAAP.

Mitigation

The Group's capital management policy is focused on optimising shareholder value, in a safe and sustainable manner. There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth. The Board regularly reviews the capital position.

In accordance with the EU's CRD IV and the required parameters set out in the EU's CRR, the Group's ICAAP is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequately to cover management's anticipated risks. Where it is considered that the Pillar 1 calculations do not reflect the risk, an additional capital add-on in Pillar 2 should be applied, as per the ICG issued by the PRA.

Stringent stress tests are performed to ensure that capital resources are adequate over a future three year horizon. At 30 June 2016, the CET1 Ratio was 20.1 per cent. (2015: 13.6 per cent.) and the Leverage Ratio was 15.8 per cent. (2015: 10.4 per cent.) on a solo-consolidated basis.

Both ratios are significantly higher than regulatory requirements. The decreases in the ratios are driven by the growth in assets, and therefore total risk exposure, over the year. The solo-consolidated capital resources increased significantly to £222.6 million as at 30 June 2016 (31 December 2015: £138.9 million) reflecting the gain on the sale of ELG following transaction completion in April 2016.

Further details of the Group's capital position are included in Part 11: "*Operating and Financial Review*".

Conduct risk

Conduct risk reflects the potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff. The Group defines conduct risk as the risk that the Group's products and services, and the way they are delivered, result in poor outcomes for customers, or harm to the Group. This could be as a direct result of poor or inappropriate execution of the Group's business activities or staff behaviour.

Mitigation

The Group takes a principles based approach and includes retail and commercial customers in its definition of ‘customer', which covers all business units and both regulated and unregulated activities.

In 2015, management embedded a Conduct Risk Management Framework, initially focused on providing training and awareness on the Conduct Risk Policy, completing conduct risk and control assessments to identify risks and mitigants, and enhancing and developing its key risk indicators (KRIs). Each product stream has established the governance and oversight protocols to ensure visibility of its KRIs and relevant action tracking for any issues identified. Across the Group, conduct risk exposure is managed via monthly review and challenge of KRIs at the Customer Focus Committee, which oversees complaints, FEEFO and Customer Service Excellence (CSE) as well as conduct risk.

Conduct risk management information is also reviewed at Executive Committee meetings at product level.

The KRIs vary across the business units to reflect the relevant conduct risks; the business units' KRIs are aggregated for measurement against the Group's risk appetite, which is reported to the Group Executive Committee and the Board.

Regulatory Risk

Regulatory risk is the risk that the Group fails to be compliant with all relevant regulatory requirements. This could occur if the Group failed to interpret, implement and embed processes and systems to address regulatory requirements, emerging risks, key focus areas and initiatives or deal properly with new laws and regulations.

Mitigation

The Group seeks to manage regulatory risks through the following elements of the Group wide risk management framework:

- policies and procedures, first line of defence monitoring and assurance;
- horizon scanning to identify regulatory developments, which are managed through impact assessment and implementation programmes;
- governance and control processes for new products and services;
- advice and guidance on the application and interpretation of laws and regulations applicable to the Group's products, new initiatives and projects;
- risk based compliance monitoring programmes focused on outcomes testing to ensure the Group remains compliant with regulatory requirements;
- the regulatory training programme including mandatory monthly eLearning for all employees;
- incentives and remuneration practices aligned to culture, conduct risk and delivering good customer outcomes; and

- regular reporting to the Executive Committee and the Board.

In the year ended 31 December 2015, the Group focussed on a number of areas including:

- vulnerable customers and complaints handling;
- horizon scanning to identify regulatory developments which are managed through impact assessment and implementation programmes;
- liaison with regulatory bodies regarding authorisations and permissions for consumer credit;
- information requests and reporting requirements; and
- Consumer Rights Act implementation.

PART 13
CAPITALISATION AND INDEBTEDNESS STATEMENT

Capitalisation

The following table sets out the Group's capitalisation as at 30 June 2016. The capitalisation of the Group has been extracted without material adjustment from the historical financial information in Part 14: "*Historical Financial Information*".

	As at 30 June 2016
	(£ million)
Shareholders' equity:	
Share capital	7.3
Share premium account	79.3
Retained earnings[(1)]	143.7
Other reserves	(1.9)
Total	**221.9**

(1) Retained earnings include net cumulative profits of non-solo consolidated entities and uncertified profits, which are not included in the Group's regulatory capital resources, on a solo consolidated basis, as at 30 June 2016.

There has been no material change to the Group's capitalisation since 30 June 2016, other than the declaration of a special dividend of 165 pence per share, totalling £30 million, paid on 27 July 2016 and the declaration of an interim dividend of 17 pence per share, totalling £3.1 million, paid on 23 September 2016.

Indebtedness

The following table sets out the Group's indebtedness as at 31 August 2016, which has been extracted from the Group's accounting records and is unaudited.

Indebtedness[(1)]	**As at 31 August 2016**
	(£ million)
Due to banks[(2)]	30.0
Subordinated debt	—
Total indebtedness	**30.0**

(1) Customer deposits are not classified as indebtedness as the taking of deposits is part of the core business of the Group.

(2) Amounts due to banks represent monies arising from the sale and repurchase of drawings under the FLS.

Indirect and contingent indebtedness	**As at 31 August 2016**
	(£ million)
Guarantees and assets pledged as collateral security:	
Securities pledged in the FLS[(1)]	46.0
Other contingent liabilities	—
Total indirect and contingent liabilities	**46.0**

(1) UK Treasury Bills drawn under the FLS and pledged as part of a sale and repurchase agreement with an original maturity period of six months. Of these, £16.0 million remained unencumbered at 31 August 2016.

PART 14
HISTORICAL FINANCIAL INFORMATION

(A) ACCOUNTANTS' REPORT

KPMG

KPMG LLP
Transaction Services
15 Canada Square
London E14 5GL
United Kingdom

The Directors
Secure Trust Bank PLC
One Arleston Way
Shirley
Solihull
West Midlands
B90 4LH

7 October 2016

Gentlemen

Secure Trust Bank PLC

We report on the financial information set out on pages 127 to 179 for the three years ended 31 December 2013, 31 December 2014 and 31 December 2015 and six months ended 30 June 2016. This financial information has been prepared for inclusion in the prospectus dated 7 October 2016 of Secure Trust Bank PLC on the basis of the accounting policies set out in paragraph 1. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose. We have not audited or reviewed the financial information for the six months ended on 30 June 2015 which has been included for comparative purposes only, and accordingly do not express an opinion thereon.

Responsibilities

The Directors of Secure Trust Bank PLC are responsible for preparing the financial information on the basis of preparation set out in note 1.2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the prospectus dated 7 October 2016, a true and fair view of the state of affairs of Secure Trust Bank PLC as at 31 December 2013, 31 December 2014 and 31 December 2015 and 30 June 2016 and of its consolidated profits and losses, statements of cash flows and consolidated changes in equity for the three years ended 31 December 2013, 31 December 2014 and 31 December

2015 and six months ended 30 June 2016 in accordance with the basis of preparation set out in note 1.2 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1.2.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

(B) CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

Consolidated statement of comprehensive income

		Six months ended 30 June 2016			Six months ended 30 June 2015			Year ended 31 December 2015			Year ended 31 December 2014			Year ended 31 December 2013		
	Note	Continuing	Discontinued	Total	Continuing	Discontinued	Total	Continuing	Discontinued	Total	Continuing	Discontinued	Total	Continuing	Discontinued	Total
						(unaudited)										
								(£ million)								
Interest receivable and similar income		62.7	11.1	73.8	45.7	18.5	64.2	100.5	39.2	139.7	63.4	30.2	93.6	51.6	22.2	73.8
Interest expense and similar charges		(13.2)	—	(13.2)	(9.8)	—	(9.8)	(21.6)	—	(21.6)	(14.2)	—	(14.2)	(12.9)	—	(12.9)
Net interest income	**7**	**49.5**	**11.1**	**60.6**	**35.9**	**18.5**	**54.4**	**78.9**	**39.2**	**118.1**	**49.2**	**30.2**	**79.4**	**38.7**	**22.2**	**60.9**
Fee and commission income		8.7	0.1	8.8	8.3	1.1	9.4	16.9	1.5	18.4	16.1	4.1	20.2	17.0	5.7	22.7
Fee and commission expense		(0.9)	(0.1)	(1.0)	(1.4)	(0.2)	(1.6)	(3.7)	(0.3)	(4.0)	(1.6)	(0.1)	(1.7)	(2.8)	(1.8)	(4.6)
Net fee and commission income		**7.8**	**—**	**7.8**	**6.9**	**0.9**	**7.8**	**13.2**	**1.2**	**14.4**	**14.5**	**4.0**	**18.5**	**14.2**	**3.9**	**18.1**
Operating income		**57.3**	**11.1**	**68.4**	**42.8**	**19.4**	**62.2**	**92.1**	**40.4**	**132.5**	**63.7**	**34.2**	**97.9**	**52.9**	**26.1**	**79.0**
Net impairment losses on loans and advances to customers		(13.3)	(2.6)	(15.9)	(8.0)	(3.2)	(11.2)	(16.8)	(7.5)	(24.3)	(8.7)	(6.6)	(15.3)	(9.6)	(6.0)	(15.6)
Gain from a bargain purchase		—	—	—	—	—	—	—	—	—	—	—	—	0.4	—	0.4
Costs arising from acquisition		—	—	—	—	—	—	—	—	—	—	—	—	(0.9)	—	(0.9)
Operating expenses	8	(31.5)	(6.0)	(37.5)	(24.4)	(10.6)	(35.0)	(50.5)	(21.2)	(71.7)	(37.5)	(19.0)	(56.5)	(29.7)	(16.1)	(45.8)
Profit before income tax		**12.5**	**2.5**	**15.0**	**10.4**	**5.6**	**16.0**	**24.8**	**11.7**	**36.5**	**17.5**	**8.6**	**26.1**	**13.1**	**4.0**	**17.1**
Income tax expense	10	(2.2)	(0.5)	(2.7)	(2.0)	(1.1)	(3.1)	(5.5)	(2.3)	(7.8)	(3.6)	(2.0)	(5.6)	(2.9)	(1.9)	(4.8)
Profit after income tax		**10.3**	**2.0**	**12.3**	**8.4**	**4.5**	**12.9**	**19.3**	**9.4**	**28.7**	**13.9**	**6.6**	**20.5**	**10.2**	**2.1**	**12.3**
Gain recognised on disposal	33	—	116.8	116.8										—	—	—
Profit for the period		**10.3**	**118.8**	**129.1**	**8.4**	**4.5**	**12.9**	**19.3**	**9.4**	**28.7**	**13.9**	**6.6**	**20.5**	**10.2**	**2.1**	**12.3**
Other comprehensive income, net of income tax:																
Available-for-sale reserve—Net amount transferred to profit or loss		(2.1)	—	(2.1)	—	—	—	—	—	—	—	—	—	—	—	—
Cash flow hedging reserve—Net amount transferred to profit or loss		—	—	—	—	—	—	—	—	—	0.4	—	0.4	—	—	—
Other comprehensive income for the period, net of income tax		**(2.1)**	**—**	**(2.1)**	**—**	**—**	**—**	**—**	**—**	**—**	**0.4**	**—**	**0.4**	**—**	**—**	**—**
Total comprehensive income for the period		**8.2**	**118.8**	**127.0**	**8.4**	**4.5**	**12.9**	**19.3**	**9.4**	**28.7**	**14.3**	**6.6**	**20.9**	**10.2**	**2.1**	**12.3**
Profit attributable to:																
Equity holders of the Company		**10.3**	**118.8**	**129.1**	**8.4**	**4.5**	**12.9**	**19.3**	**9.4**	**28.7**	**13.9**	**6.6**	**20.5**	**10.2**	**2.1**	**12.3**
Total comprehensive income attributable to:																
Equity holders of the Company		**8.2**	**118.8**	**127.0**	**8.4**	**4.5**	**12.9**	**19.3**	**9.4**	**28.7**	**14.3**	**6.6**	**20.9**	**10.2**	**2.1**	**12.3**
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in pence per share):																
Basic earnings per share	11	57.0	652.9	709.9	46.3	24.5	70.8	106.1	51.7	157.8	82.8	39.5	122.3	64.9	13.4	78.3
Diluted earnings per share	11	55.9	640.8	696.7	45.5	24.0	69.5	104.1	50.7	154.8	81.2	38.7	119.9	63.6	13.1	76.7

Consolidated statement of financial position

	Note	30 June 2016	31 December 2015	2014	2013
			(£ million)		
ASSETS					
Cash and balances at central banks		141.8	131.8	81.2	—
Loans and advances to banks	12	19.1	9.8	39.8	110.0
Loans and advances to customers	13	1,128.3	960.6	622.5	391.0
Debt securities held-to-maturity	15	19.8	3.8	16.3	—
Equity instruments available-for-sale	17	13.7	—	—	—
Property, plant and equipment	18	8.5	8.5	8.1	5.0
Intangible assets	16	7.0	7.0	8.2	9.9
Deferred tax assets	24	0.9	0.3	1.0	1.9
Other assets	20	6.2	7.1	5.2	8.1
Assets held for sale	33	—	118.5	—	—
Total assets		**1,345.3**	**1,247.4**	**782.3**	**525.9**
LIABILITIES AND EQUITY					
Liabilities					
Due to banks	21	15.0	35.0	15.9	0.1
Deposits from customers	22	1,042.6	1,033.1	608.4	436.6
Current tax liabilities		0.2	3.2	3.6	1.4
Deferred tax liabilities	24	—	—	—	0.4
Dividend payable		30.0	—	—	—
Other liabilities	23	29.1	26.2	29.5	25.8
Liabilities held for sale	33	—	8.7	—	—
Total liabilities		**1,116.9**	**1,106.2**	**657.4**	**464.3**
Equity attributable to owners of the parent					
Share capital	26	7.3	7.3	7.3	6.3
Share premium		79.3	79.3	79.3	28.2
Retained earnings		143.7	54.4	38.1	27.3
Available-for-sale reserve		(2.1)	—	—	—
Cash flow hedging reserve		—	—	—	(0.4)
Revaluation reserve		0.2	0.2	0.2	0.2
Total equity		**228.4**	**141.2**	**124.9**	**61.6**
Total liabilities and equity		**1,345.3**	**1,247.4**	**782.3**	**525.9**

Consolidated statement of changes in equity

	Share capital	Share premium	Revaluation reserve	Cash flow hedging reserve	Available-for-sale reserve	Retained earnings	Total
				(£ million)			
Balance at 1 January 2013	**6.3**	**28.2**	**0.1**	**(0.4)**	**—**	**21.7**	**55.9**
Total comprehensive income for the period							
Profit for 2013	—	—	—	—	—	12.3	12.3
Other comprehensive income, net of income tax							
Revaluation reserve							
- Difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost	—	—	0.1	—	—	(0.1)	—
Total other comprehensive income	**—**	**—**	**0.1**	**—**	**—**	**(0.1)**	**—**
Total comprehensive income for the period	**—**	**—**	**0.1**	**—**	**—**	**12.2**	**12.3**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
2012 final dividend (43 pence per share)	—	—	—	—	—	(6.7)	(6.7)
2013 interim dividend (15 pence per share)	—	—	—	—	—	(2.4)	(2.4)
Charge for share based payments	—	—	—	—	—	2.5	2.5
Total contributions by and distributions to owners	**—**	**—**	**—**	**—**	**—**	**(6.6)**	**(6.6)**
Balance at 31 December 2013	**6.3**	**28.2**	**0.2**	**(0.4)**	**—**	**27.3**	**61.6**
Total comprehensive income for the period							
Profit for 2014	—	—	—	—	—	20.5	20.5
Other comprehensive income, net of income tax							
Cash flow hedging reserve							
- Net amount transferred to profit and loss	—	—	—	0.4	—	—	0.4
Total other comprehensive income	**—**	**—**	**—**	**0.4**	**—**	**—**	**0.4**
Total comprehensive income for the period	**—**	**—**	**—**	**0.4**	**—**	**20.5**	**20.9**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
2013 final dividend (47 pence per share)	—	—	—	—	—	(7.3)	(7.3)
2014 interim dividend (16 pence per share)	—	—	—	—	—	(2.9)	(2.9)
Charge for share based payments	—	—	—	—	—	0.5	0.5
Issue of ordinary shares	1.0	52.3	—	—	—	—	53.3
Transaction costs on issue of shares	—	(1.2)	—	—	—	—	(1.2)
Total contributions by and distributions to owners	**1.0**	**51.1**	**—**	**—**	**—**	**(9.7)**	**42.4**
Balance at 31 December 2014	**7.3**	**79.3**	**0.2**	**—**	**—**	**38.1**	**124.9**
Balance at 1 January 2015 *(unaudited)*	**7.3**	**79.3**	**0.2**	**—**	**—**	**38.1**	**124.9**
Total comprehensive income for the period							
Profit for the six months ended 30 June 2015 *(unaudited)*	—	—	—	—	—	12.9	12.9
Total comprehensive income for the period *(unaudited)*	**—**	**—**	**—**	**—**	**—**	**12.9**	**12.9**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
2014 final dividend (52 pence per share)	—	—	—	—	—	(9.5)	(9.5)
Charge for share based payments	—	—	—	—	—	0.1	0.1
Total contributions by and distributions to owners	**—**	**—**	**—**	**—**	**—**	**(9.4)**	**(9.4)**
Balance at 30 June 2015 *(unaudited)*	**7.3**	**79.3**	**0.2**	**—**	**—**	**41.6**	**128.4**
Balance at 1 January 2015	**7.3**	**79.3**	**0.2**	**—**	**—**	**38.1**	**124.9**
Total comprehensive income for the period							
Profit for 2015	—	—	—	—	—	28.7	28.7
Total comprehensive income for the period						**28.7**	**28.7**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
2014 final dividend (52 pence per share)	—	—	—	—	—	(9.5)	(9.5)
2014 interim dividend (17 pence per share)						(3.1)	(3.1)
Charge for share based payments	—	—	—	—	—	0.2	0.2
Total contributions by and distributions to owners	**—**	**—**	**—**	**—**	**—**	**(12.4)**	**(12.4)**
Balance at 31 December 2015	**7.3**	**79.3**	**0.2**	**—**	**—**	**54.4**	**141.2**
Total comprehensive income for the period							
Profit for the six months ended 30 June 2016	—	—	—	—	—	129.1	129.1
Other comprehensive income, net of income tax							
Available-for-sale reserve							
- Net amount transferred to profit and loss	—	—	—	—	(2.1)	—	(2.1)
Total other comprehensive income	**—**	**—**	**—**	**—**	**(2.1)**	**—**	**(2.1)**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**(2.1)**	**129.1**	**127.0**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
2015 final dividend (55 pence per share)	—	—	—	—	—	(10.0)	(10.0)
Special dividend (165 pence per share)						(30.0)	(30.0)
Charge for share based payments	—	—	—	—	—	0.2	0.2
Total contributions by and distributions to owners	**—**	**—**	**—**	**—**	**—**	**(39.8)**	**(39.8)**
Balance at 30 June 2016	**7.3**	**79.3**	**0.2**	**—**	**(2.1)**	**143.7**	**228.4**

Consolidated statement of cash flows

	Note	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
			(unaudited)			
				(£ million)		
Cash flows from operating activities						
Profit for the period		10.3	8.4	19.3	13.9	10.2
Adjustments for:						
Income tax expense	10	2.2	2.0	5.5	3.6	2.9
Depreciation of property, plant and equipment	18	0.3	0.2	0.5	0.4	0.3
Amortisation of intangible assets	16	0.7	0.8	1.3	1.2	1.1
Gain from a bargain purchase		—	—	—	—	(0.4)
Impairment losses on loans and advances to customers		13.3	8.0	16.8	8.7	9.6
Share based compensation		0.2	0.1	0.2	0.5	2.5
Cash flows from operating profits before changes in operating assets and liabilities		27.0	19.5	43.6	28.3	26.2
Changes in operating assets and liabilities:						
- net (increase)/decrease in debt securities held to maturity		(16.0)	—	12.5	—	—
- net (increase)/decrease in loans and advances to banks		(5.0)	24.3	15.0	(11.3)	54.9
- net increase in loans and advances to customers		(181.0)	(226.4)	(448.8)	(227.7)	(76.1)
- net decrease/(increase) in other assets		0.9	—	(2.6)	2.9	(2.8)
- net (decrease)/increase in amounts due to banks		(20.0)	(15.9)	19.1	15.8	0.1
- net increase in deposits from customers		9.5	226.7	424.7	171.8	37.7
- net increase/(decrease) in other liabilities		2.9	0.4	(6.0)	(1.3)	6.2
Income tax paid		(5.3)	(0.5)	(4.2)	(0.8)	(2.8)
Net cash (outflow)/inflow from operating activities		**(187.0)**	**28.1**	**53.3**	**(22.3)**	**43.4**
Cash flows from investing activities						
Borrowings repaid on acquisition of subsidiary undertakings		—	—	—	—	(36.9)
Cash acquired on purchase of subsidiary undertakings		—	—	—	—	1.6
Purchase of subsidiary undertakings		—	—	—	—	(3.9)
Sale of a subsidiary undertaking	33	209.9	—	—	—	—
Purchase of property, plant and equipment	18	(0.3)	(0.7)	(1.1)	(3.5)	(0.1)
Purchase of computer software	16	(0.7)	(0.6)	(2.3)	(0.8)	(0.5)
Proceeds from sale of property, plant and equipment		—	—	—	—	0.3
Proceeds from sale of computer software		—	—	—	—	1.9
Net cash flows from investing activities		**208.9**	**(1.3)**	**(3.4)**	**(4.3)**	**(37.6)**
Cash flows from financing activities						
Net inflow on issue of share capital		—	—	—	52.1	—
Dividends paid		(10.0)	(9.5)	(12.6)	(10.2)	(9.1)
Net cash flows from financing activities		**(10.0)**	**(9.5)**	**(12.6)**	**41.9**	**(9.1)**
Net increase/(decrease) in cash and cash equivalents— Continuing operations		**11.9**	**17.3**	**37.3**	**15.3**	**(3.3)**
Net increase/(decrease) in cash and cash equivalents— Discontinued operations		0.7	(1.7)	—	0.7	(0.7)
Cash and cash equivalents at 1 January	33	143.3	106.0	106.0	90.0	94.0
Cash and cash equivalents at end of period	**28**	**155.9**	**121.6**	**143.3**	**106.0**	**90.0**

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

1.1 *Reporting entity*

The Company is incorporated in the United Kingdom. The registered address of the Company is One Arleston Way, Solihull, West Midlands, B90 4LH. The consolidated financial statements of the Company as at and for the six months ended 30 June 2016, the six months ended 30 June 2015 (where applicable), the year ended 31 December 2015, the year ended 31 December 2014 and the year ended 31 December 2013 comprise the Group. The Group is primarily involved in banking and financial services.

1.2 *Basis of presentation*

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs as adopted or early adopted by the Group and endorsed by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. They have been prepared under the historical cost convention, as modified by the revaluation of equity instruments available-for-sale and land and buildings and financial instruments at fair value through profit or loss. The consolidated financial statements are presented in pounds sterling, which is the Group's functional and presentational currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

The financial information contained in this Prospectus does not amount to statutory accounts within the meaning of section 434(3) of the Companies Act 2006. Full audited accounts have been delivered to the Registrar of Companies for the Company for the accounting periods ended 31 December 2015, 31 December 2014 and 31 December 2013.

The directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the "going concern" basis for preparing accounts.

The following International Financial Reporting Standards have been issued which are not yet effective and which have not been adopted early:

- IFRS 9 (effective for annual periods beginning after 1 January 2018). This is the IASB's replacement of IAS 39. Phase one of this standard deals with the classification and measurement of financial assets and represents a significant change from the existing requirements in IAS 39. The standard contains three primary measurement categories for financial assets: "amortised cost", "fair value through other comprehensive income" and "fair value through profit or loss" and eliminates the existing categories of "held to maturity", "available for sale" and "loans and receivables". Phase two of the standard covers impairment, with a new expected loss impairment model that will require expected credit losses to be accounted for from when financial instruments are first recognised and lowers the threshold for the recognition of full lifetime expected losses. Phase three covers general hedge accounting and introduces a substantially reformed model for hedge accounting with enhanced disclosure about risk management activity. The new model aligns the accounting treatment with risk management activities. The Group has initiated a project to develop and implement the modelling, data, processes, systems and disclosures required to comply with the standard. The Group intends to run the provision modelling and accounting processes over the course of 2017 to assess the impact of the standard.

- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning after 1 January 2018). This standard replaces a number of existing standards and interpretations and applies to contracts with customers, but does not apply to insurance contracts, financial instruments or lease contracts, which are in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative relevant disclosures. It introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a principles-based five-step model to be applied to all contracts with customers. This standard is unlikely to have a material impact on the Group.

1. **Accounting policies (Continued)**

- IFRS 16, "Leases" (effective from 1 January 2019). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ("**lessee**") and the supplier ("**lessor**"). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases, except short term and low value leases, are treated in a similar way to finance leases applying IAS 17. Leases are "capitalised" by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. The effect of this standard is currently being assessed, but it is unlikely to be substantial. Lessor accounting remains unchanged from IAS 17.

The above standards have not yet been endorsed by the EU.

1.3 ***Consolidation***

Subsidiaries

Subsidiaries are all investees controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Shares in subsidiary undertakings as at 30 June 2016 are stated at cost less any provision for impairment. All subsidiary undertakings are unlisted and none are banking institutions. The subsidiary undertakings were all incorporated in the UK and wholly owned via ordinary shares. All subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December. Details are as follows:

Ownership	Principal activity
Owned directly:	
Debt Managers (Services) Limited	Debt collection company
Secure Homes Services Limited	Property rental
STB Leasing Limited	Leasing
V12 Finance Group Limited	Holding company
Owned indirectly via intermediate holding companies:	
V12 Personal Finance Limited	Dormant
V12 Retail Finance Limited	Sourcing and servicing of unsecured loans

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-current assets held for sale and discontinued operations

Subsidiaries are de-consolidated from the date that control ceases. Under IFRS 5, the Group classifies a non-current asset as held-for-sale if its carrying amount will be recovered mainly through selling the asset rather than through usage. The classification also applies to disposal groups, which are a group of assets and liabilities which an entity intends to dispose of in a single transaction.

The conditions for a non-current asset or disposal group to be classified as held-for-sale are as follows:

- the asset must be available for immediate sale in its present condition and its sale must be highly probable;

1. Accounting policies (Continued)

- the asset must be currently marketed actively at a price that is reasonable in relation to its current fair value;
- the sale should be completed, or expected to be so, within a year from the date of the classification; and
- the actions required to complete the planned sale will have been made, and it is unlikely that the plan will be significantly changed or withdrawn.

1.4 *Interest income and expense*

Interest income and expense are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.5 *Net fee and commission income*

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accruals basis when the service has been provided. Fees and commissions income consists principally of weekly and monthly fees from the OneBill and Current Account products, arrears fees in the ELG business along with associated insurance commissions and commissions earned on debt collection activities in the Debt Managers business. Fee and commission expenses consist primarily of fees and commission relating to the Current Account product.

1.6 *Financial assets and financial liabilities*

The Group classifies its financial assets at fair value through profit or loss, loans and receivables, held-to-maturity or available-for-sale and classifies its financial liabilities as other financial liabilities. Management determines the classification of its investments at initial recognition. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(a) *Financial assets at fair value through profit or loss*

This category comprises derivative financial instruments which are utilised by the Group for hedging purposes. Financial assets at fair value through profit or loss are initially recognised on the date from which the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement of financial assets held in this category are carried at fair value through profit or loss.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recognised when the funds are advanced to customers. Loans and receivables are carried at amortised cost using the effective interest method (see below).

(c) *Held-to-maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method.

1. **Accounting policies (Continued)**

(d) *Available-for-sale*

Available-for-sale ("**AFS**") investments are those not classified as another category of financial assets. These include investments in special purpose vehicles and equity investments in unquoted vehicles. They may be sold in response to liquidity requirements, interest rate, exchange rate or equity price movements. AFS investments are initially recognised at cost, which is considered as the fair value of the investment including any acquisition costs. AFS securities are subsequently measured at fair value in the Statement of Financial Position. Fair value changes on the AFS securities are recognised directly in equity (AFS reserve) until the investment is sold or impaired. Once sold or impaired, the cumulative gains or losses previously recognised in the AFS reserve are recycled to the profit or loss.

(e) *Other financial liabilities*

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments. Other financial liabilities are recognised when cash is received from the depositors. Other financial liabilities are carried at amortised cost using the effective interest method. The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the Statement of Financial Position date.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all of the risks and rewards of ownership. In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have only been partially derecognised. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

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. The fair value of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market for a financial instrument is not active the Group establishes a fair value by using an appropriate valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

1.7 ***Foreign currencies***

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the Company's functional currency at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit and loss account for the period.

1.8 ***Derivative financial instruments and hedge accounting***

For the Group, these comprise cash flow hedges. These are recognised at their fair value and are shown in the Statement of Financial Position as assets when their face value is positive and as liabilities when their face value is negative.

Cash flow hedges are used to hedge against fluctuations in future cash flows from interest rate movements on variable rate customer deposits. On initial purchase the derivative is valued at fair value and then the effective portion of the change in the fair value of the hedging instrument is recognised in equity (cash flow hedging reserve)

1. **Accounting policies (Continued)**

until the gain or loss on the hedged items is realised, when it is amortised; the ineffective portion of the hedging instrument is recognised immediately in profit or loss.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and the hedged items, including the risk management objective and strategy in undertaking the hedge, together with 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 or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

If a hedging derivative expires or is sold, terminated, or exchanged, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

1.9 ***Impairment of financial assets***

Assets carried at amortised cost

On an ongoing basis the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence is the occurrence of a loss event, after the initial recognition of the asset, that impacts on the estimated future cash flows of the financial asset or group of financial assets, and can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest;
- Breach of financial covenants or contractual obligations;
- Cash flow difficulties experienced by the borrower; and
- Initiation of bankruptcy proceedings.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The Group considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment the Group uses historical trends of the probability of default, emergence period, 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 the actual losses are likely to be significantly different to historic trends.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Statement of Comprehensive Income.

1. **Accounting policies (Continued)**

Consumer loans

For retail loans, cash flows are estimated based on past experience combined with the Group's view of the future considering the following factors:

- Our exposure to the customer
- Based on the number of days in arrears at the balance sheet date, the likelihood that a loan will progress through the various stages of delinquency and ultimately be written off
- The amount and timing of expected receipts and recoveries.

Business loans

In assessing objective evidence of a loss event for business loans, the following factors are considered:

- If any contractual repayment date has been missed
- Covenant breaches
- In Commercial Finance, a loan may be considered for potential impairment if the financial prospects of the borrower's customers deteriorates.

Modification of loans

A customer's account may be modified to assist customers who are in or have recently overcome financial difficulties and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. Loans that have renegotiated or deferred terms, resulting in a substantial modification to the cash flows, are no longer considered to be past due but are treated as new loans recognised at fair value, provided the customers comply with the renegotiated or deferred terms.

Equity investments available-for-sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are reversed through other comprehensive income.

A significant or prolonged decline in the fair value of an equity security is objective evidence of impairment. The Group regards a decline of more than 20 percent in fair value as "significant" and a decline in the quoted market price that persists for nine months or longer as "prolonged".

1.10 ***Intangible assets***

(a) *Goodwill*

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired at the date of acquisition. Goodwill is held at cost less accumulated impairment losses and is deemed to have an infinite life.

The Group reviews the goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. Impairment losses are recognised in the Statement of Comprehensive Income if the carrying amount exceeds the recoverable amounts.

(b) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which are between three to ten years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

1. **Accounting policies (Continued)**

(c) *Other intangibles*

The acquisition of subsidiaries is accounted for in accordance with IFRS 3 "Business Combinations", which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it is necessary to recognise certain intangible assets which are separately identifiable and which are not included on the acquiree's balance sheet.

Other intangible assets include trademarks, customer relationships, broker relationships and technology. The intangible assets recognised as part of the V12 Finance Group acquisition have been recorded at fair value and are being amortised over their expected useful lives, which are between five and ten years. The intangible assets recognised as part of the ELG acquisition were also recognised at fair value, and were being amortised over a similar period, apart from broker relationships, which were being amortised over three years. The intangible asset relating to ELG was reclassified as an asset held for sale as at 31 December 2015, and was not amortised between the date that the conditional sale was agreed in December 2015 and its disposal in 2016.

1.11 ***Property, plant and equipment***

Property is held at historic cost as modified by subsequent revaluations less depreciation. The Group has elected under IAS 16.31 to measure its property at fair value. Revaluations are kept up to date such that the carrying amount does not differ materially from its fair value as required by IAS 16.34. Revaluation of assets and any subsequent disposal are addressed through the revaluation reserve and any changes are transferred to retained earnings.

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which are subject to regular review:

Land	not depreciated
Freehold buildings	50 years
Leasehold improvements	shorter of life of lease or 7 years
Computer equipment	3 to 5 years
Other equipment	5 to 10 years

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Statement of Comprehensive Income.

1.12 ***Leases***

(a) *As a lessor*

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to 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 over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(b) *As a lessee*

Rentals made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

1.13 ***Cash and cash equivalents***

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and demand deposits, and cash equivalents comprise highly liquid investments which are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including certain loans and advances to banks and short-term highly liquid debt securities.

1.14 ***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs. Any amounts received over nominal value are recorded in the share premium account, net of direct issuance costs.

1. **Accounting policies (Continued)**

1.15 ***Employee benefits***

(a) *Post-retirement obligations*

The Group contributes to defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. There are no post-retirement benefits other than pensions.

(b) *Share-based remuneration*

The fair value of equity settled share-based payment awards are calculated at grant date and recognised over the period in which the employees become unconditionally entitled to the awards (the vesting period). The amount is recognised as personnel expenses in profit and loss, with a corresponding increase in equity. The Group adopts a Black-Scholes valuation model in calculating the fair value of the share options as adjusted for an attrition rate of members of the scheme and a probability of pay-out reflecting the risk of not meeting the terms of the scheme over the vesting period. The number of share options that are expected to vest are reviewed at least annually.

The fair value of cash settled share-based payments is recognised as personnel expenses in the profit or loss with a corresponding increase in liabilities over the vesting period. The liability is remeasured at each reporting date and at settlement date based on the fair value of the options granted, with a corresponding adjustment to personnel expenses.

When share-based payments are changed from cash settled to equity settled and there is no change in the fair value of the replacement award, it is seen as a modification to the terms and conditions on which the equity instruments were granted and is not seen as the settlement and replacement of the instruments. Accordingly, the liability in the Statement of Financial Position is reclassified to equity and the prospective charge to the profit or loss from the modification reflects the spreading of the initial grant date fair value of the award over the remaining vesting period in line with the policy on equity settled awards.

1.16 ***Share issue costs***

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments. Costs associated with the listing of shares are expensed immediately.

1.17 ***Taxation***

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

1.18 ***Dividends***

Dividends on ordinary shares are recognised in equity in the period in which they are approved.

1.19 ***Significant items***

Items which are material by both size and nature (i.e. outside of the normal operating activities of the Group) are treated as significant items and disclosed separately on the face of the Statement of Comprehensive Income. In 2013, a gain from a bargain purchase of £0.4 million and costs arising from acquisitions of £0.9 million were

1. **Accounting policies (Continued)**

separately disclosed. The separate reporting of these items helps to provide an indication of the Group's underlying business performance.

1.20 ***Funding for Lending Scheme***

Under the applicable International Accounting Standard, IAS 39, if a security is lent under an agreement to return it to the transferor, as is the case for eligible securities lent by institutions to the Bank of England under the FLS, then the security is not derecognised because the transferor retains all the risks and rewards of ownership. The UK Treasury Bills borrowed from the Bank of England under the FLS are not recognised on the Statement of Financial Position of the institution until such time as they are subject to a repurchase agreement with a third party, as they will not meet the criteria for derecognition by the Bank of England. When the UK Treasury Bills are pledged as part of a sale and repurchase agreement with a third party, amounts borrowed from the third party are recognised on the Statement of Financial Position.

2. **Critical judgements and estimates**

The Group makes certain judgements and estimates which affect the reported amounts of assets and liabilities. Critical judgements and the assumptions used in calculating estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.1 ***Impairment losses on loans and advances to customers***

The Group reviews its Consumer loan portfolios to assess impairment at least on a half-yearly basis. The basis for evaluating impairment losses is described in accounting policy 1.9. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Loans and advances are identified as impaired by taking account of the age of the debt's delinquency and the product type. The impairment provision is calculated by applying a percentage rate to the balance of different ages and categories of impaired debt. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and recent actual loss experience.

Within the Real Estate Finance and Asset Finance businesses, accounts which are impaired are assessed against the discounted cashflows expected to arise in order to identify any impairment provisions. Collective provisions are assessed only to the extent that there is sufficient data to justify an inherent level of losses within the current portfolios.

For specific Invoice Finance clients assessment is made as to the collectability of outstanding invoices in relation to the amounts lent against them. If there is a deficit against outstanding invoices then other security is considered in terms of value and collectability. If there is an overall shortfall then the unsecured amount is assessed as to whether a provision is required. For collective provisions a view of the overall level of non-collectability in the portfolio is taken. The level of provision required is under review as the product is new to the Bank therefore data is developing, so we have estimated a level appropriate based on other data available in the industry.

Where financial assets are individually evaluated for impairment, management uses their best estimates in calculating the net present value of future cash flows. Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral (where held), in determining the expected future cash flows.

In assessing collective impairment the Group uses historical trends of the 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 the actual losses are likely to be significantly different to historic trends.

As described in Note 1.9, certain customers' accounts may be modified to such an extent that they are no longer considered to be past due but, rather, are treated as new loans. There is judgement involved in determining the level of modification that results in this reassessment and with regard to the fair value at which the renegotiated loans are recorded. A loan is considered to be modified if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent. different from the discounted present value of the remaining cash flows of the original financial

2. **Critical judgements and estimates (Continued)**

liability. The Group makes these judgements based on analyses of the loans involved and consideration of market rates of interest.

To the extent that the default rates differ from those estimated by 10 per cent., the allowance for impairment on loans and advances would change by an estimated £4.0 million (2015: £5.1 million, 2014: £3.2 million, 2013: £2.6 million).

The key judgements made in calculating the Consumer specific provision are the probability of default rates and the loss given default. Uplifting the probability of default rates used by 10 per cent. would result in an estimated increase in the consumer specific provision of £2.2m (being £0.2m, £1.8m and £0.2m for the personal loan, motor and retail portfolios respectively). Uplifting the loss given default rates by 10 per cent. would result in an estimated increase in the consumer specific provisions of £2.1m (being £0.8m, £0.9m and £0.4m for the personal loan, motor and retail portfolios respectively).

The collective provision for the consumer portfolio assumes an emergence period of 2 months for the Motor and Personal Loan portfolios and 1 month for the Retail portfolio. Increasing this assumption by 1 month would result in an estimated increase in the collective impairment allowance of £1.8m (being £0.6m, £0.4m and £0.8m for the Motor, personal loan and Retail portfolios respectively).

The Business Finance portfolio is largely assessed on an individual basis with minimal losses experienced to date. As a result it is not currently possible to provide any meaningful sensitivity analysis for this portfolio.

2.2 ***Acquisition accounting***

The Group recognises identifiable assets and liabilities at their acquisition date fair values. The exercise of attributing a fair value to the balance sheet of the acquired entity requires the use of a number of assumptions and estimates, which are documented at the time of the acquisition. These fair value adjustments are determined from the estimated future cash flows generated by the assets.

Loans and advances to customers

The methodology of attributing a fair value to loans and advances to customers involves discounting the estimated future cash flows using a risk adjusted discount factor. A fair value adjustment is then applied to the carrying value in the Group's balance sheet.

Intangible assets

Identifying the separately identifiable intangible assets of an acquired company is subjective and based upon discussions with management and a review of relevant documentation. During the current and prior years the acquisition of ELG and the V12 Finance Group indicated that there were four separately identifiable intangible assets which met the criteria for separation from goodwill, these being trademarks/trade names, customer relationships, broker relationships and technology.

Trademarks and trade names are valued by estimating the fair value of the estimated costs savings resulting from the ownership of trade names as opposed to licensing them. Customer relationships are valued through the application of a discounted cashflow methodology to net anticipated renewal revenues. The valuation of broker relationships is derived from a costs avoided methodology, by reviewing costs incurred on non-broker platforms versus costs which are incurred in broker commission. Technology is valued by the market derived royalty rate applied to the related cash flows to arrive at estimated savings resulting from the use of the acquired credit decisioning technology.

2.3 ***Share Option Scheme valuations***

The valuation of the equity settled Share Option Scheme was determined at the original grant date of 2 November 2011 using Black-Scholes valuation models. In the opinion of the directors the terms of the scheme are such that there remain a number of key uncertainties to be considered when calculating the probability of pay-out, which are set out below. The directors also considered the probability of option holder attrition prior to the vesting dates, details of which are also set out below.

Uncertainties in the regulatory environment continue. Any tightening of capital requirements will impact on the ability of the Company to exploit future market opportunities and furthermore may inhibit its ability to maintain the required growth in distributions. Taking these into account, the probability of pay-out has been judged as 100 per cent. for the remaining share options (SOS2) which vest on 2 November 2016. The probability of pay-out was judged as 95 per cent. for the first tranche of share options (SOS1) which vested on 2 November 2014.

2. **Critical judgements and estimates (Continued)**

Although one participant in the Share Option Scheme left the Company during 2012 and was consequently withdrawn from the Scheme, the directors consider that there is no further uncertainty surrounding whether the remaining participants will all still be in situ and eligible at the vesting date. Therefore the directors have assumed no attrition rate for the remaining share options over the scheme period. The Directors assumed an attrition rate of 8 per cent. for SOS1 over the scheme period.

The valuation of the cash settled Share Option Scheme was determined at 30 June 2016 using Black-Scholes valuation models. In the opinion of the directors the terms of the scheme are such that there remain a number of key uncertainties to be considered when calculating the probability of pay-out, which are considered to be similar to those set out above. A 10 per cent. fall in volatility would result in a reduction of the liability of £0.2 million.

2.4 ***Average life of lending***

IAS 39 requires interest earned from lending to be measured under the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of these estimates 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.

2.5 ***Valuation of financial instruments***

The Group measures the fair value of a financial instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions. If a market for a financial instrument is not active, the Group establishes a fair value using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would 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 instance that fair values of assets and liabilities cannot be reliably measured, they are carried at cost.

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads, assist in the judgement as to whether a market is active. If in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs, the instrument in its entirety is classified as valued using significant unobservable inputs. "Unobservable" in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

The fair value hierarchy levels and values attributable to the financial assets and financial liabilities of the Group are disclosed in note 4.

2.6 ***PPI Provisioning***

The Group provides for its best estimate of redress payable in respect of historical sales of PPI, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience. The likelihood of potential new claims is projected forward to 2019, as management believe this to be an appropriate time horizon, recognising the significant decline in recent claims experience and the increasing subjectivity beyond that. The accuracy of these estimates would be affected, were there to be a significant change in either the number of future claims or, the incidence of claims upheld by the Financial Ombudsman. The amounts are included within accruals. A 10 per cent. increase in the rate of claims would increase the provisions required by £0.1 million.

3. Maturity analysis of consolidated assets and liabilities

Maturity analysis as at 30 June 2016	Due within one year	Due after more than one year	Total
		(£ million)	
ASSETS			
Cash and balances at central banks	141.8	—	141.8
Loans and advances to banks	19.1	—	19.1
Loans and advances to customers	514.7	613.6	1,128.3
Debt securities held-to-maturity	19.8	—	19.8
Equity instruments available-for-sale	13.7	—	13.7
Property, plant and equipment	—	8.5	8.5
Intangible assets	—	7.0	7.0
Deferred tax assets	—	0.9	0.9
Other assets	6.2	—	6.2
	715.3	**630.0**	**1,345.3**
LIABILITIES			
Due to banks	15.0	—	15.0
Deposits from customers	665.1	377.5	1,042.6
Current tax liabilities	0.2	—	0.2
Dividend payable	30.0	—	30.0
Other liabilities	25.8	3.3	29.1
	736.1	**380.8**	**1,116.9**

Maturity analysis as at 31 December 2015	Due within one year	Due after more than one year	Total
		(£ million)	
ASSETS			
Cash and balances at central banks	131.8	—	131.8
Loans and advances to banks	9.8	—	9.8
Loans and advances to customers	439.7	520.9	960.6
Debt securities held-to-maturity	3.8	—	3.8
Property, plant and equipment	—	8.5	8.5
Intangible assets	—	7.0	7.0
Deferred tax assets	—	0.3	0.3
Other assets	7.1	—	7.1
Assets held for sale	118.5	—	118.5
	710.7	**536.7**	**1,247.4**
LIABILITIES			
Due to banks	35.0	—	35.0
Deposits from customers	563.3	469.8	1,033.1
Current tax liabilities	3.2	—	3.2
Other liabilities	22.5	3.7	26.2
Liabilities held for sale	8.7	—	8.7
	632.7	**473.5**	**1,106.2**

3. **Maturity analysis of consolidated assets and liabilities (Continued)**

Maturity analysis as at 31 December 2014	Due within one year	Due after more than one year	Total
		(£ million)	
ASSETS			
Cash and balances at central banks	81.2	—	81.2
Loans and advances to banks	39.8	—	39.8
Loans and advances to customers	220.7	401.8	622.5
Debt securities held-to-maturity	16.3	—	16.3
Property, plant and equipment	—	8.1	8.1
Intangible assets	—	8.2	8.2
Deferred tax assets	1.0	—	1.0
Other assets	5.2	—	5.2
	364.2	**418.1**	**782.3**
LIABILITIES			
Due to banks	15.9	—	15.9
Deposits from customers	342.4	266.0	608.4
Current tax liabilities	3.6	—	3.6
Other liabilities	25.2	4.3	29.5
	387.1	**270.3**	**657.4**

Maturity analysis as at 31 December 2013	Due within one year	Due after more than one year	Total
		(£ million)	
ASSETS			
Loans and advances to banks	110.0	—	110.0
Loans and advances to customers	162.0	229.0	391.0
Property, plant and equipment	—	5.0	5.0
Intangible assets	—	9.9	9.9
Deferred tax assets	1.9	—	1.9
Other assets	8.1	—	8.1
	282.0	**243.9**	**525.9**
LIABILITIES			
Due to banks	0.1	—	0.1
Deposits from customers	269.4	167.2	436.6
Current tax liabilities	1.4	—	1.4
Deferred tax liabilities	—	0.4	0.4
Other liabilities	21.5	4.3	25.8
	292.4	**171.9**	**464.3**

4. **Classification of financial assets and liabilities**

At 30 June 2016	Available for sale	Held to maturity	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value	Fair value hierarchy level
				(£ million)			
ASSETS							
Cash and balances at central banks	—	—	141.8	—	141.8	141.8	Level 1
Loans and advances to banks	—	—	19.1	—	19.1	19.1	Level 2
Loans and advances to customers	—	—	1,128.3	—	1,128.3	1,550.9	Level 3
Debt securities held-to-maturity	—	19.8	—	—	19.8	19.8	Level 1
Equity instruments available-for-sale	13.7	—	—	—	13.7	13.7	Level 1
Other assets	—	—	2.8	—	2.8	2.8	Level 3
	13.7	**19.8**	**1,292.0**	**—**	**1,325.5**	**1,748.1**	
LIABILITIES							
Due to banks	—	—	—	15.0	15.0	15.0	Level 2
Deposits from customers	—	—	—	1,042.6	1,042.6	1,090.3	Level 3
Dividend payable	—	—	—	30.0	30.0	30.0	Level 3
Other financial liabilities	—	—	—	10.7	10.7	10.7	Level 3
		—	**—**	**1,098.3**	**1,098.3**	**1,146.0**	

As at 31 December 2015	Held to maturity	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value	Fair value hierarchy level
			(£ million)			
ASSETS						
Cash and balances at central banks	—	131.8	—	131.8	131.8	Level 1
Loans and advances to banks	—	9.8	—	9.8	9.8	Level 2
Loans and advances to customers	—	960.6	—	960.6	960.6	Level 3
Debt securities held-to-maturity	3.8	—	—	3.8	3.8	Level 1
Other assets	—	2.9	—	2.9	2.9	Level 3
Assets held for sale	—	118.5	—	118.5	240.9	Level 3
	3.8	**1,223.6**	**—**	**1,227.4**	**1,349.8**	
LIABILITIES						
Due to banks	—	—	35.0	35.0	35.0	Level 2
Deposits from customers	—	—	1,033.1	1,033.1	1,033.1	Level 3
Other financial liabilities	—	—	13.8	13.8	13.8	Level 3
Liabilities held for sale	—	—	8.7	8.7	8.7	Level 3
	—	**—**	**1,090.6**	**1,090.6**	**1,090.6**	

As at 31 December 2014	Held to maturity	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value	Fair value hierarchy level
			(£ million)			
ASSETS						
Cash and balances at central banks	—	81.2	—	81.2	81.2	Level 1
Loans and advances to banks	—	39.8	—	39.8	39.8	Level 2
Loans and advances to customers	—	622.5	—	622.5	630.1	Level 3
Debt securities held-to-maturity	16.3	—	—	16.3	16.3	Level 1
	16.3	**743.5**	**—**	**759.8**	**767.4**	
LIABILITIES						
Due to banks	—	—	15.9	15.9	15.9	Level 2
Deposits from customers	—	—	608.4	608.4	617.7	Level 3
Other financial liabilities	—	—	17.8	17.8	17.8	Level 3
	—	**—**	**642.1**	**642.1**	**651.4**	

4. **Classification of financial assets and liabilities (Continued)**

As at 31 December 2013	Held to maturity	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value	Fair value hierarchy level
			(£ million)			
ASSETS						
Loans and advances to banks	—	110.0	—	110.0	110.0	Level 2
Loans and advances to customers	—	391.0	—	391.0	391.0	Level 3
	—	**501.0**	**—**	**501.0**	**501.0**	
LIABILITIES	—	—				
Due to banks	—	—	0.1	0.1	0.1	Level 2
Deposits from customers	—	—	436.6	436.6	436.6	Level 2
Other financial liabilities	—	—	17.0	17.0	17.0	Level 3
	—	**—**	**453.7**	**453.7**	**453.7**	

Equity investments available-for-sale and cash flow hedges are carried at fair value. All other assets and liabilities are carried at amortised cost. Therefore for these assets and liabilities, the fair value hierarchy noted above relates to the disclosure in this note only.

Fair value classification

The tables above include the fair values and fair value hierarchies of the Group and Company's financial assets and liabilities. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Details of the measurement of the fair values is disclosed below:

Cash and balances at central banks

The fair value of cash and balances at central banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each period, the fair value of cash and balances at central banks was calculated to be equivalent to their carrying value.

Loans and advances to banks

The fair value of loans and advances to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

Loans and advances to customers

The fair value of loans and advances to customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date, and the same assumptions regarding the risk of default were applied as those used to derive the carrying value.

Debt securities held-to-maturity and equity instruments available-for-sale

The fair value of debt securities held-to-maturity and equity instruments available-for-sale is based on the quoted mid-market share price.

4. **Classification of financial assets and liabilities (Continued)**

Due to banks

The fair value of amounts due to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each period the fair value of amounts due to banks was calculated to be equivalent to their carrying value due to the short maturity term of the amounts due.

Deposits from customers

The fair value of deposits from customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date for the notice deposits and deposit bonds. The fair value of instant access deposits is equal to book value as they are repayable on demand.

Dividends and other financial liabilities

The fair value of dividends and other financial liabilities was calculated based upon the present value of the expected future principal cash flows.

At the end of each period the fair value of dividends and other financial liabilities was calculated to be equivalent to their carrying value due to their short maturity terms. The other financial liabilities include all other liabilities other than non-interest accruals.

5. **Financial risk management**

Strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The directors and senior management of the Group have formally adopted a Group Risk Appetite Statement which sets out the Board's attitude to risk and internal controls. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The principal risks inherent in the Group's business are credit, market, liquidity and operational risk.

(a) *Credit risk*

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. A formal Credit Risk Policy has been agreed by the Board whilst credit risk is monitored on a monthly basis by the Credit Risk Committee which reviews performance of key portfolios including new business volumes, collections performance, provisioning levels and provisioning methodology. A credit risk department within the Bank ensures that the Credit Risk Policy is being adhered to, implements risk tools to manage credit risk and evaluates business opportunities and the risks and opportunities they present to the Bank whilst ensuring the performance of the Bank's existing portfolios is in line with expectations.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits on the level of credit risk are approved periodically by the Board of Directors and actual exposures against limits monitored daily.

Impairment provisions are provided for losses that have been incurred at the Statement of Financial Position date. Significant changes in the economy could result in losses that are different from those provided for at the Statement of Financial Position date. Management therefore carefully manages its exposures to credit risk as they consider this to be the most significant risk to the business.

Exposure to Consumer credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where

5. **Financial risk management (Continued)**

appropriate. Exposure to credit risk is also managed in part by obtaining collateral, principally motor vehicles on Motor loans and a credit support balance provided by RentSmart. The assets undergo a scoring process to mitigate risk and are monitored by the Board. Disclosures relating to arrears on loans and advances to customers and collateral are disclosed in Note 13.

For Real Estate Finance and Commercial Finance, lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in the lending policies. Asset Finance lending is outsourced to Haydock, who operate in line with the Group's credit policies and risk appetite. The loans are secured against the assets lent against (real estate, trade receivables and commercial plant and equipment, respectively).

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. Disclosures of these at the period end are contained in Note 12. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

Motor Finance loans are secured against motor vehicles. The new SME lending products, Real Estate Finance and Asset Finance loans, are secured against property and tangible assets respectively. Details of the collateral held in respect of these loans are detailed in Note 13.

The maximum exposure to credit risk for the Group was as follows:

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
ASSETS				
Cash and balances at central banks	141.8	131.8	81.2	—
Loans and advances to banks	19.1	9.8	39.8	110.0
Loans and advances to customers	1,128.3	960.6	622.5	391.0
Debt securities held-to-maturity	19.8	3.8	16.3	-
Trade receivables	2.8	1.5	0.9	0.6
Amounts due from related parties	—	1.3	0.8	4.1
Assets held for sale	—	118.5	—	—
Credit risk exposures relating to off-balance sheet assets are as follows:				
Loan commitments	124.2	138.6	96.0	6.6
	1,436.0	**1,365.9**	**857.5**	**512.3**

The above table represents the maximum credit risk exposure (net of impairment) to the Group without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures are based on the net carrying amounts as reported in the Statement of Financial Position.

Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the well diversified nature of the Group's lending operations the directors do not consider there to be a material exposure arising from concentration risk. The increase in lending balances and loan commitments in the London region is principally due to the increase in Real Estate Finance activities during the period. The

5. **Financial risk management (Continued)**

concentration by product and location of the Group's lending to customers and loan commitments are detailed below:

Loans and advances to customers	30 June 2016 Total	31 December 2015 Continuing operations	2015 Discontinued operations	2015 Total	2014 Total	2013 Total
			(£ million)			
Concentration by product:						
Business lending						
Real estate finance	361.7	368.0	—	368.0	133.8	1.8
Asset finance	112.3	70.7	—	70.7	4.5	—
Commercial finance	54.5	29.3	—	29.3	5.0	—
Unsecured lending:						
Personal lending	64.6	74.3	114.3	188.6	181.4	159.2
Motor	205.6	165.7	—	165.7	137.9	114.7
Retail	271.7	220.4	—	220.4	116.7	70.1
Other	57.9	32.2	—	32.2	43.2	45.2
	1,128.3	**960.6**	**114.3**	**1,074.9**	**622.5**	**391.0**
Concentration by region:						
East Anglia	100.4	89.4	10.4	99.8	41.3	33.1
East Midlands	48.2	41.4	11.3	52.7	36.0	27.8
London	365.7	300.6	17.0	317.6	177.5	44.1
North East	33.4	24.5	—	24.5	36.4	18.9
North West	96.7	73.4	7.6	81.0	60.9	48.0
Northern Ireland	10.9	8.3	15.6	23.9	8.6	6.1
Scotland	73.9	62.7	3.0	65.7	42.4	39.1
South East	147.1	125.5	5.8	131.3	82.2	52.3
South West	53.8	44.2	8.4	52.6	34.7	27.0
Wales	41.6	35.1	5.3	40.4	25.7	24.8
West Midlands	73.0	59.0	4.9	63.9	44.1	36.1
Yorkshire and the Humber	64.7	52.4	13.5	65.9	32.7	33.7
Overseas	18.9	44.1	11.5	55.6	—	—
	1,128.3	**960.6**	**114.3**	**1,074.9**	**622.5**	**391.0**

5. **Financial risk management (Continued)**

Loan commitments	30 June 2016 Total	31 December 2015 Continuing operations	2015 Discontinued operations	2015 Total	2014 Total	2013 Total
			(£ million)			
Concentration by product:						
Business lending						
Real estate finance	92.0	109.0	—	109.0	95.8	6.6
Asset finance	24.1	20.1	—	20.1	—	—
Commercial finance	7.2	9.3	—	9.3	—	—
Unsecured lending:						
Personal lending	—	—	—	—	—	—
Motor	0.8	0.2	—	0.2	0.2	—
Retail	—	—	—	—	—	—
Other	0.1	—	—	—	—	—
	124.2	**138.6**	**—**	**138.6**	**96.0**	**6.6**
Concentration by region:						
East Anglia	22.3	28.1	—	28.1	7.2	—
East Midlands	1.6	1.1	—	1.1	—	—
London	27.2	55.0	—	55.0	41.6	—
North East	1.4	0.6	—	0.6	17.6	—
North West	10.3	4.9	—	4.9	—	—
Northern Ireland	—	—	—	—	—	—
Scotland	10.3	2.0	—	2.0	—	—
South East	31.2	28.4	—	28.4	17.8	6.6
South West	7.3	4.4	—	4.4	10.5	—
Wales	3.4	1.4	—	1.4	—	—
West Midlands	3.6	4.0	—	4.0	1.3	—
Yorkshire and the Humber	2.1	3.0	—	3.0	—	—
Overseas	3.5	5.7	—	5.7	—	—
	124.2	**138.6**	**—**	**138.6**	**96.0**	**6.6**
Total credit commitment	**1,252,5**	**1,099.2**	**114.3**	**1,213.5**	**718.5**	**397.6**

The above table relates to the location of the borrower. The majority of the overseas borrowers are Real Estate Finance clients. All of the property secured against Real Estate Finance loans is based in the United Kingdom.

Forbearance

The Company does not reschedule contractual arrangements where customers default on their repayments. Under its Collections and Recoveries policies, the Group sets out its approach to treating customers in arrears fairly. It may offer the customer the option to reduce or defer payments for a short period. If the request is granted, the account continues to be monitored in accordance with the Group's impairment provisioning policy. Such debts retain the customer's normal contractual payment due dates and will be treated the same as any other defaulting cases for impairment purposes. Arrears tracking will continue on the account with any impairment charge being based on the original contractual due dates for all products.

Prior to its sale, the Everyday Loans policy on forbearance was a customer's account may be modified to assist customers who are in or, have recently overcome, financial difficulties and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. These may be modified by way of a reschedule or deferment of repayments. Rescheduling of debts retains the customers' contractual due dates, whilst

5. **Financial risk management (Continued)**

the deferment of repayments extends the payment schedule up to a maximum of four payments in a twelve month period. An analysis of the impact of modified loans is set out below:

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
ASSETS				
Gross balance of rescheduled loans included in the Consolidated statement of financial position	—	14.9	14.7	13.9
Allowance for impairment on rescheduled loans	—	1.0	1.0	1.1
Gross balance of deferred loans	—	3.4	3.0	2.8
Allowance for impairment on deferred loans	—	0.6	0.4	0.4

The figures above in 2015 and prior relate entirely to ELG.

(b) *Market risk*

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group has no significant exposures to foreign currencies and therefore there is no significant currency risk.

Interest rate risk

Interest rate risk is the potential adverse impact on the Group's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Group's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows. The Group seeks to 'match' interest rate risk on either side of the Statement of Financial Position. However, this is not a perfect match and interest rate risk is present on money market deposits of a fixed rate nature, fixed rate loans and fixed rate savings products. The Group monitors the interest rate mismatch on a daily basis in conjunction with liquidity and capital.

The interest rate mismatch is monitored, throughout the maturity bandings of the book on a parallel scenario for 50 and 200 basis points movements. The Group considers the 50 and 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. This typically results in a pre-tax mismatch of £1.0 million or less (2015: £1.0 million or less, 2014: £0.8 million or less, 2013: £0.2 million or less) for the Group, with the same impact to equity pre-tax. In 2011, the Group put an interest rate cap with a notional value of £20 million in place primarily to hedge the exposure to cash flow variability from interest rate movements on variable rate customer deposits, which expired in 2015.

5. **Financial risk management (Continued)**

Interest rate sensitivity gap

The following tables summarise the re-pricing periods for the assets and liabilities in the Group, including derivative financial instruments which are principally used to hedge exposure to interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-price and the maturity date.

At 30 June 2016	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
				(£ million)			
ASSETS							
Cash and balances at central banks	141.8	—	—	—	—	—	141.8
Loans and advances to banks	19.1	—	—	—	—	—	19.1
Debt securities held-to-maturity	9.8	10.0	—	—	—	—	19.8
Loans and advances to customers	250.3	121.8	162.7	637.6	—	(44.1)	1,128.3
Other assets	—	—	—	—	—	36.3	36.3
	421.0	131.8	162.7	637.6	—	(7.8)	1,345.3
LIABILITIES AND EQUITY							
Due to banks	—	15.0	—	—	—	—	15.0
Deposits from customers	491.0	42.5	131.7	343.8	33.6	—	1,042.6
Other liabilities	—	—	—	—	—	59.3	59.3
Equity	—	—	—	—	—	228.4	228.4
	491.0	**57.5**	**131.7**	**343.8**	**33.6**	**287.7**	**1,345.3**
Interest rate sensitivity gap	**(70.0)**	**74.3**	**31.0**	**293.8**	**(33.6)**	**(295.5)**	
Cumulative gap	**(70.0)**	**4.3**	**35.3**	**329.1**	**295.5**	**—**	

As at 31 December 2015	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
				(£ million)			
ASSETS							
Cash and balances at central banks	131.8	—	—	—	—	—	131.8
Loans and advances to banks	9.8	—	—	—	—	—	9.8
Debt securities held-to-maturity	3.8	—	—	—	—	—	3.8
Loans and advances to customers	163.4	138.4	172.2	520.9	—	(34.3)	960.6
Other assets	—	—	—	—	—	22.9	22.9
Assets held for sale	118.5	—	—	—	—	—	118.5
	427.3	**138.4**	**172.2**	**520.9**	**—**	**(11.4)**	**1,247.4**
LIABILITIES AND EQUITY							
Due to banks	—	35.0	—	—	—	—	35.0
Deposits from customers	97.9	371.0	94.4	432.0	37.8	—	1,033.1
Other liabilities	—	—	—	—	—	29.4	29.4
Liabilities held for sale	8.7	—	—	—	—	—	8.7
Equity	—	—	—	—	—	141.2	141.2
	106.6	**406.0**	**94.4**	**432.0**	**37.8**	**170.6**	**1,247.4**
Interest rate sensitivity gap	**320.7**	**(267.6)**	**77.8**	**88.9**	**(37.8)**	**(182.0)**	
Cumulative gap	**320.7**	**53.1**	**130.9**	**219.8**	**182.0**	**—**	

5. **Financial risk management (Continued)**

As at 31 December 2014	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
				(£ million)			
ASSETS							
Cash and balances at central banks	81.2	—	—	—	—	—	81.2
Loans and advances to banks	24.8	15.0	—	—	—	—	39.8
Loans and advances to customers	102.1	69.9	114.2	366.8	0.2	(30.7)	622.5
Debt securities held-to-maturity	16.3	—	—	—	—	—	16.3
Other assets	—	—	—	—	—	22.5	22.5
	224.4	**84.9**	**114.2**	**366.8**	**0.2**	**(8.2)**	**782.3**
LIABILITIES AND EQUITY							
Due to banks	15.9	—	—	—	—	—	15.9
Deposits from customers	248.9	18.2	37.3	236.5	29.7	37.8	608.4
Other liabilities	—	—	—	—	—	33.1	33.1
Equity	—	—	—	—	—	124.9	124.9
	264.8	**18.2**	**37.3**	**236.5**	**29.7**	**195.8**	**782.3**
Impact of derivative instruments	(20.0)	20.0	—	—	—	—	
Interest rate sensitivity gap	**(60.4)**	**86.7**	**76.9**	**130.3**	**(29.5)**	**(204.0)**	
Cumulative gap	**(60.4)**	**26.3**	**103.2**	**233.5**	**204.0**	**—**	

As at 31 December 2013	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
				(£ million)			
ASSETS							
Loans and advances to banks	110.0	—	—	—	—	—	110.0
Loans and advances to customers	82.4	56.1	84.4	191.8	0.2	(23.9)	391.0
Other assets	—	—	—	—	—	24.9	24.9
	192.4	**56.1**	**84.4**	**191.8**	**0.2**	**1.0**	**525.9**
LIABILITIES AND EQUITY							
Due to banks	—	—	—	—	—	0.1	0.1
Deposits from customers	105.9	116.0	13.9	163.3	3.9	33.6	436.6
Other liabilities	—	—	—	—	—	27.6	27.6
Equity	—	—	—	—	—	61.6	61.6
	105.9	**116.0**	**13.9**	**163.3**	**3.9**	**122.9**	**525.9**
Impact of derivative instruments	(20.0)	—	—	20.0	—	—	
Interest rate sensitivity gap	**66.5**	**(59.9)**	**70.5**	**48.5**	**(3.7)**	**(121.9)**	
Cumulative gap	**66.5**	**6.6**	**77.1**	**125.6**	**121.9**	**—**	

(c) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England Reserve Account to cover any short-term fluctuations and, longer term funding to address any structural liquidity requirements.

The Company has a formal governance structure in place to manage and mitigate liquidity risk on a day to day basis. The Board sets and approves the Company's liquidity risk management strategy. The Assets and Liabilities

5. **Financial risk management (Continued)**

Committee ('ALCO'), comprising senior executives of the Company, monitors liquidity risk. Key liquidity risk management information is reported by the Treasury function and monitored by the Chief Executive Officer and Chief Financial Officer on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and ILAAP metrics.

The Company issued fixed rate deposit bonds to customers as set out below:

	£ million	Term (years)
Six months ended 30 June 2016	—	—
Year ended 31 December 2015	172	1 to 7
Year ended 31 December 2014	160	2 to 7
Year ended 31 December 2013	45	2 to 7

These were issued to broadly match the term lending by the Company.

The PRA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. Government Securities in the liquidity asset buffer); and it maintains a prudent funding profile. The liquidity assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

The Group has a Board approved ILAAP. The ILAAP rules require STB to identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios, consistent with STB's risk appetite as established by the STB Board. The ILAAP seeks to document STB's approach to liquidity and funding, and demonstrate that it complies with the Overall Liquidity Adequacy Rule. The PRA's approach to liquidity supervision is based on the principle that a firm must have adequate levels of liquidity resources and a prudent funding profile, and that it comprehensively manages and controls liquidity and funding risks. The liquidity buffer required by the ILAAP has been put in place and maintained since that time. Liquidity resources outside of the buffer are made up of deposits placed at the Bank of England. The ILAAP is updated annually.

The LCR regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of high quality liquid assets. The Group has set a more prudent internal limit. The actual LCR has significantly exceeded both limits throughout the period.

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered to be loans and advances to banks and cash and balances at central banks. At the period end this ratio was 15.4 per cent. (2015: 14.1 per cent., 2014: 19.9 per cent., 2013: 25.2 per cent.).

5. **Financial risk management (Continued)**

The tables below analyse the contractual undiscounted cash flows for the Group's financial liabilities and assets into relevant maturity groupings:

At 30 June 2016	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
			(£ million)			
Non-derivative financial liabilities						
Due to banks	(15.0)	(15.0)	(15.0)	—	—	—
Deposits from customers	(1,042.6)	(1,081.7)	(117.9)	(550.9)	(376.8)	(36.1)
Dividend payable	(30.0)	(30.0)	(30.0)	—	—	—
Other financial liabilities	(10.7)	(10.7)	(10.7)	—	—	—
	(1,098.3)	**(1,137.4)**	**(173.6)**	**(550.9)**	**(376.8)**	**(36.1)**
Non-derivative financial assets						
Cash and balances at central banks	141.8	141.8	141.8	—	—	—
Loans and advances to banks	19.1	19.1	19.1	—	—	—
Debt securities held to maturity	19.8	19.8	19.8	—	—	—
Loans and advances to customers	1,128.3	1,252.4	242.7	286.6	723.1	—
Other financial assets	2.8	2.8	2.8	—	—	—
	1,311.8	**1,435.9**	**426.2**	**286.6**	**723.1**	**—**
Liquidity mismatch	**213.5**	**298.5**	**252.6**	**(264.3)**	**346.3**	**(36.1)**

As at 31 December 2015	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
			(£ million)			
Non-derivative financial liabilities						
Due to banks	(35.0)	(35.0)	(35.0)	—	—	—
Deposits from customers	(1,033.1)	(1,078.0)	(442.9)	(142.7)	(449.5)	(42.9)
Other financial liabilities	(13.8)	(13.8)	(13.8)	—	—	—
Liabilities held for sale	(8.7)	(8.7)	(8.7)	—	—	—
	(1,090.6)	**(1,135.5)**	**(500.4)**	**(142.7)**	**(449.5)**	**(42.9)**
Non-derivative financial assets						
Cash and balances at central banks	131.8	131.8	131.8	—	—	—
Loans and advances to banks	9.8	9.8	9.8	—	—	—
Debt securities held to maturity	3.8	3.8	3.8	—	—	—
Loans and advances to customers	960.6	1,194.5	130.8	335.6	728.1	—
Other financial assets	2.9	2.9	2.9	—	—	—
Assets held for sale	118.5	118.5	118.5	—	—	—
	1,227.4	**1,461.3**	**397.6**	**335.6**	**728.1**	**—**
Liquidity mismatch	**136.8**	**325.8**	**(102.8)**	**192.9**	**278.6**	**(42.9)**

5. **Financial risk management (Continued)**

As at 31 December 2014	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
			(£ million)			
Non-derivative financial liabilities						
Due to banks	(15.9)	(15.9)	(15.9)	—	—	—
Deposits from customers	(608.4)	(635.2)	(87.3)	(257.6)	(255.0)	(35.3)
Other financial liabilities	(17.8)	(17.8)	(17.8)	—	—	—
	(642.1)	**(668.9)**	**(121.0)**	**(257.6)**	**(255.0)**	**(35.3)**
Non-derivative financial assets						
Cash and balances at central banks	81.2	81.2	81.2	—	—	—
Loans and advances to banks	39.8	39.8	24.8	15.0	—	—
Debt securities held to maturity	16.3	16.3	11.3	5.0	—	—
Loans and advances to customers	622.5	788.4	109.9	186.2	486.1	6.2
	759.8	**925.7**	**227.2**	**206.2**	**486.1**	**6.2**
Liquidity mismatch	**117.7**	**256.8**	**106.2**	**(51.4)**	**231.1**	**(29.1)**

As at 31 December 2013	Carrying amount	Gross nominal inflow/ (outflow)	Not more than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
			(£ million)			
Non-derivative financial liabilities						
Due to banks	(0.1)	(0.1)	(0.1)	—	—	—
Deposits from customers	(436.6)	(457.0)	(64.3)	(208.7)	(181.1)	(2.9)
Other financial liabilities	(17.0)	(17.0)	(17.0)	—	—	—
	(453.7)	**(474.1)**	**(81.4)**	**(208.7)**	**(181.1)**	**(2.9)**
Non-derivative financial assets						
Loans and advances to banks	110.0	110.0	110.0	—	—	—
Loans and advances to customers	391.0	483.3	81.2	143.9	257.9	0.3
	501.0	**593.3**	**191.2**	**143.9**	**257.9**	**0.3**
Liquidity mismatch	**47.3**	**119.2**	**109.8**	**(64.8)**	**76.8**	**(2.6)**

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing financial liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Other financial liabilities, as shown above, do not include non-interest accruals as these are not classed as financial liabilities.

(d) *Operational risk (unaudited)*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified above. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group's policy requires compliance with all applicable legal and regulatory requirements.

The Group maintains a system of internal controls which are used to mitigate against operational risk. An operational risk department within the Bank also supports and provides assurance to the business in recognising, assessing and managing risk. Compliance with Group standards is supported by a programme of periodic reviews undertaken by an internal audit function. The results of the internal audit reviews are discussed with the Company's senior management with summaries submitted to the Group Audit Committee.

6. Capital management

The Group's capital management policy is focused on optimising shareholder value, in a safe and sustainable manner. There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth. The Board regularly reviews the capital position.

In accordance with the EU's CRD IV and the required parameters set out in the EU's CRR, the Group's ICAAP is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management. Prior to the sale of Arbuthnot's controlling stake in the Group, the Group's ICAAP was aggregated into the Arbuthnot Banking Group's ICAAP.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a 'Pillar 1 plus' approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequate to cover management's anticipated risks. Where it is considered that the Pillar 1 calculations do not reflect the risk, an additional capital add-on in Pillar 2 should be applied, as per the ICG issued by the PRA.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which would allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Pillar 3 disclosures for the Arbuthnot Banking Group for the year ended 31 December 2015 are published as a separate document on the Arbuthnot Banking Group website.

The following table shows the regulatory capital resources as managed by the solo-consolidated Group:

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
Tier 1				
Share capital	7.3	7.3	7.3	6.3
Share premium	79.3	79.3	79.3	28.2
Retained earnings	138.6	53.1	38.7	29.0
Revaluation reserve	0.2	0.2	0.2	0.2
Available-for-sale reserve	(2.1)	—	—	—
Goodwill	(0.3)	(0.3)	(0.3)	(0.3)
Intangible assets net of attributable deferred tax	(3.4)	(3.8)	(2.8)	(3.1)
Deferred tax assets due to losses	—	—	(1.0)	(1.9)
Common Equity Tier 1 capital	**219.6**	**135.8**	**121.4**	**58.4**
Tier 2				
Collective allowance for impairment of loans and advances	3.0	3.1	2.0	1.6
Total Tier 2 capital	**3.0**	**3.1**	**2.0**	**1.6**
Own Funds	**222.6**	**138.9**	**123.4**	**60.0**
Reconciliation to total equity:				
Goodwill and other intangible assets net of attributable deferred tax	3.7	4.1	3.1	3.4
Collective allowance for impairment of loans and advances	(3.0)	(3.1)	(2.0)	(1.6)
Deferred tax assets due to losses	—	—	1.0	1.9
Net cumulative profits/(losses) of non-solo consolidated entities and uncertified profits	5.1	1.3	(0.6)	(1.2)
Dividends received from non-solo consolidated entities	—	—	—	(0.5)
Cash flow hedging reserve	—	—	—	(0.4)
Total equity	**228.4**	**141.2**	**124.9**	**61.6**

Prior to the sale of Arbuthnot's controlling stake in the Group, the Group formed part of the Arbuthnot Banking Group's ICAAP which includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. The PRA sets ICG for each UK bank calibrated by reference to its Capital Resources Requirement, broadly equivalent to 8 per cent. of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel III framework. The ICAAP is a key input into the PRA's

6. **Capital management (Continued)**

ICG setting process, which addresses the requirements of Pillar 2 of the Basel III framework. The PRA's approach is to monitor the available capital resources in relation to the ICG requirement. The Group maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external and internal requirements are adhered to.

The Group is also subject to further capital requirements imposed by the PRA. During the periods, the Group complied with these requirements.

7. **Net interest income**

	Six months ended 30 June		Year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
		(unaudited)			
			(£ million)		
Cash and balances at central banks	0.4	0.4	0.7	0.3	—
Loans and advances to banks	—	0.2	0.2	0.1	0.2
Loans and advances to customers	62.3	45.1	99.6	62.8	51.4
Debt securities held-to-maturity	—	—	—	0.2	—
Interest receivable and similar income	**62.7**	**45.7**	**100.5**	**63.4**	**51.6**
Deposits from customers	(13.2)	(9.8)	(21.6)	(14.2)	(12.9)
Interest expense and similar charges	**(13.2)**	**(9.8)**	**(21.6)**	**(14.2)**	**(12.9)**
Net interest income	**49.5**	**35.9**	**78.9**	**49.2**	**38.7**

Net interest income shown above excludes £11.1 million (30 June 2015 (*unaudited*): £18.5 million, 31 December 2015: £39.2 million, 31 December 2014: £30.2 million, 31 December 2013: £22.2 million) of interest on loans and advances to customers in respect of discontinued operations.

In 2013, £0.2 million of interest income arising from debt securities held-to-maturity was included as interest income on loans and advances to banks.

8. **Operating expenses**

Six months ended 30 June 2016	**Continuing**	**Discontinued**	**Total**
		(£ million)	
Staff costs, including those of directors:			
Wages and salaries	16.3	3.0	19.3
Social security costs	1.5	0.3	1.8
Pension costs	0.4	0.2	0.6
Share based payment transactions	—	—	—
Depreciation of property, plant and equipment (Note 18)	0.3	—	0.3
Amortisation of intangible assets (Note 16)	0.7	—	0.7
Operating lease rentals	0.8	0.3	1.1
Other administrative expenses	11.5	2.2	13.7
Total operating expenses	**31.5**	**6.0**	**37.5**

8. **Operating expenses (Continued)**

Six months ended 30 June 2015 (unaudited) *(unaudited)*	**Continuing**	**Discontinued** *(£ million)*	**Total**
Staff costs, including those of directors:			
Wages and salaries	12.3	4.9	17.2
Social security costs	1.0	0.5	1.5
Pension costs	0.4	0.3	0.7
Share based payment transactions	-	-	-
Depreciation of property, plant and equipment	0.2	0.1	0.3
Amortisation of intangible assets	0.7	0.5	1.2
Operating lease rentals	0.6	0.4	1.0
Other administrative expenses	9.2	3.9	13.1
Total operating expenses	**24.4**	**10.6**	**35.0**

Year ended 31 December 2015	**Continuing**	**Discontinued** *(£ million)*	**Total**
Staff costs, including those of directors:			
Wages and salaries	24.7	10.0	34.7
Social security costs	2.6	1.1	3.7
Pension costs	0.7	0.6	1.3
Share based payment transactions	1.4	-	1.4
Depreciation of property, plant and equipment (Note 18)	0.5	0.1	0.6
Amortisation of intangible assets (Note 16)	1.4	0.9	2.3
Operating lease rentals	1.2	0.8	2.0
Other administrative expenses	18.0	7.7	25.7
Total operating expenses	**50.5**	**21.2**	**71.7**

Year ended 31 December 2014	**Continuing**	**Discontinued** *(£ million)*	**Total**
Staff costs, including those of directors:			
Wages and salaries	16.4	9.3	25.7
Social security costs	1.3	1.1	2.4
Pension costs	0.4	0.5	0.9
Share based payment transactions	1.5	—	1.5
Depreciation of property, plant and equipment (Note 18)	0.4	0.1	0.5
Amortisation of intangible assets (Note 16)	1.2	1.3	2.5
Operating lease rentals	0.7	0.9	1.6
Other administrative expenses	15.6	5.8	21.4
Total operating expenses	**37.5**	**19.0**	**56.5**

Year ended 31 December 2013	**Continuing**	**Discontinued** *(£ million)*	**Total**
Staff costs, including those of directors:			
Wages and salaries	12.1	8.0	20.1
Social security costs	1.0	0.9	1.9
Pension costs	0.2	0.5	0.7
Share based payment transactions	2.2	—	2.2
Depreciation of property, plant and equipment (Note 18)	0.4	0.3	0.7
Amortisation of intangible assets (Note 16)	1.2	1.3	2.5
Operating lease rentals	0.5	0.9	1.4
Other administrative expenses	12.1	4.2	16.3
Total operating expenses	**29.7**	**16.1**	**45.8**

8. **Operating expenses (Continued)**

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
			(£'000s)		
Remuneration of the auditor and its associates, excluding VAT, was as follows:					
Fees payable to the Company's auditor for the audit of the Company's annual accounts	95	69	190	138	132
Fees payable to the Company's auditor for other services:					
The audit of the Company's subsidiaries, pursuant to legislation	61	58	122	115	128
Audit related assurance services	10	8	21	17	30
Tax advisory services	25	24	49	47	53
Corporate finance services	—	57	—	115	—
All other non-audit services	74	146	146	292	64
	265	**362**	**528**	**724**	**407**

All other non-audit services incurred during 2014 included £183,000 relating to advice received on the transitioning of consumer credit licencing from the Office of Fair Trading to the Financial Conduct Authority.

9. **Average number of employees**

	30 June	31 December		
	2016	2015	2014	2013
Directors	6	7	7	6
Management	81	78	69	50
Administration	604	621	532	474
Total	**691**	**706**	**608**	**530**

The above figures include employees of Everyday Loans for the period of ownership by the Group.

10. **Income tax expense**

Six months ended 30 June 2016	Continuing	Discontinued	Total
		(£ million)	
Current taxation			
Corporation tax charge—current period	2.3	0.6	2.9
Deferred taxation			
Deferred tax charge—current period	(0.1)	(0.1)	(0.2)
Income tax expense	**2.2**	**0.5**	**2.7**
Tax reconciliation			
Profit before tax	12.5	2.5	15.0
Tax at 20.0%	2.5	0.5	3.0
Permanent differences	(0.3)	—	(0.3)
Income tax expense for the period	**2.2**	**0.5**	**2.7**

10. **Income tax expense (Continued)**

Six months ended 30 June 2015 (unaudited) (unaudited)	Continuing	Discontinued	Total
		(£ million)	
Current taxation			
Corporation tax charge—current period	2.1	1.2	3.3
Deferred taxation			
Deferred tax charge—current period	(0.1)	(0.1)	(0.2)
Income tax expense	2.0	1.1	3.1
Tax reconciliation			
Profit before tax	10.4	5.6	16.0
Tax at 20.5%	2.1	1.1	3.2
Permanent differences	(0.1)	—	(0.1)
Income tax expense for the period	**2.0**	**1.1**	**3.1**

Year ended 31 December 2015	Continuing	Discontinued	Total
		(£ million)	
Current taxation			
Corporation tax charge—current year	5.4	2.5	7.9
Corporation tax charge—adjustments in respect of prior years	0.6	(1.0)	(0.4)
	6.0	**1.5**	**7.5**
Deferred taxation			
Deferred tax charge—current year	(0.5)	(0.1)	(0.6)
Deferred tax charge—adjustments in respect of prior years	—	0.9	0.9
	(0.5)	0.8	0.3
Income tax expense	**5.5**	**2.3**	**7.8**
Tax reconciliation			
Profit before tax	24.8	11.7	36.5
Tax at 20.25%	5.0	2.4	7.4
Permanent differences	(0.3)	—	(0.3)
Prior period adjustments	0.8	(0.1)	0.7
Income tax expense for the year	**5.5**	**2.3**	**7.8**

Year ended 31 December 2014	Continuing	Discontinued	Total
		(£ million)	
Current taxation			
Corporation tax charge—current year	3.3	1.9	5.2
Deferred taxation			
Deferred tax charge—current year	0.2	—	0.2
Deferred tax charge—adjustments in respect of prior years	0.1	0.1	0.2
	0.3	0.1	0.4
Income tax expense	**3.6**	**2.0**	**5.6**
Tax reconciliation			
Profit before tax	17.5	8.6	26.1
Tax at 21.5%	3.8	1.8	5.6
Permanent differences	(0.2)	—	(0.2)
Prior period adjustments	—	0.2	0.2
Income tax expense for the year	**3.6**	**2.0**	**5.6**

10. **Income tax expense (Continued)**

Year ended 31 December 2013	Continuing	Discontinued	Total
		(£ million)	
Current taxation			
Corporation tax charge—current year	3.1	—	3.1
Corporation tax charge—adjustments in respect of prior years	0.5	—	0.5
	3.6	**—**	**3.6**
Deferred taxation			
Deferred tax charge—current year	(0.2)	0.9	0.7
Deferred tax charge—adjustments in respect of prior years	(0.5)	1.0	0.5
	(0.7)	1.9	1.2
Income tax expense	**2.9**	**1.9**	**4.8**
Tax reconciliation			
Profit before tax	13.1	4.0	17.1
Tax at 23.25%	3.1	0.9	4.0
Permanent differences	(0.2)	(0.1)	(0.3)
Tax rate change	—	0.1	0.1
Prior period adjustments	—	1.0	1.0
Income tax expense for the year	**2.9**	**1.9**	**4.8**

At 30 June 2016 the Group had accumulated tax losses of £nil (2015: £nil, 2014: £5.0 million, 2013: £8.2 million). These tax losses were recovered during 2015, consequently the Group has no longer recognised a deferred tax asset (2015: £nil, 2014: £1.0 million, 2013: £1.9 million).

On 2 July 2013 the Government substantively enacted a reduction in the main rate of UK corporation tax from 23 per cent. to 21 per cent. with effect from 1 April 2014 and then from 21 per cent. to 20 per cent. with effect from 1 April 2015. Further reductions to 19 per cent. (effective from 1 April 2017) and to 17 per cent. (effective 1 April 2020) have been enacted. This will reduce the Company's future current tax charge accordingly.

11. **Earnings per ordinary share**

Basic

Basic earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares as follows:

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
Profit attributable to equity holders of the parent					
Continuing operations	£10.3 million	£8.4 million	£19.3 million	£13.9 million	£10.2 million
Discontinued operations	£118.8 million	£4.5 million	£9.4 million	£6.6 million	£2.1 million
Weighted average number of ordinary shares	18,191,894	18,191,894	18,191,894	16,725,876	15,648,149

Diluted

Diluted earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period, as noted above, as well as the number of dilutive share options in issue during the period, as follows:

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
		(unaudited)			
Number of dilutive shares in issue at the period end	343,723	345,805	352,147	332,429	329,453
Being based on:					
Number of options granted	460,419	460,419	460,419	460,419	920,831
Exercise price	720p	720p	720p	720p	720p
Average share price during the period	2,841p	2,892p	3,062p	2,590p	2,531p

12. Loans and advances to banks

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
Placements with banks included in cash and cash equivalents (Note 28)	14.1	9.8	24.8	90.0
Other loans and advances to banks	5.0	—	15.0	20.0
	19.1	**9.8**	**39.8**	**110.0**

Included within loans and advances to banks are amounts placed with Arbuthnot Latham & Co., Limited, a related company prior to the sale of its controlling stake in the Group, of £5.0 million (2015: £5.3 million, 2014: £20.0 million, 2013: £31.6 million).

	30 June	31 December		
Moody's long term ratings	2016	2015	2014	2013
		(£ million)		
Aa1	—	—	—	57.1
A1	—	0.1	—	—
A2	5.8	(1.4)	19.8	21.3
A3	8.3	5.8	—	—
No rating	5.0	5.3	20.0	31.6
	19.1	**9.8**	**39.8**	**110.0**

The £1.4 million negative balance in 2015 above represented an overdraft attributable to continuing operations. When amounts included in loans and advances to banks attributable to discontinued operations are taken into account, the overall balance is in credit.

None of the loans and advances to banks are either past due or impaired.

13. Loans and advances to customers

	As at 30 June	As at 31 December		
	2016	2015	2014	2013
		(£ million)		
Gross loans and advances	1,172.4	994.9	656.6	418.1
Less: allowances for impairment on loans and advances (Note 14)	(44.1)	(34.3)	(34.1)	(27.1)
	1,128.3	**960.6**	**622.5**	**391.0**

The fair value of loans and advances to customers is shown in Note 4. For a maturity profile of loans and advances to customers, refer to Note 3.

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
Loans and advances to customers include finance lease receivables as follows:				
Gross investment in finance lease receivables:				
- No later than 1 year	151.8	121.4	80.2	16.4
- Later than 1 year and no later than 5 years	318.7	244.0	164.4	16.0
- Later than 5 years	1.5	0.9	—	—
	472.0	366.3	244.6	32.4
Unearned future finance income on finance leases	(137.9)	(109.0)	(81.2)	(6.9)
Net investment in finance leases	**334.1**	**257.3**	**163.4**	**25.5**
The net investment in finance leases may be analysed as follows:				
- No later than 1 year	91.6	73.3	46.0	12.9
- Later than 1 year and no later than 5 years	241.1	183.2	117.4	12.6
- Later than 5 years	1.4	0.8	—	—
	334.1	**257.3**	**163.4**	**25.5**

The finance lease receivables above relate to the Motor business, RentSmart loan portfolio and the Asset Finance business.

13. Loans and advances to customers (Continued)

Loans and advances to customers can be further summarised as follows:

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
		(£ million)		
Neither past due nor impaired	1,089.2	939.1	581.9	371.3
Past due but not impaired	7.6	—	0.3	0.4
Past due up to 90 days and impaired	34.0	24.8	30.3	23.4
Past due after 90 days and impaired	41.6	31.0	44.1	23.0
Gross	1,172.4	994.9	656.6	418.1
Less: allowance for impairment	(44.1)	(34.3)	(34.1)	(27.1)
Net	**1,128.3**	**960.6**	**622.5**	**391.0**

Gross amounts of loans and advances to customers that were past due up to 90 days were as follows:

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
		(£ million)		
Past due up to 30 days	23.4	16.5	22.6	17.0
Past due 30—60 days	6.7	5.5	5.3	4.1
Past due 60—90 days	3.9	2.8	2.7	2.7
Total	**34.0**	**24.8**	**30.6**	**23.8**

Gross amounts of loans and advances to customers that were past due but not impaired were as follows:

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
		(£ million)		
Past due up to 30 days	1.2	—	0.3	0.4
Past due more than one year	6.4	—	—	—
Total	**7.6**		**0.3**	**0.4**

The past due more than one year amount of £6.4 million above relates to a Real Estate Finance development loan, where repayment of the loan is contingent on the sale of the property.

The impairment provision calculation is based on the individual past-due status of each loan.

Interest income on loans classified as impaired totalled £3.2 million (2015: £6.0 million, 2014: £3.1 million, 2013: £2.6 million).

At 30 June 2016 loans and advances to customers of £95.4 million were pre-positioned under the Bank of England's Funding for Lending Scheme and were available for use as collateral within the scheme (2015: £56.4 million, 2014: £11.5 million, 2013: £43.9 million).

At 30 June 2016, £36.0 million of UK Treasury Bills were drawn under the Funding for Lending Scheme (2015: £36.0 million, 2014: £15.0 million, 2013: £16.0 million). During the period, these Treasury Bills were pledged as part of a sale and repurchase agreement with an original maturity period of six months (2015: six months, 2014: three months, 2013: three months). Monies arising as a result are disclosed in Note 21.

£0.2 million (2015: £0.2 million, 2014: £0.2 million, 2013: £0.2 million) is a standard mortgage loan secured upon residential property and this is neither past due nor impaired. The residential property over which the mortgage loan is secured has a fair value of £0.2 million based on other recent property sales, and a loan to value ratio of 69 per cent. (2015: 72 per cent., 2014: 76 per cent., 2013: 73 per cent.).

£361.7 million (2015: £368.0 million, 2014: £133.7 million, 2013: £1.8 million) of the loans are secured upon residential or commercial property and these are neither past due nor impaired, except for the £6.4 million Real Estate Finance development loan referred to above. All loans secured are at a loan to value ratio of less than 80 per cent.. All property valuations at loan inception, and the majority of development stage valuations, are performed by independent Chartered Surveyors, who perform their work in accordance with the Royal Institution of Chartered Surveyors Valuation—Professional Standards.

13. Loans and advances to customers (Continued)

£205.6 million (2015: £165.7 million, 2014: £137.9 million, 2013: £114.7 million) of the loans are secured against motor vehicles where the security is discharged when the buyer exercises an option to buy the goods at a predetermined price at the end of the loan term. Management's estimate of the fair value of the motor vehicles was £147.3 million (2015: £127.1 million, 2014: £109.5 million, 2013: £99.0 million), giving a loan to value ratio of 139.6 per cent. (2015: 130.4 per cent., 2014: 125.9 per cent., 2013: 115.9 per cent.).

Within trade payables at 30 June 2016 there is £3.3 million (2015: £3.7 million, 2014: £4.3 million, 2013: £4.3 million) collateral held from RentSmart, which is based upon the balance of customer receivables and expected new agreements during the following month.

14. Allowances for impairment of loans and advances

A reconciliation of the allowance accounts for losses on loans and advances is as follows:

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
Specific allowances for impairment				
At 1 January	32.3	32.1	25.5	15.8
Provision for impairment losses	13.6	24.3	15.1	15.5
Loans written off during the period as uncollectible	(6.2)	(19.4)	(8.5)	(5.8)
Transfer to assets held for sale	—	(4.7)	—	—
At period end	**39.7**	**32.3**	**32.1**	**25.5**
Collective allowances for impairment				
At 1 January	2.0	2.0	1.6	0.4
Provision for impairment losses	2.4	1.1	0.4	1.2
Transfer to assets held for sale	—	(1.1)	—	—
At period end	**4.4**	**2.0**	**2.0**	**1.6**
Total allowances for impairment	**44.1**	**34.3**	**34.1**	**27.1**

15. Debt securities held-to-maturity

Debt securities of £19.8 million (2015: £3.8 million, 2014: £16.3 million, 2013: £nil) represent UK Treasury Bills. The Group's intention is to hold them to maturity and, therefore, they are stated in the Statement of Financial Position at amortised cost.

All of the debt securities held-to-maturity had a rating agency designation at the end of each period, based on Moody's long-term ratings of Aa1. None of the debt securities held-to-maturity are either past due or impaired.

In 2013, £57.1 million of debt securities held-to-maturity were included in loans and advances to banks.

16. **Intangible assets**

	Goodwill	Computer software	Other intangible assets	Total
		(£ million)		
Cost or valuation				
At 1 January 2013	0.3	2.3	5.1	7.7
On acquisition of subsidiary undertakings	0.7	5.4	2.2	8.3
Additions	—	0.7	—	0.7
Disposals	—	(1.9)	—	(1.9)
At 31 December 2013	**1.0**	**6.5**	**7.3**	**14.8**
Additions	—	0.8	—	0.8
At 31 December 2014	**1.0**	**7.3**	**7.3**	**15.6**
Additions	—	2.3	—	2.3
Transfer to assets held for disposal	—	(0.3)	(5.1)	(5.4)
At 31 December 2015	**1.0**	**9.3**	**2.2**	**12.5**
Additions	—	0.7	—	0.7
At 30 June 2016	**1.0**	**10.0**	**2.2**	**13.2**
Accumulated amortisation				
At 1 January 2013	—	(1.8)	(0.7)	(2.5)
Amortisation charge	—	(0.9)	(1.5)	(2.4)
At 31 December 2013	**—**	**(2.7)**	**(2.2)**	**(4.9)**
Amortisation charge	—	(1.1)	(1.4)	(2.5)
At 31 December 2014	**—**	**(3.8)**	**(3.6)**	**(7.4)**
Amortisation charge	—	(1.2)	(1.1)	(2.3)
Transfer to assets held for disposal	—	0.2	4.0	4.2
At 31 December 2015	**—**	**(4.8)**	**(0.7)**	**(5.5)**
Amortisation charge	—	(0.2)	(0.5)	(0.7)
At 30 June 2016	**—**	**(5.0)**	**(1.2)**	**(6.2)**
Net book amount				
At 31 December 2013	1.0	3.8	5.1	9.9
At 31 December 2014	1.0	3.5	3.7	8.2
At 31 December 2015	1.0	4.5	1.5	7.0
At 30 June 2016	**1.0**	**5.0**	**1.0**	**7.0**

Goodwill

	30 June	31 December		
	2016	2015	2014	2013
Cash generating units		*£million*		
Music business	0.3	0.3	0.3	0.3
V12	0.7	0.7	0.7	0.7
	1.0	**1.0**	**1.0**	**1.0**

The recoverable amount of these cash generating units are determined on a value in use calculation which uses cash flow projections based on financial forecasts covering a three year period, and a discount rate of 8 per cent. Cash flow projections during the forecast period are based on the expected rate of new business. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

17. **Equity instruments available-for-sale**

On 13 April 2016, as part of the sale of ELG to NSF, the Group acquired 23,529,412 shares in NSF Plc at a cost of 69.25 pence per share. At 30 June 2016, these shares had a value of 58.0 pence per share. This equity instrument is

17. **Equity instruments available-for-sale (Continued)**

considered to be available-for-sale, and therefore fair value changes on the AFS securities are recognised directly in equity (AFS reserve) until the investment is sold or impaired. The fall in value is not considered to be significant or prolonged, and also given current market volatility, the Directors do not consider this investment to be impaired. Accordingly, the loss at 30 June 2016 of £2.1 million (net of deferred tax) is recognised in the AFS reserve.

18. **Property, plant and equipment**

	Freehold land and buildings	Leasehold improvements	Computer and other equipment	Total
		(£ million)		
Cost or valuation				
At 1 January 2013	4.4	0.3	9.0	13.7
On acquisition of subsidiary undertakings	—	—	0.1	0.1
Additions	—	0.1	0.3	0.4
Disposals	—	—	(0.5)	(0.5)
At 31 December 2013	**4.4**	**0.4**	**8.9**	**13.7**
Additions	2.7	—	0.9	3.6
Disposals	—	—	(0.5)	(0.5)
At 31 December 2014	**7.1**	**0.4**	**9.3**	**16.8**
Additions	—	0.2	1.2	1.4
Transfer to assets held for disposal	—	(0.6)	(0.4)	(1.0)
At 31 December 2015	**7.1**	**—**	**10.1**	**17.2**
Additions	—	—	0.3	0.3
At 30 June 2016	**7.1**	**—**	**10.4**	**17.5**
Accumulated amortisation				
At 1 January 2013	(0.3)	(0.1)	(7.9)	(8.3)
Depreciation charge	(0.1)	(0.1)	(0.4)	(0.6)
Disposals	—	—	0.2	0.2
At 31 December 2013	**(0.4)**	**(0.2)**	**(8.1)**	**(8.7)**
Depreciation charge	(0.1)	(0.1)	(0.3)	(0.5)
Disposals	—	—	0.5	0.5
At 31 December 2014	**(0.5)**	**(0.3)**	**(7.9)**	**(8.7)**
Depreciation charge	(0.1)	(0.1)	(0.4)	(0.6)
Transfer to assets held for disposal	—	0.4	0.2	0.6
At 31 December 2015	**(0.6)**	**—**	**(8.1)**	**(8.7)**
Depreciation charge	(0.1)	—	(0.2)	(0.3)
Disposals	—	—	—	—
At 30 June 2016	**(0.7)**	**—**	**(8.3)**	**(9.0)**
Net book amount				
At 31 December 2013	4.0	0.2	0.8	5.0
At 31 December 2014	6.6	0.1	1.4	8.1
At 31 December 2015	6.5	—	2.0	8.5
At 30 June 2016	**6.4**	**—**	**2.1**	**8.5**

The Group's freehold properties are the Registered Office of the Company, which is fully utilised for the Group's own purposes, and Secure Trust House, Boston Drive, Bourne End SL8 5YS (acquired in 2014 for an original cost of £2.7 million), the majority of which, up until the sale of ELG, was also used for the Group's own purposes. Since the sale, it is only partially used for the Group's own purposes.

The directors have assessed the value of the Group's freehold property at the period-end through comparison to current rental yields on similar properties in the same area and do not believe that the fair value of freehold property is materially different from its carrying value.

18. **Property, plant and equipment (Continued)**

The carrying value of freehold land which is included in the total carrying value of freehold land and buildings and which is not depreciated is £1.7 million (2015: £1.7 million, 2014: £1.7 million, 2014: £0.5 million).

The historical cost of freehold property included at valuation is as follows:

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
Cost	7.5	7.5	7.5	4.8
Accumulated depreciation	(1.4)	(1.3)	(1.2)	(1.1)
Net book amount	**6.1**	**6.2**	**6.3**	**3.7**

19. **Derivative financial instruments**

In order to protect its floating rate deposit book from increases in Bank of England base rates above 1.5 per cent., the Group entered into an interest rate cap on 30 June 2011, with a notional amount of £20 million and a maturity date of 30 June 2015. The losses recognised in other comprehensive income in relation to the interest rate cap previously are not expected to be recovered in future periods, therefore they were transferred to profit or loss in 2014. The Moody's long term rating of the counterparty was A2.

20. **Other assets**

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
Trade receivables	0.7	1.5	0.9	0.6
Amounts due from related companies	—	1.3	0.8	4.1
Prepayments and accrued income	5.5	4.3	3.5	3.4
	6.2	**7.1**	**5.2**	**8.1**

21. **Due to banks**

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
Amounts due to other credit institutions	15.0	35.0	15.9	—
Amounts due to related companies	—	—	—	0.1
	15.0	**35.0**	**15.9**	**0.1**

Amounts due to other credit institutions represent monies arising from the sale and repurchase of drawings under the Funding for Lending Scheme. These are due for repayment December 2016 (2015: due in March 2016, 2014: due in March 2015, 2013: £nil).

22. **Deposits from customers**

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
Current/demand accounts	34.8	39.5	37.8	36.4
Term deposits	1,007.8	993.6	570.6	400.2
	1,042.6	**1,033.1**	**608.4**	**436.6**

For a maturity profile of deposits from customers, refer to Note 3.

23. **Other liabilities**

	30 June	31 December		
	2016	2015	2014	2013
	(£ million)			
Trade payables	10.7	13.8	10.9	9.8
Amounts due to related companies	—	0.1	0.3	2.2
Accruals and deferred income	18.4	12.3	18.3	13.8
	29.1	**26.2**	**29.5**	**25.8**

Within Group accruals and deferred income there is £8.6 million (2015: £nil, 2014: £6.6 million, 2013: £5.1 million) relating to accrued interest payable.

Financial Ombudsman Scheme accrual

The Group's FOS accrual, which is included in accruals and deferred income above, reflects a provision for outstanding potential customer redress claims as follows:

	30 June	31 December		
	2016	2015	2014	2013
	(£ million)			
Balance at start of period	2.0	2.0	1.1	0.6
Charged to statement of comprehensive income	0.1	2.6	1.2	1.0
Utilised	(0.8)	(2.0)	(0.3)	(0.5)
Transferred to assets for disposal	—	(0.6)	—	—
Balance at end of period	**1.3**	**2.0**	**2.0**	**1.1**

The FCA are currently consulting on a proposed deadline for making customer redress claims. The ruling is expected to come into force in the middle of 2017 with a deadline of 2 years from the ruling, which would give consumers until approximately June 2019 to make a claim.

Financial Services Compensation Scheme Levy

In common with all regulated UK deposit takers, the Group pays levies to the Financial Services Compensation Scheme ("**FSCS**") to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a more significant compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation and associated interest the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The Group's FSCS provision, which is also included in accruals and deferred income above, reflects market participation up to the reporting date and the accrual of £0.3 million (2015: £0.2 million, 2014: £nil, 2013: £0.1 million) relates to the interest levy for the scheme year 2015/16 which was paid in September 2016. This amount was calculated on the basis of the Group's share of protected deposits and the FSCS's estimate of total interest levies payable for each scheme year. The loan repayment relating to the scheme year 2015/16 was paid by the Group in September 2015.

24. **Deferred taxation**

	30 June 2016	31 December 2015	2014	2013
		(£ million)		
Deferred tax liabilities				
Unrealised surplus on revaluation of freehold property	0.2	0.2	0.2	0.2
Other short term timing differences	(0.2)	(0.2)	(0.2)	(0.6)
	—	—	—	**(0.4)**
Deferred tax assets				
Other short term timing differences	0.9	0.3	—	—
Carried forward losses	—	—	1.0	1.9
	0.9	**0.3**	**1.0**	**1.9**
Deferred tax liabilities				
At 1 January	—	—	(0.4)	(1.2)
Arising on acquisition of subsidiary undertaking	—	—	—	(1.0)
Profit and loss account	—	—	0.4	1.8
At end of period	—	—	—	**(0.4)**
Deferred tax assets				
At 1 January	0.3	1.0	1.9	5.1
Profit and loss account	0.1	(0.3)	(0.8)	(3.0)
Equity instruments available-for-sale	0.5	—	—	—
Cash flow hedges	—	—	(0.1)	—
Losses utilised through group relief during the year	—	—	—	(0.2)
Transferred to assets held for sale	—	(0.4)	—	—
At end of period	**0.9**	**0.3**	**1.0**	**1.9**

On 2 July 2013 the Government substantively enacted a reduction in the main rate of UK corporation tax from 21 per cent. to 20 per cent. with effect from 1 April 2015. Further reductions in the main rate of UK corporation tax to 19 per cent. with effect from 1 April 2017 and 17 per cent. with effect from 1 April 2020 have been enacted. This will reduce the Group's future current tax charge accordingly. Deferred tax has been calculated based on the enacted rates to the extent that the related temporary or timing differences are expected to reverse in the future periods.

25. **Contingent liabilities and commitments**

Capital commitments

At 30 June 2016, the Group had no capital commitments (2015: £nil, 2014: £0.1 million relating to the refurbishment of an Everyday Loans branch, 2013: £nil).

Credit commitments

At 30 June 2016, the Group had commitments of £124.2 million (2015: £138.6 million, 2014: £96.0 million, 2013: £6.6 million) to extend credit to customers.

Operating lease commitments

The future aggregate lease payments for non-cancellable operating leases are as follows:

30 June 2016	Land and buildings	Other
	(£ million)	
Within 1 year	0.4	0.4
Between 1 year and 5 years	1.0	0.2
Over 5 years	0.2	—
	1.6	**0.6**

25. Contingent liabilities and commitments (Continued)

31 December 2015	Land and buildings	Other
	(£ million)	
Within 1 year	1.0	0.5
Between 1 year and 5 years	1.6	0.3
Over 5 years	0.3	—
	2.9	**0.8**

31 December 2014	Land and buildings	Other
	(£ million)	
Within 1 year	0.8	0.3
Between 1 year and 5 years	1.5	0.2
Over 5 years	0.1	—
	2.4	**0.5**

31 December 2013	Land and buildings	Other
	(£ million)	
Within 1 year	0.8	0.4
Between 1 year and 5 years	1.6	0.2
Over 5 years	0.1	—
	2.5	**0.6**

There are 5 leases classified as land and buildings in the Group (2015: 35, 2014: 35, 2013: 36). Other leases include motor vehicles and computer hardware.

Other commitments

At 30 June 2016, a commitment exists to make further payments with regard to the Financial Services Compensation Scheme Levy for 2016 and thereafter. Due to uncertainties regarding the elements in the calculation of the levy and the Group's share thereof, the directors consider this cost to be unquantifiable.

26. Share capital

	30 June	31 December		
Ordinary shares	2016	2015	2014	2013
		Number		
At beginning of period	18,191,894	18,191,894	15,648,149	15,648,149
Shares issued during the period	—	—	2,543,745	—
At end of period	**18,191,894**	**18,191,894**	**18,191,894**	**15,648,149**

	30 June	31 December		
Ordinary shares	2016	2015	2014	2013
		(£ million)		
At beginning of period	7.3	7.3	6.3	6.3
Shares issued during the period	—	—	1.0	—
At end of period	**7.3**	**7.3**	**7.3**	**6.3**

On 8 July 2014 an additional 2,083,333 ordinary shares were issued by the Company, at a price of 2,400 pence each, raising gross proceeds of £50 million.

On 3 November 2014 an additional 460,412 ordinary shares were issued by the Company following the exercise of share options, at a price of 720 pence each, raising gross proceeds of £3.3 million.

27. Share based payments

On 17 October 2011, the Group established the Share Option Scheme (SOS) entitling three directors and certain senior employees to purchase shares in the Company.

The performance conditions of the Scheme are that for the duration of the vesting period, the dividends paid by the Company must have increased in percentage terms when compared to an assumed dividend of £8 million in respect of the financial year ending 31 December 2012, by a minimum of the higher of the increase in the Retail Prices Index during that period or 5 per cent. per annum.

All dividends paid by the Company each year during the vesting period must be paid from the Company's earnings referable to that year. Also from the grant date to the date the Option is exercised, there must be no public criticism by any regulatory authority on the operation of the Company or any of its subsidiaries which has a material impact on the business of the Company.

Options are forfeited if they remain unexercised after a period of more than 10 years from the date of grant. If the participant ceases to be employed by the Group by reason of injury, disability, ill-health or redundancy; or because his employing company ceases to be a shareholder of the Group; or because his employing business is being transferred out of the Group, his option may be exercised within six months after such cessation. In the event of the death of a participant, the personal representatives of a participant may exercise an option, to the extent exercisable at the date of death, within six months after the death of the participant.

On cessation of employment for any other reason (or when a participant serves, or has been served with, notice of termination of such employment), the option will lapse although the Remuneration Committee has discretion to allow the exercise of the option for a period not exceeding six months from the date of such cessation.

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit. The number of Ordinary Shares which can be acquired on exercise will be pro-rated on a time elapsed basis, unless the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, decides otherwise. In determining whether to exercise its discretion in these respects, the Remuneration Committee must satisfy itself that the early exercise of an option does not constitute a reward for failure.

On 2 November 2011 934,998 share options were granted at an exercise price of £7.20 per share. Approximately half of the share options were exercised on 2 November 2014 with the remainder being exercisable on 2 November 2016, being classed as share option tranches SOS1 and SOS2 respectively. A total of 14,167 share options have been forfeited since their grant date.

The Share Option Scheme is an equity settled scheme. The original grant date valuation was determined to be £1.69 per option and this valuation has been used in the calculation. An attrition rate of option holders has been assumed of nil for the second tranche of share options. Due to the options being fully conditional knockout options, a probability of pay-out has been assigned based on the likelihood of meeting the performance criteria, which is 100 per cent. for SOS2. The Company incurred an expense in relation to share based payments of £nil (December 2015: £0.2 million, June 2015: £nil, December 2014: £1.5 million, December 2013: £2.2 million), as disclosed in Note 8.

30 June 2016	**Number of option holders**	**SOS2**
Directors	3	318,751
Senior management.	5	141,668
Share options in issue	**8**	**460,419**
Exercise price (£)		7.20
Grant date value per option (£)		1.69
Fair value of share options, if all share options were exercised (£million)		**0.8**
Behavioural assumption (attrition)		—
Probability of pay-out		100 %
Assumed value of share options on exercise date (£million)		**0.8**
Value of share options at 30 June 2016 (£million)		**0.7**

27. **Share based payments (Continued)**

31 December 2015	Number of option holders	SOS2
Directors	3	318,751
Senior management	5	141,668
Share options in issue	**8**	**460,419**
Exercise price (£)		7.20
Grant date value per option (£)		1.69
Fair value of share options, if all share options were exercised (£million)		**0.8**
Behavioural assumption (attrition)		—
Probability of pay-out		100 %
Assumed value of share options on exercise date (£million)		**0.8**
Value of share options at 31 December 2015 (£million)		**0.6**

31 December 2014	Number of option holders	SOS2
Directors	3	318,751
Senior management	5	141,668
Share options in issue	**8**	**460,419**
Exercise price (£)		7.20
Grant date value per option (£)		1.69
Fair value of share options, if all share options were exercised (£million)		**0.8**
Behavioural assumption (attrition)		—
Probability of pay-out		95 %
Assumed value of share options on exercise date (£million)		**0.8**
Value of share options at 31 December 2014 (£million)		**0.5**

31 December 2013	Number of option holders	SOS1	SOS2	Total
Directors	3	318,750	318,751	637,501
Senior management	5	141,666	141,668	283,334
Share options in issue	**8**	**460,416**	**460,419**	**920,835**
Exercise price (£)		7.20	7.20	
Grant date value per option (£)		1.69	1.69	
Fair value of share options, if all share options were exercised (£million)		**0.8**	**0.8**	
Behavioural assumption (attrition)		7.6 %	15.2 %	
Probability of pay-out		95 %	80 %	
Assumed value of share options on exercise date (£million)		**0.8**	**0.8**	**1.6**
Value of share options at 31 December 2013(£million)		**0.7**	**0.5**	**1.2**

Cash settled share based payments

On 16 March 2015, a four year "phantom" share option scheme was established in order to provide effective long-term incentive to senior management of the Group. Under the scheme, no actual shares would be issued by the Company, but those granted awards under the scheme would be entitled to a cash payment. The amount of the award is calculated by reference to the increase in the value of an ordinary share in the Company over an initial value set at £25 per ordinary share, being the price at which the shares resulting from the exercise of the first tranche of share options under the Share Option Scheme were sold in November 2014.

As at 30 June 2016, 312,917 (31 December 2015: 326,917, 30 June 2015: 361,917 (unaudited)) share options remained outstanding.

27. Share based payments (Continued)

As at 30 June 2016, the estimated fair value has been prepared using the Black-Scholes model. Measurement inputs and assumptions used were as follows:

	30 June	31 December		
	2016	2015	2014	2013
	(£ million)			
Expected stock price volatility	47.0%	27.00%	—	—
Expected dividend yield	2.09%	2.09%	—	—
Risk free interest rate	0.72%	0.72%	—	—
Average expected life (years)	2.35	2.85	—	—

This resulted in the following being recognised in the financial statements:

	30 June	31 December		
	2016	2015	2014	2013
	(£ million)			
Balance at 1 January	1.2	—	—	—
Charge for the year (included in staff costs)	—	1.2	—	—
Balance at end of period	**1.2**	**1.2**	**—**	**—**
Intrinsic value	0.5	0.8	—	—

28. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

	30 June	31 December		
	2016	2015	2014	2013
	(£ million)			
Cash and balances at central banks	141.8	131.8	81.2	—
Loans and advances to banks (Note 12)	14.1	9.8	24.8	90.0
	155.9	141.6	106.0	90.0
Included in assets held for sale				
Loans and advances to banks (Note 33)	—	1.7	—	—
	155.9	**143.3**	**106.0**	**90.0**

29. Related party transactions

Related parties of the Group include Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

29. Related party transactions (Continued)

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits set out below. Except for the directors' disclosures, there were no other Key Management Personnel disclosures, therefore the tables below relate to directors only.

	30 June	31 December		
	2016	2015	2014	2013
		(£ million)		
Loans				
Loans outstanding at 1 January	0.2			
Loans advanced during the period	0.2	0.2	—	—
Loans outstanding at end of period	**0.4**	**0.2**	**—**	**—**
Deposits				
Deposits outstanding at 1 January	0.5	0.4	0.3	0.3
(Withdrawals)/additional deposits made during the period	(0.2)	0.1	0.1	—
Deposits outstanding at end of period	**0.3**	**0.5**	**0.4**	**0.3**

The above loan is part of a £2.5 million facility agreed by the Real Estate Finance business with a company in which a director holds 50 per cent. of the voting shares, which is secured by property and personal guarantees.

The above transactions arose during the normal course of business and are on substantially the same terms as for comparable transactions with third parties.

Directors' remuneration

Details of directors' remuneration for the period are provided in Part 16 of this document: *"Additional Information"*.

The ordinary shares held by the directors and directors' holdings of share options at the period end are also disclosed in Part 16 of this document: *"Additional Information"*.

The interests of any directors who held shares in Arbuthnot Banking Group PLC, which was the ultimate parent company until the sale of their controlling stake, are shown in the directors' report of the ultimate parent company.

The Company undertook the following transactions with other companies in the Arbuthnot Banking Group:

	30 June	31 December		
	2016	2015	2014	2013
		£million		
Arbuthnot Latham & Co., Ltd—recharge income of shared services	(0.1)	(0.8)	(0.2)	(0.2)
Arbuthnot Latham & Co., Ltd—interest income on call account	—	—	—	(0.1)
Arbuthnot Banking Group PLC - group recharges	0.3	0.4	0.4	0.3

30. Operating segments

The Group is organised into six main operating segments, which consist of the different products available, disclosed below:

Business finance

(1) Real Estate Finance: residential and commercial investment and development loans secured by UK real estate.

(2) Asset Finance: loans to small and medium sized enterprises to acquire commercial assets.

(3) Commercial Finance: invoice discounting and factoring.

Consumer finance

(4) Personal Lending: Unsecured consumer loans sold to customers via brokers, aggregators and business partners.

(5) Motor Finance: Hire purchase agreements secured against the vehicle being financed.

(6) Retail Finance: Point of sale unsecured finance for in-store and online retailers.

30. **Operating segments (Continued)**

Other

Other includes Current Account, OneBill, STB Leasing Limited, debt collection and a £30 million loan to NSF as part of their purchase of ELG.

Management review these segments by looking at the income, size and growth rate of the loan books, impairments and customer numbers. Except for these items no costs or balance sheet items are allocated to the segments.

Six months ended 30 June 2016	**Interest receivable and similar income**	**Fee and commission income**	**Revenue from external customers**	**Net impairment losses on loans and advances to customers**	**Loans and advances to customers**
			(£ million)		
Business finance					
Real Estate Finance	13.9	0.1	14.0	—	361.7
Asset Finance	3.5	—	3.5	0.2	112.3
Commercial Finance	0.6	1.1	1.7	—	54.5
Consumer finance					
Personal Lending	8.0	—	8.0	2.2	64.6
Motor Finance	18.4	0.4	18.8	6.1	205.6
Retail Finance	15.4	1.2	16.6	4.8	271.7
Other	2.9	5.9	8.8	—	57.9
Continuing operations	**62.7**	**8.7**	**71.4**	**13.3**	**1,128.3**
Discontinued operations and assets held for sale					
Personal Lending	11.1	0.1	11.2	2.6	—
	73.8	**8.8**	**82.6**	**15.9**	**1,128.3**

Six months ended 30 June 2015 (unaudited)	**Interest receivable and similar income**	**Fee and commission income**	**Revenue from external customers**	**Net impairment losses on loans and advances to customers**	**Loans and advances to customers**
(unaudited)			*(£ million)*		
Business finance					
Real Estate Finance	8.1	—	8.1	0.3	266.3
Asset Finance	0.6	—	0.6	—	30.4
Commercial Finance	0.1	0.4	0.5	—	15.7
Consumer finance					
Personal Lending	8.5	—	8.5	2.3	83.6
Motor Finance	15.8	—	15.8	3.1	152.3
Retail Finance	9.6	0.7	10.3	2.3	163.4
Other	3.0	7.2	10.2	—	35.3
Continuing operations	**45.7**	**8.3**	**54.0**	**8.0**	**747.0**
Discontinued operations and assets held for sale					
Personal Lending	18.5	1.1	19.6	3.2	105.3
	64.2	**9.4**	**73.6**	**11.2**	**852.3**

30. **Operating segments (Continued)**

Year ended 31 December 2015	Interest receivable and similar income	Fee and commission income	Revenue from external customers	Net impairment losses on loans and advances to customers	Loans and advances to customers
			(£ million)		
Business finance					
Real Estate Finance	20.2	0.1	20.3	—	368.0
Asset Finance	2.4	—	2.4	—	70.7
Commercial Finance	0.4	1.2	1.6	0.3	29.3
Consumer finance					
Personal Lending	17.2	—	17.2	4.8	74.3
Motor Finance	33.2	0.1	33.3	7.3	165.7
Retail Finance	22.5	1.7	24.2	5.2	220.4
Other	4.6	13.8	18.4	(0.8)	32.2
Continuing operations	**100.5**	**16.9**	**117.4**	**16.8**	**960.6**
Discontinued operations and assets held for sale					
Personal Lending	39.2	1.5	40.7	7.5	114.3
	139.7	**18.4**	**158.1**	**24.3**	**1,074.9**

Year ended 31 December 2014	Interest receivable and similar income	Fee and commission income	Revenue from external customers	Net impairment losses on loans and advances to customers	Loans and advances to customers
			(£ million)		
Business finance					
Real Estate Finance	2.5	—	2.5	—	133.8
Asset Finance	—	—	—	—	4.5
Commercial Finance	—	0.1	0.1	—	5.0
Consumer finance					
Personal Lending	15.1	—	15.1	3.3	87.5
Motor Finance	27.2	—	27.2	3.9	137.9
Retail Finance	12.8	0.8	13.6	1.2	116.7
Other	5.8	15.2	21.0	0.3	43.2
Continuing operations	**63.4**	**16.1**	**79.5**	**8.7**	**528.6**
Discontinued operations and assets held for sale					
Personal Lending	30.2	4.1	34.3	6.6	93.9
	93.6	**20.2**	**113.8**	**15.3**	**622.5**

30. **Operating segments (Continued)**

Year ended 31 December 2013	**Interest receivable and similar income**	**Fee and commission income**	**Revenue from external customers**	**Net impairment losses on loans and advances to customers**	**Loans and advances to customers**
			(£ million)		
Business finance					
Real Estate Finance	0.1	—	0.1	—	1.8
Asset Finance	—	—	—	—	—
Commercial Finance	—	—	—	—	—
Consumer finance					
Personal Lending	12.7	—	12.7	4.4	77.8
Motor Finance	23.0	—	23.0	3.6	114.7
Retail Finance	9.4	0.4	9.8	1.0	70.1
Other	6.4	16.6	23.0	0.6	45.2
Continuing operations	**51.6**	**17.0**	**68.6**	**9.6**	**309.6**
Discontinued operations and assets held for sale					
Personal Lending	22.2	5.7	27.9	6.0	81.4
	73.8	**22.7**	**96.5**	**15.6**	**391.0**

The "other" segment above includes other products which are individually below the quantitative threshold for separate disclosure and fulfils the requirement of IFRS 8.28 by reconciling operating segments to the amounts reported in the financial statements.

As interest, fees, commission and operating expenses are not aligned to operating segments for day to day management of the business and cannot be allocated on a reliable basis, profit by operating segment has not been disclosed.

All of the Group's operations are conducted wholly within the United Kingdom and geographical information is therefore not presented.

31. **Immediate and ultimate parent company**

Prior to the sale of its controlling interest on 15 June 2016, the Company regarded Arbuthnot Banking Group PLC, a company registered in England and Wales, as the immediate and ultimate parent company. Sir Henry Angest, the Group Chairman and Chief Executive has a beneficial interest in 53.7 per cent. of the issued share capital of Arbuthnot Banking Group PLC and was regarded by the Company as the ultimate controlling party. A copy of the consolidated financial statements of Arbuthnot Banking Group PLC may be obtained from the Company Secretary, Arbuthnot Banking Group PLC, Arbuthnot House, 7 Wilson Street, London, EC2M 2SN.

Since 15 June 2016, the Company has had no ultimate controlling party.

32. **Events after the balance sheet date**

There were no material post balance sheet events in the Group.

33. **Discontinued operations and assets and liabilities held for sale**

On 4 December 2015, the Bank agreed to the conditional sale of its non-standard consumer lending business, ELG, which comprises Everyday Loans Holdings Limited and subsidiary companies Everyday Lending Limited and Everyday Loans Limited, to NSF. Consideration received on completion comprised £106.9 million in cash and £16.3 million in NSF ordinary shares. The Disposal completed on 13 April 2016, and on completion, NSF repaid intercompany debt of £108.1 million to STB. After selling costs of £2.7 million, this resulted in a gain recognised on disposal of £116.8 million. In addition, staff costs of £3.5 million were incurred in respect of the sale, which are included in operating expenses.

Under the Bank's ownership, ELG has achieved impressive growth, within the constraints imposed upon it as part of a highly regulated banking group. An unsolicited approach revealed that NSF was prepared to pay an attractive valuation for ELG.

33. **Discontinued operations and assets and liabilities held for sale (Continued)**

The net effect of the Disposal was therefore to significantly increase the equity base of the Group to £228 million, after declaring the special dividend of £30 million. This substantially improved STB's capital resources and broadened the range of strategic options available to it.

The Disposal improved the Group's CET1 ratio and Leverage ratios to 20.1 per cent. and 15.8 per cent. respectively, at 30 June 2016 (from 15.0 per cent. and 11.9 per cent. on an unadjusted basis as at 30 June 2015). This has generated a substantial capital surplus and significant headroom over PRA minimum leverage requirements, which supports the strong growth in lending of the Group.

While in the short term the Disposal is expected to reduce earnings, given the disposal of ELG's profit streams, the Board is confident that the proceeds can be reinvested to accelerate the Group's growth prospects and secure new income streams.

Details of the net assets disposed of and consequential gain recognised on disposal, assets and liabilities held for sale at 31 December 2015 and cash flow of discontinued operations is set out below.

Statement of financial position	**Assets and liabilities sold on 13 April 2016**	**Assets and liabilities held for sale at 31 December 2015**
	(£ million)	
ASSETS		
Loans and advances to banks	2.4	1.7
Loans and advances to customers	117.9	114.3
Property, plant and equipment	0.5	0.4
Intangible assets	1.2	1.2
Deferred tax assets	0.4	0.4
Other assets	0.8	0.5
Total assets	**123.2**	**118.5**
LIABILITIES		
Current tax liabilities	4.0	3.4
Other liabilities	7.4	5.3
Total liabilities	**11.4**	**8.7**
Net assets disposed of/ held for sale	**111.8**	**109.8**
Consideration		
Cash	215.0	
NSF shares	16.3	
	231.3	
Selling costs	(2.7)	
Gain recognised on disposal	**116.8**	

The cash flow from sale of subsidiary undertaking can be analysed as follows:

	£million
Cash consideration	215.0
Selling costs	(2.7)
Cash disposed of as part of sale	(2.4)
	209.9

33. **Discontinued operations and assets and liabilities held for sale (Continued)**

Cash flows from discontinued operations	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
		(unaudited)			
			(£ million)		
Cash flows from operating activities					
Profit for the period	2.0	4.5	9.4	6.6	2.1
Adjustments for:					
Income tax expense	0.5	1.1	2.3	2.0	1.9
Depreciation of property, plant and equipment	—	0.1	0.1	0.1	0.3
Amortisation of intangible assets	—	0.5	1.0	1.3	1.3
Impairment losses on loans and advances to customers	2.6	3.2	7.5	6.6	6.0
Cash flows from operating profits before changes in operating assets and liabilities	5.1	9.4	20.3	16.6	11.6
Changes in operating assets and liabilities:					
- net increase in loans and advances to customers	(6.2)	(14.7)	(27.9)	(19.1)	(13.6)
- net (increase)/decrease in other assets	(0.3)	(0.2)	(0.1)	—	2.2
- net increase/decrease in other liabilities	2.1	4.1	8.1	5.6	(0.7)
Income tax paid	—	(0.1)	(0.1)	(2.3)	0.3
Net cash inflow/(outflow) from operating activities	**0.7**	**(1.5)**	**0.3**	**0.8**	**(0.2)**
Cash flows from investing activities					
Purchase of property, plant and equipment	—	(0.2)	(0.3)	(0.1)	(0.3)
Purchase of computer software	—	—	—	—	(0.2)
Net cash flows from investing activities	**—**	**(0.2)**	**(0.3)**	**(0.1)**	**(0.5)**
Net increase in cash and cash equivalents	0.7	(1.7)	—	0.7	(0.7)
Cash and cash equivalents at 1 January	1.7	1.7	1.7	1.0	1.7
Cash and cash equivalents at end of period	**2.4**	**—**	**1.7**	**1.7**	**1.0**

PART 15
TAXATION

1. UNITED KINGDOM TAXATION

1.1 General

The following is a summary of certain United Kingdom tax considerations relating to an investment in the Company's Shares.

The statements set out below are based on current United Kingdom law and published HMRC practice (which may not be binding on HMRC), as at the date of this Prospectus, and which may be subject to change, possibly with retroactive effect. The statements are intended as a general guide and apply only to shareholders of the Company resident and, in the case of an individual, domiciled in (and only in) the United Kingdom for United Kingdom tax purposes (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold Shares as an investment (other than under an individual savings account) and who are the absolute beneficial owners of the Shares and any dividends paid on them (in particular, shareholders holding their Shares via a depositary receipt system or clearance service should note that they may not always be regarded as the absolute beneficial owners thereof). The discussion does not address all possible tax consequences relating to an investment in the Shares. The statements are not addressed to certain categories of shareholders that are subject to special rules including: (i) special classes of shareholders such as, for example, dealers in securities, broker-dealers, intermediaries, insurance companies and collective investment schemes; (ii) shareholders who hold Shares as part of hedging transactions; (iii) shareholders who have (or are deemed to have) acquired their Shares by virtue of an office or employment; and (iv) shareholders who hold Shares in connection with a trade, profession or vocation carried on in the United Kingdom through a branch or agency (or, in the case of a corporate shareholder, in connection with a trade in the UK carried on through a permanent establishment or otherwise).

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

1.2 Dividends

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend.

(a) *Individuals*

All dividends received by a UK resident individual shareholder from the Company or from other sources will form part of the shareholder's total income for income tax purposes and will constitute the top slice of that income. A nil rate of income tax will apply to the first £5,000 of taxable dividend income received by the shareholder in a tax year. Where the dividend income is above the £5,000 dividend allowance, the lowest part of the dividend income will be charged at the nil rate and any excess amount will be taxed at the rate that would apply to that amount if the nil rate did not exist. The rates are 7.5 per cent. to the extent that the excess amount falls within the basic rate tax band, 32.5 per cent. to the extent that the excess amount falls within the higher rate tax band and 38.1 per cent. to the extent that the excess amount falls within the additional rate tax band.

(b) *UK resident corporate shareholders*

Shareholders who are within the charge to corporation tax will be subject to corporation tax on dividends paid by the Company, 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 Company would fall within an exempt class (although it should be noted that the exemption is not comprehensive and is also subject to anti-avoidance rules). Shareholders within the charge to corporation tax should consult their own professional advisers.

(c) *Non-Residents*

A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under applicable 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 Company.

1.3 **Chargeable Gains**

A disposal or deemed disposal of Shares by a shareholder who is resident in the UK for tax purposes in the tax year (or part thereof) in question may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains. This will depend upon the shareholder's circumstances and is subject to any available exemption or relief (such as the annual exempt amount for individuals and indexation for corporate shareholders).

Shareholders who are not resident in the UK will not generally be subject to UK taxation of capital gains on the disposal or deemed disposal of Shares unless they are carrying on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a corporate shareholder, carrying on a trade in the UK through a permanent establishment) in connection with which the Shares are used, held or acquired.

Where an individual shareholder who is resident in the UK ceases to be so resident (or becomes resident outside the UK for the purposes of double taxation arrangements ("**Treaty non-resident**")) for a period of less than five tax years (or, in respect of departures before 6 April 2013, ceased to be resident or ordinarily resident or become Treaty non-resident for a period of less than five complete years of assessment), a disposal of all or part of his Shares during that period may be liable to capital gains tax on his return to the UK, subject to any available exemptions or reliefs. Nothing in any double taxation relief arrangements prevents such an individual from being subject to UK capital gains tax in those circumstances.

If an individual shareholder who is subject to income tax at the higher or additional rate becomes liable to UK capital gains tax on the disposal of Shares, the applicable rate will be 20 per cent. Other individual shareholders may only be liable to any such capital gains tax at a rate of 10 per cent.

1.4 **UK Inheritance Tax**

Shares will be assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax, even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold Shares bringing them within the charge to inheritance tax. Holders of Shares should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Shares through a trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to United Kingdom inheritance tax and an equivalent tax in another country or if they are in any doubt about their United Kingdom inheritance tax position.

1.5 **Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

The statements in this section are intended as a general guide to the current United Kingdom stamp duty and SDRT position and apply to any shareholder irrespective of their residence. Existing and prospective shareholders should note that certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

No liability to stamp duty or SDRT will arise on the issue of, or on the issue of definitive Share certificates in respect of, Shares by the Company other than in circumstances involving depositary receipts or clearance services referred to below.

The transfer on sale of Shares held in certificated form will generally be subject to stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration for the Shares (rounded up if necessary to the nearest multiple of £5). Stamp duty is normally paid by the purchaser of the Shares.

An unconditional agreement to transfer Shares 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 for the Shares. However, where within six years of the date of the agreement an instrument of transfer is executed and duly stamped, the SDRT liability will be cancelled and any SDRT which has been paid may be reclaimed. SDRT is normally the liability of the purchaser of the Shares.

Paperless transfers of Shares within CREST are generally subject 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 system. Deposits of Shares into CREST will generally not be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration.

Special rules apply to agreements made by market intermediaries in the ordinary course of their business.

Where Shares are transferred (in the case of stamp duty) or issued or transferred (in the case of SDRT) (a) to, or to a nominee or agent (a nominee only in the case of SDRT) for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT may be payable at a rate of 1.5 per cent. (rounded up if necessary, in the case of stamp duty, to the nearest multiple of £5) of the amount or value of the consideration payable or, in certain circumstances, the value of the Shares.

Any liability for stamp duty or SDRT which does arise will strictly be accountable by the depositary or clearance service operator or their nominee, as the case may be, but will in practice generally be reimbursed by participants in the clearance service or depositary receipt scheme.

Transactions within a clearance service and transfers and agreements to transfer depository receipts are not normally subject to stamp duty or SDRT. Clearance service providers may opt under certain circumstances for the normal rates of SDRT (0.5 per cent. of the consideration paid) to apply to transfers of Shares into and to transactions within the service instead of the higher rate applying to an issue or transfer of Shares into the clearance service, in which case a liability to SDRT would arise (at the rate of 0.5 per cent. of the consideration paid) on any subsequent transfers of Shares whilst in the service.

Following litigation, HMRC has confirmed that it will no longer seek to apply the 1.5 per cent. stamp duty or SDRT charge on the issue of Shares into a clearance service or depositary receipt system on the basis that the charge is not compatible with EU law. HMRC's view is that the 1.5 per cent charge will however apply on the transfer of Shares into a clearance service or depositary receipts system where the transfer is not an integral part of the issue of Share capital. It is noted that on 23 June 2016, the United Kingdom voted in a referendum to leave the EU. Accordingly, the extent to which HMRC's position remains as set out in this paragraph is uncertain. Accordingly, it may be appropriate to seek specific professional advice before incurring the 1.5 per cent. stamp duty or SDRT charge.

PART 16
ADDITIONAL INFORMATION

1. RESPONSIBILITY

1.1 The Company and its Directors (whose names and principal functions appear on page 32 of this document) accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

2. INCORPORATION AND REGISTERED OFFICE

2.1 The Company was incorporated in England and Wales on 26 November 1954 with registered number 00541132 under the Companies Act 1948 as a private company limited by shares with the name Secure Homes Limited.

2.2 The Company re-registered as a public limited company on 3 May 1994 under the Companies Act 1985 with the name Secure Trust Bank Public Limited Company.

2.3 The principal legislation under which the Company operates is the Companies Act.

2.4 The registered office and the principal place of business in the United Kingdom of the Company is at One Arleston Way, Shirley, Solihull, West Midlands, B90 4LH (telephone number 0121 693 9100).

3. SHARE CAPITAL

3.1 The issued and fully paid share capital of the Company as at 4 October 2016 is as follows:

Issued and fully paid		
Nominal Value	**Number**	Amount (£)
£0.40 each	18,191,894	£7,276,757.60

3.2 The Shares are currently admitted to trading on AIM. Upon Admission, the admission of the Shares to trading on AIM will be cancelled.

3.3 Since 1 January 2013 (being the period from which the historical financial information is provided in this Prospectus), the issued share capital of the Company, which was 15,648,149 ordinary shares of £0.40 each, has been changed as follows:

(a) on 8 July 2014, the Company issued an additional 2,083,333 ordinary shares of £0.40 each, resulting in an issued share capital of 17,731,482 ordinary shares; and

(b) on 3 November 2014, the Company issued an additional 460,412 ordinary shares of £0.40 each, resulting in an issued share capital of 18,191,894 ordinary shares prior to Admission.

3.4 The Shares are in registered form and are capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations).

3.5 Other than as provided by the Takeover Code and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules relating to the Company.

(a) *Mandatory bid*

The Takeover Code applies to the Company. Under the Takeover Code, if an acquisition of interests in Shares were to increase the aggregate holding of the acquirer and its concert parties to interests in Shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on circumstances, its concert parties would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding Shares in the Company at a price not less than the highest price paid for interests in Shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in Shares by a person holding (together with its concert parties) Shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights in the Company.

(b) *Squeeze-out*

Under the Companies Act, if an offeror were to make an offer to acquire all of the Shares in the Company not already owned by it and were to acquire 90 per cent. of the Shares to which such offer related it could then compulsorily acquire the remaining 10 per cent. The offeror would do so by sending a notice to outstanding members telling them that it will compulsorily acquire their Shares and then, six weeks later, it would deliver a transfer of the outstanding Shares in its favour to the Company which would execute the transfers on behalf of the relevant members, and pay the consideration to the Company which would hold the consideration on trust for outstanding members. The consideration offered to the members whose Shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the offer value is unfair.

(c) *Sell-out*

The Companies Act also gives minority members a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent, of the Shares, any holder of Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Shares. The offeror would be required to give any member notice of his/her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises his/her rights, the offeror is entitled and bound to acquire those Shares on the terms of the offer or on such other terms as may be agreed.

3.6 The Company has not issued any partly paid shares nor any convertible securities, exchangeable securities or securities with warrants. The Company does not hold any shares in treasury. There are no shares in the Company's issued share capital that do not represent capital.

3.7 The Shares have the rights and are subject to the restrictions referred to in paragraph 4.1(c) of this Part 16: "*Additional Information*".

4. ARTICLES OF ASSOCIATION

4.1 The Articles of Association were adopted pursuant to a resolution passed at a general meeting of the Company held on 27 October 2011. The Articles contain a number of provisions with respect to the appointment of Directors in favour of Arbuthnot that are currently of no effect as neither Arbuthnot nor any Shareholder of the Arbuthnot Group beneficially owns or is together interested in 50 per cent. or more of the Ordinary Shares of the Company. It is expected that these provisions will be removed and the articles will be updated at the Company's first annual general meeting following Admission. The Articles contain provisions to the following effect:

(a) **Objects**

The objects of the Company, in accordance with section 31(1) of the Companies Act, are unrestricted.

(b) **Limited Liability**

The liability of the members is limited to the amount, if any, unpaid on the Shares in the Company respectively held by them.

(c) **Rights Attaching to Shares**

(i) *Voting Rights of Members*

Subject to any other provision of the Articles and without prejudice to any special rights, privileges or restrictions as to voting attached to any shares for the time being forming part of the capital of the Company, on a show of hands each Shareholder (being an individual) present in person has in total one vote and every proxy present who has been duly appointed by one or more Shareholders entitled to vote on the resolution has one vote, except that if the proxy has been appointed by more than one Shareholder entitled to vote on the resolution and is instructed by one or more of those Shareholders to vote for the resolution and by one or more of those Shareholders to vote against it, or is instructed by one or more of those Shareholders to vote in one way and is given discretion as to how to vote by one or more others (and wishes to use that discretion to vote in the other way) he has one vote for and one vote against the resolution; and each corporate representative present who has been duly authorised by a Shareholder (being a corporation) has the same voting rights as the corporation would be entitled to; and on a poll each Shareholder present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each share of which he is the holder or in respect of which his appointment as proxy or corporate representative has been made. On a show of hands or on a poll, votes may be given either personally or by proxy or (in the case of a corporate Shareholder) by a duly authorised representative and on a poll a Shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

(ii) *Dividends*

No dividend or interim dividend shall be paid otherwise than in accordance with the provisions of the Companies Act.

Subject to the provisions of the Companies Act, the Company may in general meeting declare dividends in accordance with the respective rights of the Shareholders, but no dividend shall exceed the amount recommended by the Board.

Subject to the provisions of the Companies Act, the Board may from time to time pay such interim dividends as appear to the Board to be justified by the financial position of the Company and may also pay the fixed dividends payable on any shares of the Company at intervals settled by the Board if it appears to the Board that the financial position of the Company justifies such payment.

If the Board acts in good faith, it shall not incur any liability to the holders of any class of shares for any loss they may suffer in consequence of the payment of an interim or fixed dividend on any other class of shares ranking pari passu with or after those shares.

Dividends are not payable on any fixed dates.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, but no amount paid on a share in advance of calls shall be treated for the purpose of paying a dividend as paid up on the share. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as if paid up in full or in part from a particular date, whether past or future, such share shall rank for dividend accordingly.

Any dividend unclaimed after a period of twelve years from the date on which such dividend was declared, or such dividend became due for payment shall be forfeited and shall revert to the Company.

(iii) *Pre-emption Rights*

There are no rights of pre-emption under the articles of association of the Company in respect of transfers of issued ordinary shares.

In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Companies Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment to existing shareholders on a pro rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Group's shareholders.

Parts of sections 428 to 430F of the Companies Act contain provisions which, in certain circumstances, require and entitle persons making a takeover offer for the shares in the Company and who acquire 90 per cent. or more of the shares to which such offer relates (if all other conditions of that offer have been satisfied or waived) to acquire, and for the holders of shares in the Company to be entitled and required to sell, the shares held by the non-acceptors of that offer, in each case on a mandatory basis and on the same terms as the takeover offer.

(iv) *Return of Capital*

If the Company shall be wound up the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide amongst the Shareholders in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Shareholders or different classes of Shareholders. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with like sanction, shall think fit, but so that no Shareholder shall be compelled to accept any shares or other securities or other assets whereon there is any liability.

(d) **Transfer of Shares**

A Shareholder may transfer all or any of his shares:

(i) in the case of certificated shares by an instrument of transfer in writing in any usual form or in any other form which the Board may approve; and

(ii) in the case of uncertificated shares (subject to the class of shares becoming 'Participating Securities' in accordance with the CREST Regulations) by means of CREST in such manner provided for, and subject as provided in, the CREST Regulations and the rules of CREST, and accordingly no provision of the Articles shall apply in respect of an uncertificated share to the extent that it requires or contemplates the effecting of a transfer by an instrument in writing or the production of a certificate for the share to be transferred.

The instrument of transfer of a Certificated Share shall be executed by or on behalf of the transferor and (in the case of a partly paid share) the transferee. All instruments of transfer, when registered, may be retained by the Company.

The Board may, in its absolute discretion, decline to register any transfer of any share which is not a fully paid share.

Registration of a transfer of an uncertificated share may be declined in any circumstance permitted or required by (i) the CREST Regulations; (ii) CREST; and (iii) the London Stock Exchange.

Save as provided above and subject to paragraph 4.1(f) below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share, the number of jointholders does not exceed four and it is accompanied by the share certificate and any other evidence of title required by the Board and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

(e) **Variation of Rights**

If at any time the share capital is divided into different classes of shares, the rights attached to any class or any of such rights may, subject to the provisions of the Companies Act, whether or not the Company is being wound up, be modified, abrogated or varied either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class excluding any shares of that class held as treasury shares, or with the sanction of an special resolution passed at a separate meeting of the holders of the shares of that class (but not otherwise) and may be so modified, abrogated or varied either whilst the Company is a going concern or during or in contemplation of a winding up. These conditions are not more stringent than required by law.

(f) **Suspension of Rights**

If any Shareholder, or any other person appearing to the Directors to be interested in any shares in the capital of the Company held by such Shareholder, has been duly served with a statutory notice in respect of those shares and is in default for the period of 14 days from the date of service of the notice in supplying to the Company the information thereby required, then the Company may (at the absolute discretion of the Directors) at any time thereafter by notice to such Shareholder direct that, in respect of the shares in relation to which the default occurred and any other shares held at the date of the notice by the Shareholder, or such of them as the Directors may determine from time to time, the Shareholder shall not be entitled to be present or to vote on any question, (whether in person or by proxy or in the case of a corporate Shareholder, by a duly authorised representative), at any general meeting of the Company or separate general meeting of the holders of any class of shares of the Company, or to be reckoned in a quorum. In addition, whether the holding represents 0.25 per cent. of the issued shares of that class, such Shareholder shall have no right to receive any dividend, and the Board may decline to register any transfer of such shares other than where:

(i) the Shareholder is not himself in default as regards supplying the information required by the statutory notice and proves to the satisfaction of the Board that no person in default of supplying such information is interested in any of the shares which are the subject of the transfer; or

(ii) the transfer is of part only of the Shareholder's holding and, when presented for registration, is accompanied by a certificate by the Shareholder in a form satisfactory to the Board to the effect that after due and careful enquiry the Shareholder is satisfied that none of the shares the subject of the transfer are restricted shares; or

(iii) the transfer is made pursuant to acceptance of a takeover offer for the Company or in relation to any of its shares or in consequence of a sale to a bona fide third party, which will be deemed to include sale made through the London Stock Exchange or any recognised investment exchange or any stock exchange selected by the Company outside the United Kingdom on which the Company's shares are normally traded or is shown to the Board's satisfaction to be made in consequence of a sale in good faith of the whole of the beneficial interest in the shares to a person who is unconnected with the holder and with any other person appearing to be interested in the shares.

(g) **Redeemable Shares**

Subject to the Companies Act, the Company may issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

(h) **Meetings**

(i) *General Meetings*

The Directors may call a General Meeting. The Directors must call a General Meeting if the Shareholders and the Companies Act require them to do so. If at any time there are not sufficient Directors capable of acting to form a quorum the Directors capable of acting may convene a General Meeting in the same manner as nearly as possible as that in which meetings may be convened by the Directors. Any General Meeting of the Company other than an Annual General Meeting shall be called by not less than 14 clear days' notice in writing (subject to the Companies Act). In any General Meeting, in the event of an equality of votes, the Chairman of the Meeting shall have a casting vote.

(ii) *Annual General Meetings*

The Company shall in each year hold a general meeting as its Annual General Meeting in addition to any other meetings in that year. The Annual General Meeting shall be held at such time and place as may be determined by the Directors. An Annual General Meeting shall be called by not less than 21 clear days written notice.

(i) **Directors**

(i) *Number of Directors*

Unless and until otherwise determined by ordinary resolution of the Company, the number of Directors shall not be less than three, but shall not be subject to any maximum.

(ii) *Appointment*

Arbuthnot shall be entitled, for such time as it and any Shareholder of the Arbuthnot Group beneficially own or are together interested in 50 per cent. or more of the issued Ordinary Shares carrying voting rights, to appoint and remove such number of persons to be Arbuthnot Directors as shall represent one third of all the Directors. Also for such time, power of the Board to appoint and remove Directors shall not, with one exception, apply to any Arbuthnot Directors.

Except for such time as Arbuthnot and any Shareholder of its group beneficially own or are together interested in 50 per cent. or more of the issued shares of the Company carrying voting rights:

(A) at each Annual General Meeting, one-third of the Directors (or if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third) other than the Arbuthnot Directors for such time as Arbuthnot holds 50 per cent. or more of the issued shares of the Company carrying voting rights shall retire from office. A Director retiring at a meeting shall retain office until the dissolution of such meeting. If there is only one Director subject to retirement by rotation, he shall retire;

(B) the Directors to retire at each Annual General Meeting shall include so far as necessary to obtain the number required any Director who wishes to retire and not offer himself for re-election and any further Directors so to retire shall, including such Directors as aforesaid be the one-third or other nearest number who have been longest in office. As between two or more who have been in office an equal length of time, the Director to retire shall in default of agreement between them be determined by lot. The length of time a Director has been in office shall be computed from his last election or appointment when he has previously vacated office. A retiring Director shall be eligible for re-election;

(C) the Company, at any general meeting at which any Directors retire in manner aforesaid may, subject to any resolution reducing the number of Directors, fill up the vacated offices by electing a like number of persons to be Directors and may fill up any other vacancies; and

(D) if at any general meeting at which an election of Directors ought to take place the places of the retiring Directors are not filled up, then the Company may pass an ordinary resolution to re-elect every Director or Directors eligible to continue in office until the dissolution of the Annual General Meeting in the next year.

There is no age limit for the appointment or retirement of a director, and it is not necessary to give special notice of any resolution appointing or approving the appointment of a Director by reason only of his age.

In any meeting of the Directors, in the event of an equality of votes, the Chairman of the meeting shall have a casting vote.

(iii) *Remuneration*

Other than Managing Directors and Executive Directors whose remuneration shall be determined in accordance with Article 104 of the Articles (summarised in the immediately following paragraph), the Directors (or Arbuthnot in the case of the Arbuthnot Directors) shall be entitled to be paid out of funds of the Company by way of fees for their services as Directors such sums (if any) as the Board may from time to time determine (not exceeding in the aggregate an annual sum (excluding amounts payable under any other provision of these Articles) of £400,000 (or such larger amount as the Company may by ordinary resolution determine) and such remuneration shall include any amounts payable to Arbuthnot in respect of the Arbuthnot Directors and shall otherwise be divided between the Directors as they shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.

The salary or remuneration of any Managing Director or such Executive Director of the Company shall, subject as provided in any contract, be such as the Board may from time to time determine, and may be of any description including, without limitation, a fixed sum of money, a sum altogether or in part be governed by the business done or profits made, the making of provisions for the payment to him or his other dependants of a pension on retirement from the office or employment to which he is appointed, or the participation in pension and life assurance and other benefits; or may otherwise be upon such other terms as the Board determines.

The Directors may also be paid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors including any expenses incurred in attending and returning from meetings of the Directors or any committee of the Directors or General Meetings of the Company or of the holders of any class of shares or debentures of the Company or otherwise in connection with the business of the Company.

Any Director who is appointed to any executive office or who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, fees, percentage of profits or otherwise as the Board may determine.

Save as set out in the paragraph immediately following, or by the terms of any authorisation given by the Board, including (without limitation) pursuant to any provision of the Articles, a Director must not vote at a meeting of the Board or any committee or sub-committee of the Board in respect of any contract, transaction, arrangement or proposal in which he has an interest (other than an interest in shares, debentures or other securities of or otherwise in or through the Company) which is to his knowledge a material interest and a Director must not be counted in the quorum at a meeting of the Board or any committee or sub-committee of the Board in relation to any such matter.

(iv) *Voting*

A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

(A) the giving of any guarantee, security or indemnity to him in respect of money lent to, or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;

(B) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;

(C) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription, purchase or exchange in which he is, or is to be, interested as a participant in the underwriting or sub- underwriting thereof;

(D) any contract, arrangement, transaction or other proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever provided that he is not the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of such company (or of a third company through which his interest is derived) or of the voting rights available to Shareholders of the relevant company (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances);

(E) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which either relates to both employees and Directors of the Company or any of its subsidiary undertakings and does not accord to any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates;

(F) any contract, arrangement, transaction or proposal concerning the adoption, modification or operation of any scheme for enabling Directors and employees of the Company and/or any subsidiary undertaking to acquire shares of the Company or any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings under which the Director benefits in a similar manner to employees;

(G) any contract, policy, arrangement, transaction or proposal concerning the purchase of insurance for the benefit of the Directors whether under a Directors and Officers Liability Policy or otherwise; and

(H) any proposal under which he may benefit concerning the provision of funds to Directors to meet expenditure incurred or to be incurred by them in defending proceedings or in connection with any application under any of the provisions mentioned in the Companies Act or otherwise enabling any such person to avoid incurring that expenditure.

(v) *Conflicts*

For the purposes of sections 175 and 180(4) of the Companies Act, in the Articles the shareholders authorise each Arbuthnot Director's and any Executive Director's conflict situations which arise or may arise as a result of any of the following matters or situations:

(A) in relation to any duty he may owe or interest he may have as a director, officer or employee of Arbuthnot and any of its parent and subsidiary undertakings or being otherwise interested in the share or loan capital of Arbuthnot and any of its parent and subsidiary undertakings (other than the Company); and

(B) being remunerated for office or employment by Arbuthnot and any of its parent and subsidiary undertakings (other than the Company).

5. OTHER DIRECTORSHIPS

5.1 The companies and partnerships of which the Directors and Senior Managers are, or have been, within the past five years, members of the administrative, management or supervisory bodies or partners (excluding the Company and its subsidiaries) are as follows:

Name	Current directorships/ Partnerships	Previous directorships/ Partnerships
Directors		
Sir Henry Angest	Arbuthnot Banking Group PLC Flowidea Limited Arbuthnot Latham & Co., Limited Arbuthnot Properties Limited Flowtrade Limited Wyler Investments Limited John K. Gilliat & Co., Limited Arbuthnot Limited Cherrydene UK Limited 41 Thurloe Square Company Limited Ashmore and Strone Estate Limited Dalmunzie Limited	Stockdale Securities Limited
Paul Lynam	Arbuthnot Banking Group PLC Peoples Trust and Savings PLC Secure Homes Services Limited STB Leasing Limited Debt Managers (Services) Limited V12 Finance Group Limited V12 Personal Finance Limited V12 Retail Finance Limited Cintra Properties Limited Newta Limited	B.R.M. Insurance Consultants Limited Moneycare Limited Secure Estate Agency Limited Secure Homes Limited Secure Trust Financial Services Limited Secure Direct Insurance Services Limited White Rose Motor Policies Limited
Neeraj Kapur	Edgeborough Educational Trust Ltd Elizabeth Finn Care Debt Managers (Services) Limited Secure Homes Services Limited STB Leasing Limited	OBC Insurance Consultants Limited
Lord Forsyth	J. & J. Denholm Limited Denholm Logistics Group Limited Safor Limited	Centre for Policy Studies Limited NBNK Investments plc Denholm Logistics Limited Hyperion Insurance Group Limited Vote Leave Limited Royal Highland and Agricultural Society of Scotland
Paul Marrow	Arbuthnot Latham & Co., Limited	JCB Finance Ltd JCB Finance (Leasing) Ltd Landpower Leasing Limited Everyday Lending Limited Everyday Loans Limited Everyday Loans Group plc
Andrew Salmon	Arbuthnot Banking Group PLC Arbuthnot Latham & Co., Limited West Yorkshire Insurance Co. Ltd Gilliat Financial Solutions Limited Arbuthnot Investments Limited	Arbuthnot Securities Limited

Name	Current directorships/ Partnerships	Previous directorships/ Partnerships
Senior Managers		
Kevin Hayes.	—	—
David Nield	—	STB Leasing Limited OBC Insurance Consultants Limited Secure Homes Services Limited Soluto Limited
John Bevan	—	BCW Design, Engineering and Metrology Ltd
Jon Bowers	V12 Finance Group Limited V12 Personal Finance Limited V12 Retail Finance Limited Ostreum Limited	Everyday Lending Limited Everyday Loans Limited Everyday Loans Group plc
Roy Aston	—	Villadale Limited
Alan Karter	Polack's House Educational Trust	Simmons & Simmons LLP
Anne McKenning	—	—
Adrian Walters	Salsbury Finance Consulting Limited	—
Paul Kilbride	—	—

5.2 Within the period of five years preceding the date of this Prospectus none of the Directors or Senior Managers:

(a) has any convictions in relation to fraudulent offences;

(b) has been a member of the administrative, management or supervisory bodies or a director or senior manager (who is relevant to establishing that a company has the appropriate expertise and experience for management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company, save for Paul Lynam, who was a director of White Rose Motor Policies Limited when it was dissolved on 10 March 2015 and B.R.M. Insurance Consultants Limited when it was dissolved on 15 October 2013; or

(c) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director or member of an administrative, management or supervisory body of a company or from acting in the management or conduct of the affairs of a company.

5.3 Save as disclosed below, none of the Directors or Senior Managers has any actual or potential conflicts of interests between their duties to the Company and their private interests or other duties.

5.4 Two current directors were appointed to the Board of the Company by Arbuthnot at a time when its shareholding entitled it to do so. More details can be found at paragraph 4.1(i)-(ii) above, which summarises paragraph 76 of the Company's Articles of Association, and in Part 8: "*Directors, Senior Management and Corporate Governance*".

6. DIRECTORS' AND OTHER INTERESTS

6.1 The table below sets out the interests of the Directors and Senior Managers in the share capital of the Company as at 4 October 2016 (being the latest practicable date prior to publication of this Prospectus) and immediately following Admission.

Name of Director/ Senior Manager	4 October 2016 (last practicable date prior to publication of this Prospectus)		Immediately following Admission	
	Number of Shares	% of issued share capital	Number of Shares	% of issued share capital
Directors				
Sir Henry Angest[(1)]	—	—	—	—
Paul Lynam[(2)]	9,110	0.05	9,100	0.05
Neeraj Kapur	1,000	0.01	1,000	0.01
Paul Marrow	5,440	0.03	5,440	0.03
Lord Forsyth	1,200	0.01	1,200	0.01
Andrew Salmon[(3)]	7,500	0.04	7,500	0.04
Senior Managers				
Kevin Hayes	—	—	—	—
David Nield	—	—	—	—
John Bevan	—	—	—	—
Jon Bowers	—	—	—	—
Roy Aston	—	—	—	—
Alan Karter	900	0.01	900	0.01
Anne McKenning	—	—	—	—
Adrian Walters	—	—	—	—
Paul Kilbride	—	—	—	—

Notes:

(1) Sir Henry Angest holds 53.67 per cent. of Arbuthnot which holds 18.93 per cent. of the Company.

(2) Paul Lynam holds 0.07 per cent. of Arbuthnot which holds 18.93 per cent. of the Company.

(3) Andrew Salmon holds 0.34 per cent. of Arbuthnot which holds 18.93 per cent. of the Company.

6.2 Save as set out in this paragraph 6 in Part 16: "*Additional Information*", following Admission no Director or Senior Manager will have any interest in the share capital of the Company of any of its subsidiaries.

6.3 The following have options outstanding under the Company's Share Option Scheme:

Name of Director/ Senior Manager	Date of grant	No. of Shares	Option price (£)	Exercise/vesting date
Directors				
Sir Henry Angest	—	—	—	—
Paul Lynam	2 November 2011	141,667	7.20	2 November 2016
Neeraj Kapur	2 November 2011	35,417	7.20	2 November 2016
Paul Marrow	—	—	—	—
Lord Forsyth	—	—	—	—
Andrew Salmon	2 November 2011	141,667	7.20	2 November 2016
Senior Managers				
Kevin Hayes	2 November 2011	35,417	7.20	2 November 2016
David Nield	2 November 2011	35,417	7.20	2 November 2016
John Bevan	—	—	—	—
Jon Bowers	2 November 2011	35,417	7.20	2 November 2016
Roy Aston	—	—	—	—
Alan Karter	—	—	—	—
Anne McKenning	2 November 2011	21,250	7.20	2 November 2016
Adrian Walters	—	—	—	—
Paul Kilbride	—	—	—	—

6.4 So far as the Company is aware, as at 4 October 2016 (being the latest practicable date prior to publication of this Prospectus) the following persons (other than the Directors and Senior Managers) hold directly or A1.18.1

indirectly three per cent. or more of the Company's issued share capital or voting rights or will do so immediately following Admission:

Shareholder	Immediately prior to and immediately following Admission	
	Number of Shares	Percentage of voting rights
Arbuthnot Banking Group PLC	3,444,538	18.93
Columbia Threadneedle Investments	2,285,639	12.56
Invesco Perpetual Asset Management	1,831,308	10.07
Mr Steven A Cohen	1,510,412	8.30
Ruffer	1,244,979	6.84
Unicorn Asset Management	1,075,198	5.91
Wellington Management Company	1,000,000	5.49
Standard Life Investments	749,918	4.37
BAE Systems Pension Fund Investment Management	786,062	4.22
Wasatch Advisors	587,279	3.23

Save as set out in this paragraph 6.4 in this Part 16: "*Additional Information*", the Company is not aware of any person who holds, or who will immediately following Admission hold, as shareholder (within the meaning of the Disclosure Guidance and Transparency Rules published by the FCA), directly or indirectly, three per cent. or more of the issued share capital of the Company.

6.5 None of the Shareholders referred to in paragraph 6.4 above has different voting rights from any other holder of Shares in respect of any Shares held by them.

6.6 The Company is not aware of any person who immediately following Admission directly or indirectly, jointly or severally, will own or could exercise control over the Company.

7. DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Set out below is information on the employment and remuneration arrangements for the Directors.

7.1 Executive Directors

Paul Lynam

Paul Lynam entered into a service agreement with the Company dated 28 July 2010, as amended, to act as the Chief Executive Officer which continues until terminated on twelve months' written notice by either party. The Company has the discretion to terminate Paul Lynam's employment with immediate effect by paying him his salary (excluding any bonus) in lieu of his notice period or any remainder of his notice period. The service agreement contains a "garden leave" clause entitling the Company to require Paul Lynam to cease performing his job during any notice period and requiring him to remain away from work during such period. The agreement provides for an annual salary of £1,200,000, a non-pensionable, taxable car allowance of £20,000 per annum, a discretionary annual bonus and an entitlement to participate in life assurance of up to four times his salary, family membership of a medical insurance scheme and permanent disability insurance. He is entitled to receive an annual contribution of £35,000 into a personal pension scheme for his benefit. Paul Lynam's service agreement contains various post-termination covenants which are customary in agreements of this nature in order to protect the Group's business.

Neeraj Kapur

Neeraj Kapur entered into a service agreement with the Company dated 13 May 2011, as replaced on 27 October 2011, to act as the Chief Financial Officer which continues until terminated on twelve months' written notice by either party. The Company has the discretion to terminate Neeraj Kapur's employment with immediate effect by paying him his salary (excluding any bonus) in lieu of his notice period or any remainder of his notice period. The service agreement contains a "garden leave" clause entitling the Company to require Neeraj Kapur to cease performing his job during any notice period and requiring him to remain away from work during such period. The agreement provides for an annual salary of £325,000, a non-pensionable, taxable car allowance of £17,500 per annum, a discretionary annual bonus and an entitlement to participate in a life insurance scheme of up to four times his salary and family membership of a medical expenses insurance scheme. He is entitled to receive an annual pension cash allowance of £25,000, payable monthly through payroll. Neeraj Kapur's service agreement contains various post-termination covenants which are customary in agreements of this nature in order to protect the Group's business.

7.2 **Non-Executive Directors**

Lord Forsyth

Lord Forsyth has been appointed as a Non-Executive Director under a letter of appointment with the Company, dated 6 October 2016. The appointment is terminable on six months' notice by either party. Lord Forsyth receives an annual fee of £75,000 (increasing to £175,000 on becoming Chairman). Lord Forsyth is not entitled to receive any payments or benefits on termination of the letter of appointment other than accrued and unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and reimbursement for any outstanding reasonably incurred expenses.

Paul Marrow

Paul Marrow has been appointed as a Non-Executive Director under a letter of appointment with the Company, dated 6 October 2016. The appointment is terminable on six months' notice by either party. Paul Marrow receives an annual fee of £90,000, consisting of £60,000 for basic duties, £20,000 in his role as chair of the Risk Committee and £10,000 in his role as chair and member of the Audit Committee. Paul Marrow is not entitled to receive any payments or benefits on termination of the letter of appointment other than accrued and unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and reimbursement for any outstanding reasonably incurred expenses.

Sir Henry Angest

Sir Henry Angest has been appointed as a Non-Executive Director under a letter of appointment with the Company, dated 6 October 2016. The appointment is terminable on six months' notice by either party. Pursuant to the Services Agreement, the Company will pay to Arbuthnot a management charge of £60,000 (excluding VAT) per year for the services of Sir Henry Angest. There is no entitlement to receive any payments or benefits on termination of the letter of appointment other than accrued and unpaid directors' fees (payable to Arbuthnot by way of management charge) up to and including the period of notice, payment of fee (management charge) in lieu of notice and reimbursement for any outstanding reasonably incurred expenses. Sir Henry Angest has been a director of the Company since before 7 June 1991.

Andrew Salmon

Andrew Salmon has been appointed as a Non-Executive Director under a letter of appointment with the Company, dated 6 October 2016. The appointment is terminable on six months' notice by either party. Pursuant to the Services Agreement, the Company will pay to Arbuthnot a management charge of £60,000 (excluding VAT) per year for the services of Andrew Salmon. There is no entitlement to receive any payments or benefits on termination of the letter of appointment other than accrued and unpaid directors' fees (payable to Arbuthnot by way of management charge) up to and including the period of notice, payment of fee (management charge) in lieu of notice and reimbursement for any outstanding reasonably incurred expenses. Andrew Salmon has been a director of the Company since 8 July 2003.

7.3 Save as set out in paragraph 7 of this Part 16: "*Additional Information*", there are no existing or proposed service agreements between any Director and any member of the Group providing for benefits upon termination of employment.

8. DIRECTORS' AND SENIOR MANAGERS' COMPENSATION

8.1 In the financial year ended 31 December 2015, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to each of the Directors and Senior Managers by members of the Group was £4.2 million. Of this amount approximately £2.1 million was paid to the Directors as set out below and approximately £2.1 million was paid to the Senior Managers:

Name	**Fees/ basic salary**	**Bonus**	**Benefits**	**Total**
		(£ 000s)		
Lord Forsyth	55	—	—	55
Paul Lynam	900	500	24	1,459
Neeraj Kapur	275	175	22	497
Paul Marrow	85	—	—	85
Sir Henry Angest(1)	—	—	—	—
Andrew Salmon(1)	—	—	—	—

(1) Please refer to the summary set out in paragraph 7.2 above. The annual fees otherwise due to Sir Henry Angest and Andrew Salmon in respect of their services as Non-Executive Directors of the Company are paid to Arbuthnot in accordance with the terms of their appointment and the Services Agreement.

8.2 The total amount set aside or accrued by the Group to provide pension, retirement or other similar benefits to the Directors and Senior Managers in the financial year ended 31 December 2015 was £180,000.

9. REMUNERATION

Overall approach to remuneration

The Directors believe that an important factor in the Company's success is its ability to motivate and retain its key employees. The Remuneration Committee determines the remuneration of individual Directors having regard to the size and nature of the business, the importance of attracting, retaining and motivating management of the appropriate calibre without paying more than is necessary for this purpose, remuneration data for comparable positions, the need to align the interests of executives with those of shareholders and an appropriate balance between current remuneration and longer term performance-related rewards.

The remuneration package can comprise a combination of basic annual salary and benefits (including pension), a discretionary annual bonus award related to the Remuneration Committee's assessment of the contribution made by the executive during the year and a long term incentive award.

Once the Company has appointed additional independent non-executive directors it is expected the composition of the Remuneration Committee will change. Following these changes, the Remuneration Committee will review the remuneration package for Executive Directors. Any changes to the remuneration package will be put to Shareholders for approval as part of the remuneration policy that Shareholders will be asked to approve at the annual general meeting of the Company in 2017.

Salary

The Remuneration Committee reviews salary levels each year based on the performance of the Group during the preceding financial period. This review does not necessarily lead to increases in salary levels.

Annual Bonus

The Executive Directors are eligible to receive an annual bonus. The annual bonus is designed to reward performance. The annual bonus is awarded by the Remuneration Committee in recognition of both the Group's performance as well as each individual's performance during the financial period. Under the existing bonus scheme, 25 per cent. of their annual bonus award is deferred each year and is paid out in the subsequent financial year following approval by the Remuneration Committee.

Long Term Incentive

The Company has used the Share Option Scheme and the Phantom Share Option Scheme (details of both schemes are set out in paragraph 10 of this Part 16: "*Additional Information*") to award long term incentives to Executive Directors and senior managers in the past.

The Remuneration Committee will review its long term incentive strategy after Admission and decide on an appropriate long term incentive plan for the Company. Any new plan will be put to Shareholders for approval as required by the Listing Rules.

The Remuneration Committee does not intend to use either the Share Option Scheme or the Phantom Share Option Scheme to make awards after Admission.

PRA Remuneration Rules

The Directors believe, on the basis that the Company is a level three firm for the purposes of the PRA's Remuneration Rules, that the remuneration arrangements of the Company are compliant with the requirements of the PRA Remuneration Rules in force as at the date of this document.

10. SHARE OPTION SCHEMES

10.1 Share Option Scheme

On 17 October 2011 the Company established the Share Option Scheme. It is administered by the Remuneration Committee. The Share Option Scheme shall continue to apply to any options that exist as at Admission but is not expected to be used to grant any further options or to form part of the future incentive arrangements following Admission.

The main features of the Share Option Scheme that apply to existing options are summarised below.

Exercise price

When the Shares are admitted to trading on the London Stock Exchange, the exercise price per Share under each option is the average of the closing market price of a Share over the five dealing days prior to the date of grant. Options granted in 2011 conditional on the Company's admission to AIM were granted with an exercise price of 720 pence per Share.

In the event of any variation in the share capital of the Company the exercise price and/or the number of Shares comprised in each option may be adjusted as the Remuneration Committee determines. No adjustment may be made which will reduce the exercise price below the nominal value of a Share.

Rights and restrictions

An option granted under the Share Option Scheme is not transferable. An option may not be exercised later than the day before the tenth anniversary of its date of grant. Except in the circumstances referred to below, an option will only be exercisable as follows:

(a) 50 per cent. of the option shall become exercisable on the date which is three years after the date of grant; and

(b) 50 per cent. of the option shall become exercisable on the date which is five years after the date of grant.

If the participant ceases to be employed by the Group by reason of injury, disability, ill-health or redundancy; or because his employing company ceases to be a Shareholder of the Group; or because his employing business is being transferred out of the Group, his option may be exercised within 6 months after such cessation. In the event of the death of a participant, the personal representatives of a participant may exercise an option, to the extent exercisable at the date of death, within 6 months after the death of the participant.

On cessation of employment for any other reason (or when a participant serves, or has been served with, notice of termination of such employment), the option will lapse although the Remuneration Committee has discretion to allow the exercise of the option for a period not exceeding 6 months from the date of such cessation.

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit. The number of Shares which can be acquired on exercise will be pro-rated on a time elapsed basis, unless the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, decides otherwise. In determining whether to exercise its discretion in these respects, the Remuneration Committee must satisfy itself that the early exercise of an option does not constitute a reward for failure.

Corporate events

Options, to the extent not already exercisable, will accelerate in the event of a takeover of the Company, in the event that an offeror becomes entitled or bound to acquire Shares or in the event that the court sanctions a compromise or arrangement for the reconstruction of the Company or its amalgamation with any other company. In such event, all options may be exercised for a limited period and will lapse if not so exercised.

Options, to the extent not already exercisable, will accelerate in the event that the Company is voluntarily wound up and all options may be exercised within a limited period in connection with the winding up, failing which they will lapse.

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit.

Performance conditions

The exercise of options is subject to the satisfaction of the performance conditions specified by the Remuneration Committee.

In respect of the options outstanding as at Admission, the performance conditions that must be satisfied are that, for the duration of the period between the date of grant and the date each respective part of the option becomes exercisable (the "**Vesting Period**"), the dividends paid by the Company must have increased in percentage terms when compared to an assumed dividend of £8 million in respect of the financial year ending 31 December 2012 by a minimum of the higher of the increase in the Retail Prices Index during that period and 5 per cent. per annum during that period. In addition, all dividends paid by the Company each year during the Vesting Period must be paid from the Company's earnings referable to that year and from the date of grant to the date the option is exercised, there must not have been any public criticism by any regulatory authority on the operation of the Company or any of its subsidiaries which has a material impact on the business of the Company.

In certain circumstances, the Remuneration Committee may waive or vary the performance conditions.

Issuance of Shares

The Shares issued upon the exercise of options granted under the Share Option Scheme will rank pari passu with the Company's issued Shares on the date of exercise, save as regards any rights arising by reference to a record date prior to the date of such exercise.

Scheme limit

The aggregate number of Shares issued or remaining issuable under the Share Option Scheme on any date of grant shall not exceed 10 per cent. of the number of issued Shares on the date of the Company's admission to AIM.

Alteration

The Remuneration Committee may alter the Share Option Scheme except that (apart from minor amendments to benefit the administration of the Share Option Scheme, to correct typographical or other errors, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or the Group) no alteration to the advantage of participants can be made without the prior approval of Shareholders in general meeting.

Termination and scheme period

The Remuneration Committee may terminate or suspend the operation of the Share Option Scheme at any time, whereupon no further options shall be granted but in all other respects the provisions of the Share Option Scheme shall remain in force. In any event, no options may be granted after the earlier of:

(a) ten years after the date the Share Option Scheme is adopted; and

(b) the date upon which Arbuthnot ceases to be the holding company (as defined in section 1159, Companies Act) of the Company.

10.2 **Phantom Share Option Scheme**

On 16 March 2015, the Remuneration Committee approved the establishment of a four year Phantom Share Option Scheme (the "**Phantom Share Option Scheme**"), to provide effective long-term incentive. Under the Phantom Share Option Scheme, no actual Shares will be issued by the Company, and those granted awards under it are entitled to a cash payment by reference to the increase in the value of a Share over an initial value determined by the Remuneration Committee.

The Phantom Share Option Scheme shall continue to apply to any options that exist as at Admission but is not expected to be used to grant any further options or to form part of the future incentive arrangements following Admission.

For those who are granted awards under the Phantom Share Option Scheme who were employed in November 2014, the four years commenced from that date and the initial value was set at £25 per Share, being the price at which the Shares resulting from the exercise of the first tranches of share options were sold in November 2014.

The Phantom Share Option Scheme is, similarly to the Share Option Scheme, subject to the achievement of objective performance conditions. The scheme is a cash settled long-term incentive scheme and operates to motivate, incentivise and assist in the retention of the services of individuals who are regarded as important to the successful performance of the business and increasing shareholder value.

11. MATERIAL PROPERTY

11.1 The material properties owned, leased or occupied by the Group are as follows:

Location	Description and Tenure	Use
Solihull.	Freehold	Head office
Solihull.	Leasehold	Head office
Bourne End	Freehold	Real Estate and Mortgages
Cardiff	Leasehold	V12 Retail Finance
London.	Leasehold	Real Estate Finance
Manchester	Leasehold	Commercial Finance
Rotherham	Leasehold	DMS
Cardiff	Freehold	V12 Retail Finance

12. SUBSIDIARIES

12.1 The Company is the holding company of the Group.

12.2 The Company has the following significant subsidiary undertakings, each of which is incorporated in England and Wales and is wholly-owned, either directly or indirectly, by the Company and consolidated into the annual financial statements of the Company:

Name	Registered office	Proportion of direct or indirect ownership interest	Proportion of direct or indirect voting power held
Secure Homes Services Limited	One Arleston Way Shirley Solihull West Midlands B90 4LH	100 %	100 %
STB Leasing Limited	As above	100 %	100 %
Debt Managers (Services) Limited	As above	100 %	100 %
V12 Finance Group Limited	As above	100 %	100 %
V12 Retail Finance Limited	As above	100 %	100 %
V12 Personal Finance Limited (dormant)	As above	100 %	100 %

13. WORKING CAPITAL

In the opinion of the Company, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

14. SIGNIFICANT CHANGE

Save as disclosed in paragraph 2 of Part 11: *"Operating and Financial Review"* of this document in respect to the special dividend of 165 pence per Share paid by the Company on 27 July 2016, the interim dividend of 17 pence per Share paid by the Company on 23 September 2016 and the trading update in relation to the Group's performance in the third quarter of 2016, there has been no significant change in the financial or trading position of the Group since 30 June 2016.

15. LITIGATION

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

16. MATERIAL CONTRACTS

Set out below is a summary of (a) each material contract (other than a contract in the ordinary course of business) to which any member of the Group is a party which has been entered into within the two years immediately preceding the date of this document; and (b) any other contract (other than a contract in the ordinary course of business) entered into by any member of the Group which contains a provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

16.1 Sponsors' Agreement

Pursuant to a sponsor agreement dated 7 October 2016 between the Company and Stifel (the "**Sponsor Agreement**"), Stifel has agreed to act as sponsor to the Company under the Listing Rules in connection with the application for admission of the entire issued and to be issued ordinary share capital of the Company to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities. The Sponsor Agreement contains, amongst other things, customary warranties and undertakings from the Company in favour of Stifel in relation to, amongst other things, the accuracy of information in this document and other matters relating to the Group and its subsidiaries and customary indemnities from the Company in favour of Stifel. The Sponsor Agreement is governed by English law.

16.2 ELG Share Purchase Agreement

In April 2016, the Group sold ELG, its branch-based non-standard consumer lending business, which comprises ELG and subsidiary companies Everyday Lending Limited and Everyday Loans Limited, to NSF (the "**ELG Acquisition**").

The ELG Acquisition valued ELG at an enterprise value of £235 million. ELG was acquired on a cash and debt free basis. The total amount payable by NSF to the Group for the Acquisition was:

- £107 million in cash (subject to a net asset adjustment relating to the value of assets held by ELG on 30 November 2015); and
- £20 million in NSF ordinary shares, which comprises approximately 7.4 per cent. of NSF's issued share capital (the "**NSF Consideration Shares**").

The NSF Consideration Shares were credited as fully paid, with the same rights and ranking *pari passu* in all respects with the existing ordinary shares of NSF. Following the ELG Acquisition, the Group was subject to a lock up arrangement in respect of the NSF Consideration Shares for a period of six months, subject to certain limited exceptions.

The ELG share purchase agreement (the "**ELG SPA**") contains certain limitations on NSF's ability to claim against the Group for breach of warranty or breach of the SPA. In particular, the total aggregate liability of the Group for all claims made by NSF for breach of the ELG SPA and the tax covenant will not exceed £40 million (save in respect of claims under specified provisions of the ELG SPA).

16.3 **Services Agreement**

As part of the orderly separation of the Group from Arbuthnot, the Company and Arbuthnot have entered into a Services Agreement, dated 6 October 2016, pursuant to which each party provides the other with certain limited transitional services on arms' length terms.

Under the Services Agreement:

(a) the Company agrees that it will provide the following services to Arbuthnot:

(i) assistance to Arbuthnot following the establishment in September 2016 by Arbuthnot of its own independent payroll system, with the assistance expected to be complete by 31 December 2016 (nil cost to Arbuthnot);

(ii) assistance to Arbuthnot in relation to the use of the HR system established by Arbuthnot prior to the date of the Services Agreement, during the period up to and including 31 December 2016 (nil cost to Arbuthnot);

(iii) provision of a web recruitment system until the earlier of 31 December 2016 or the date on which Arbuthnot has established its own web recruitment system (nil cost to Arbuthnot);

(iv) at a cost of £3,000 per month (without VAT), the continued provision of office space at Suite 2B, South Central, Peter Street, Manchester, M2 5QR in the same manner and the same extent as was the case prior to Admission during the period up to and including 31 March 2017; and

(v) at a cost of £3,788 plus VAT per month, the provision of internal audit support on the basis of one day per week until 31 December 2016.

(b) Arbuthnot agrees that it will provide the following services to the Company:

(i) disaster recovery planning and testing services in conjunction with the Company, including the provision of a disaster recovery site for the Company at Arbuthnot House and related support and services in a disaster recovery situation (nil cost to the Company) during the period up to and including 31 March 2017;

(ii) the hosting of IT equipment (owned by the Company) during the period up to and including 31 March 2017 (nil cost to the Company);

(iii) at a cost of £55,000 per month (excluding VAT), the continued provision of office space on the Fifth Floor of Arbuthnot House and associated communal areas, all in the same manner and to the same extent as was the case prior to Admission during the period up to and including 31 December 2017;

(iv) for as long as Arbuthnot and the Company continue to be insured under the same policy, to continue to cooperate in the provision of information to each other in relation to relevant insurance policies during the period up to and including 31 March 2017 (nil cost to the Company); and

(v) the services of Sir Henry Angest and Andrew Salmon as Non-Executive Directors of the Company on the terms of a non-executive appointment letter between the Company and each of Sir Henry Angest and Andrew Salmon, at an annual fee of £60,000 each (exclusive of VAT) payable to Arbuthnot.

The Services Agreement will continue from the date of Admission until the last end date for provision of services under the Services Agreement. A party may terminate its receipt of all or part of the services under the Services Agreement at any time on one month's notice. Following termination of a service provided under the Services Agreement, each party shall provide the other with such assistance as may reasonably be required in order to ensure there is an orderly transition of the relevant service to a replacement supplier, or back in-house.

Both parties exclude all liability to the other under or in connection with the Services Agreement (whether direct or indirect losses). Subject to customary exceptions, each party will keep information obtained from the other in the course of providing services under the Services Agreement strictly confidential.

The Services Agreement also contains provisions relating to co-operation in relation to taxation related matters arising from the separation of the Group from Arbuthnot.

17. RELATED PARTY TRANSACTIONS

Save as disclosed in note 29 of the financial information set out in Section B of Part 14: "*Historical Financial Information*", and in paragraph 16.3 above, there are no related party transactions that were entered into during the three year and six month period ended 30 June 2016 or during the period from 1 July 2016 to 4 October 2016 (the latest practicable data prior to the publication of this document).

18. CONSENTS

18.1 KPMG LLP (a member of the Institute of Chartered Accountants in England and Wales) has given and has not withdrawn its written consent to the inclusion in this Prospectus of its report set out in Part 14: "*Historical Financial Information*" in the form and context in which it appears and has authorised the contents of that report for the purpose of Prospectus Rule 5.5.3R(2)(f).

19. GENERAL

19.1 The financial information concerning the Group contained in this Prospectus does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act. Full individual accounts of the Company and each of its subsidiary undertakings for each financial year to which the financial information relates and on which the auditors gave unqualified reports have been delivered to the Registrar of Companies. The consolidated financial statements of the Company in respect of the three years ended 31 December 2015 were reported on by KPMG LLP of 15 Canada Square, London E14 5GL, United Kingdom, a member of the Institute of Chartered Accountants for England and Wales, the auditors of the Company within the meaning of section 495 of the Companies Act.

19.2 The total costs, charges and expenses payable by the Company in connection with or incidental to Admission, including FCA and LSE fees, are estimated to be approximately £1.2 million (exclusive of VAT).

19.3 The shares will be admitted with the ISIN GB00B6TKHP66 and SEDOL B6TKHP6.

20. DOCUMENTS FOR INSPECTION

20.1 Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at the offices of Clifford Chance LLP at 10 Upper Bank Street, London E14 5JJ until the later of 14 days from the date of this document or Admission:

(a) the Articles of Association of the Company;

(b) the reports by KPMG LLP set out in Section A of Part 14: "*Historical Financial Information*";

(c) the historical audited financial information of the Group for the three years ended 31 December 2015 and the historical audited financial information of the Group for the six months ended 30 June 2016 in the form set out in this Prospectus;

(d) the letter of consent referred to in paragraph 18 of this Part 16: "*Additional Information*" above; and

(e) this Prospectus.

Dated: 7 October 2016

PART 17
DEFINITIONS

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

DEFINITIONS

"**Admission**"	the admission of the Shares to the premium listing segment of the Official List of the FCA and to trading on the London Stock Exhange's Main Market for listed securities
"**AIM**"	the AIM Market, a market operated by the London Stock Exchange
"**Arbuthnot**"	Arbuthnot Banking Group PLC
"**Arbuthnot Group**"	Arbuthnot and each of its subsidiary undertakings from time to time, but excluding the Group
"**Articles of Association**" or "**Articles**"	the articles of association of the Company
"**Asset and Liability Committee**"	the Company's asset and liability committee
"**Audit Committee**"	the audit committee of the Company
"**Authorities**"	HM Treasury, the Banking of England, the PRA and the FCA collectively
"**Banking Act**"	the UK Banking Act 2009, as amended
"**Board**"	the board of directors of the Company
"**Bribery Act**"	UK Bribery Act 2010
"**BRRD**"	the Banking Recovery and Resolution Directive
"**CCA**"	Consumer Credit Act 1974, as amended
"**CET 1**"	common equity tier 1 capital, calculated by the company in accordance with the requirements of CRD IV
"**CIFAS**"	a reciprocal fraud intelligence scheme
"**CMA**"	the Competition and Markets Authority
"**Company**"	Secure Trust Bank PLC
"**Companies Act**"	the Companies Act 2006, as amended
"**Continuing Group**"	the Group, excluding the operations of ELG
"**Credit Risk Committee**"	the credit risk committee of the Company
"**CREST**"	the system for paperless settlement of trades in listed securities, of which Euroclear UK & Ireland Limited is the operator
"**CREST Regulations**"	the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended
"**CRD IV**"	an EU legislative package made up of the Capital Requirements Directive (2013/36/EU) and the Capital Requirements Regulation implementing the proposal of the Basel Committee in the EU
"**CRR**"	the Capital Requirements Regulation
"**Directors**"	the Executive and the Non-Executive Directors
"**DMS**"	Debt Managers (Services) Limited
"**EEA**"	the member states of the European Economic Area
"**ELG**"	Everyday Loans Group plc
"**EPS**"	earnings per share
"**Executive Committee**"	the Company's executive committee, comprising the Company's Executive Directors and other Senior Managers

"**Executive Directors**"	Paul Lynam and Neeraj Kapur
"**EU DGSD**"	the EU Deposit Guarantee Scheme Directive
"**FATCA**"	Foreign Account Tax Compliance
"**FCA**"	the Financial Conduct Authority
"**FLS**"	the UK Government's "Funding for Lending Scheme"
"**FOS**"	the Financial Ombudsman Service
"**FRC**"	the Financial Reporting Council
"**FPC**"	Financial Policy Committee
"**FSA**"	Financial Services Authority
"**FSCS**"	the Financial Services Compensation Scheme
"**FSMA**"	Financial Services and Markets Act 2000, as amended
"**GDP**"	Gross Domestic Product
"**GDPR**"	the proposed General Data Protection Regulation, which was approved by the European Commission, European Parliament and the Council of Ministers on 15 December 2015
"**Group**"	the Company and its subsidiaries and subsidiary undertakings, from time to time
"**Haydock**"	Haydock Finance Limited
"**HMRC**"	HM Revenue & Customs
"**HM Treasury**"	the Commissioners of Her Majesty's Treasury
"**HPI Check**"	hire purchase vehicle history check
"**IAS**"	International Accounting Standards
"**ICAAP**"	the Internal Capital Adequacy Assessment Process
"**ICAEW**"	the Institute of Chartered Accountants in England & Wales
"**ICG**"	the Individual Capital guidance
"**IFRS**"	International Financial Reporting Standards
"**ILAAP**"	the Individual Liquidity Adequacy Assessment Process
"**IPO**"	initial public offering
"**IT**"	information technology
"**LCR**"	the Liquid Coverage Ratio
"**LIBOR**"	London Interbank Offered Rate
"**Listing Rules**"	the rules and regulations made by the FCA under Part VI of FSMA
"**London Stock Exchange**" **or** "**LSE**"	London Stock Exchange plc
"**LTGDV**"	loan to gross development value
"**Member States**"	member states of the EU
"**MREL**"	minimum requirement for own funds and eligible liabilities
"**Non-Executive Directors**"	Sir Henry Angest, Lord Forsyth, Paul Marrow and Andrew Salmon
"**NSF**"	Non-Standard Finance plc
"**Official List**"	the Official List of the FCA
"**OFT**"	the Office of Fair Trading
"**PBT**"	profit before tax

"**period under review**"	the three and a half years ending 30 June 2016
"**Phantom Share Option Scheme**"	the Phantom Share Option Scheme, summary details of which are set out in paragraph 10.2 of Part 16: "*Additional Information*"
"**PPI**"	payment protection insurance
"**PRA**"	The Prudential Regulation Authority
"**PRA Remuneration Rules**"	the PRA's remuneration rules as set out in the PRA's handbook
"**PRA Rulebook**"	the rules and guidance issued by the PRA from time to time
"**Prospectus**"	the final prospectus
"**Prospectus Directive**"	Directive 2003/71/EC (as amended, including by Directive 2010/73/EC) and includes all relevant implementing measures in each Relevant Member State
"**Prospectus Directive Regulation**"	Prospectus Directive Regulation (EC/809/2004), as amended
"**Prospectus Rules**"	rules published by the FCA under section 73A FSMA
"**PSR**"	the payment systems regulator introduced by Financial Services (Banking Reform) Act 2013 and launched in April 2015
"**Registrar**"	Capita Registrars Limited
"**Regulations**"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) (including any modification, re-enactments or substitute regulations for the time being in force)
"**Remuneration Committee**"	the remuneration committee of the Company
"**RentSmart**"	RentSmart Limited
"**Risk Committee**"	the risk committee of the Company
"**ROAA**"	return on average assets
"**ROAE**"	return on average equity
"**RORE**"	return on retained earnings
"**SDRT**"	UK stamp duty reserve tax
"**Securities Act**"	the United States Securities Act of 1933 (as amended)
"**Senior Managers**"	those persons named in paragraph 2 of Part 8: "*Directors, Senior Management and Corporate Governance*"
"**Services Agreement**"	the services agreement between the Company and Arbuthnot relating to the provision of services by the Company or Arbuthnot to the other, summary details of which are set out in paragraph 16.3 of Part 16: "*Additional Information*"
"**Shareholder**"	a holder of Shares in the Company
"**Shares**"	ordinary shares of £0.40 each in the capital of the Company
"**Share Option Scheme**"	the Secure Trust Bank Share Option Scheme, summary details of which are set out in paragraph 10.1 of Part 16: "*Additional Information*"
"**SME**"	small and medium-sized enterprises
"**Sponsor Agreement**"	the agreement dated 7 October 2016 between the Company and Stifel under which Stifel has agreed to act as the Company's sponsor under the Listing Rules in connection with Admission
"**SRR**"	the special resolution regime
"**STB**"	Secure Trust Bank plc
"**Stifel**"	Stifel Nicolaus Europe Limited

"**subsidiary**"	as defined in section 1159 and Schedule 6 of the Companies Act
"**Takeover Code**"	the City Code on Takeovers and Mergers
"**Takeover Directive**"	the European Directive on Takeover Bids
"**TFS**"	the Bank of England's "Term Funding Scheme"
"**TRE**"	total risk exposure
"**UK or United Kingdom**"	the United Kingdom of Great Britain and Northern Ireland
"**UK Corporate Governance Code**"	the principles of good corporate governance and code of best practice published by the Financing Reporting Council
"**US or United States**"	United States of America, its territories and possessions, any state of the United States and the District of Columbia
"**VAT**"	within the EU, such taxation as may be levied in accordance with (but subject to derogations from) the Directive 2006/112/EEC and, outside the EU, any taxation levied by reference to added value or sales

In this document, words denoting any gender include all genders (unless the context otherwise requires).