OneSavings Bank plc

Prospectus

June 2014

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

The Directors, whose names appear on page 35 of this Prospectus, and OneSavings Bank plc (the "**Company**") accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and this Prospectus does not omit anything likely to affect the import of such information.

Application has been made to the FCA for all of the ordinary shares of £0.01 each of the Company ("**Ordinary Shares**"), issued and to be issued, to be admitted to the premium listing segment of the Official List maintained by the FCA and to the Main Market for Listed Securities of the London Stock Exchange plc (the "**London Stock Exchange**") for such Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities ("**Admission**"). Conditional dealings in the Ordinary Shares are expected to commence at 8.00 a.m. on 5 June 2014. It is expected that admission to listing and trading will become effective, and that unconditional dealings will commence, at 8.00 a.m. on 10 June 2014. **All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a "when issued" basis and of no effect if Admission does not take place and will be at the sole risk of the parties concerned. No application has been, or is currently intended to be, made for the Ordinary Shares to be admitted to listing or trading on any other stock exchange.**

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

ONESAVINGS BANK PLC

(Incorporated under the Companies Act 2006 and registered in England and Wales with registered number 7312896)

Global Offer of 78,991,239 Ordinary Shares of £0.01 each at an Offer Price of 170 pence per Ordinary Share

and

admission to the premium listing segment of the Official List and to trading on the London Stock Exchange

Global Co-ordinator, Sponsor and Joint Bookrunner

Barclays

Joint Bookrunner

Canaccord Genuity

Joint Bookrunner

RBC Capital Markets

Co-lead Manager

Macquarie Capital (Europe) Limited

Financial Adviser

Rothschild

ISSUED ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION

Issued and fully paid Ordinary Shares of £0.01 each

Number of Ordinary Shares	Nominal value of issued Ordinary Shares
243,079,965	£2,430,800

The Company is offering 24,411,765 new Ordinary Shares (the "**New Ordinary Shares**") and the Major Shareholder is selling in aggregate 54,579,474 existing Ordinary Shares (the "**Existing Ordinary Shares**", and together with the New Ordinary Shares, the "**Offer Shares**") under the Global Offer. In addition, up to a further 11,848,686 Ordinary Shares (representing up to 15 per cent. of the total number of Offer Shares) (the "**Over-allotment Shares**") are being made available by the Major Shareholder pursuant to the Over-allotment Option (as defined herein). The Company will not receive any of the proceeds of any sale of Existing Ordinary Shares or Over-allotment Shares (if any), all of which will be received by the Major Shareholder. The Global Offer is conditional, *inter alia*, on Admission taking place on or before 8.00 a.m. on 10 June 2014 (or such later time and/or date as the Company, the Major Shareholder and the Joint Bookrunners (on behalf of the Banks) may agree). The New Ordinary Shares will, upon Admission, rank equally in all respects with the Ordinary Shares in issue prior to Admission, including the right to receive all dividends or other distributions declared, made or paid on the Ordinary Shares after Admission. The Offer Shares are not being made generally available to the public in conjunction with the Global Offer.

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

The offer, sale and/or issue of the Ordinary Shares has not been, and will not be, qualified for sale under any applicable securities laws of Australia, Canada or Japan. Subject to certain exceptions, the Ordinary Shares may not be offered, sold or delivered within Australia, Canada or Japan, or to, or for the benefit of, any national, resident or citizen of Australia, Canada or Japan. The Ordinary Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Offer Shares are only being offered and sold (i) in the United States to persons reasonably believed to be QIBs pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or (ii) outside the United States in offshore transactions in reliance on Regulation S. Prospective investors in the United States are hereby notified that the Company may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereunder.

The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Offer Shares or the accuracy or completeness of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

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This Prospectus is being furnished by the Company in connection with an offering exempt from the registration requirements of the Securities Act, solely for the purpose of enabling a prospective investor to consider the acquisition of Offer Shares described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. This Prospectus is being furnished on a confidential basis only to persons in the United States reasonably believed to be QIBs and in offshore transactions to other eligible persons. Any reproduction or distribution of this Prospectus, in whole or in part, in or into the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than in considering an investment by the recipient in the Offer Shares offered hereby in accordance with the offer and sale restrictions described herein, is prohibited. Each prospective investor in the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing. The Offer Shares are being offered in the United States to QIBs through the respective US registered broker-dealer affiliates of the Banks.

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

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

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

Barclays Bank PLC, acting through its investment bank ("**Barclays**"), has been appointed as Sponsor, global co-ordinator and joint bookrunner, Canaccord Genuity Limited ("**Canaccord Genuity**") and RBC Europe Limited (trading as "**RBC Capital Markets**" and together with Barclays and Canaccord Genuity, the "**Joint Bookrunners**") have been appointed as joint bookrunners and Macquarie Capital (Europe) Limited ("**Macquarie**" and, together with the Joint Bookrunners, the "**Underwriters**") has been appointed as co-lead manager in connection with Admission and the Global Offer. Barclays Capital Securities Limited ("**BCSL**" and, together with the Underwriters, the "**Banks**") has been appointed as Settlement Bank and Stabilising Manager in connection with the Global Offer. N M Rothschild & Sons Limited (the "**Financial Adviser**") has been appointed as financial adviser to J.C. Flowers & Co. LLC and J.C. Flowers & Co. UK LLP, the Major Shareholder and the Company in connection with Admission and the Global Offer.

Each of Barclays, BCSL and RBC Capital Markets is authorised by the UK Prudential Regulation Authority (the "**PRA**") and regulated by the PRA and the UK Financial Conduct Authority (the "**FCA**"). Each of Canaccord Genuity and Macquarie is authorised and regulated by the FCA. Rothschild is authorised by the PRA and regulated by the FCA and the PRA in the UK. Each of Barclays, BCSL, Canaccord Genuity, RBC Capital Markets and Macquarie is acting exclusively for the Company and no one else in connection with the Global Offer and will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Global Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Global Offer or any transaction or arrangement referred to in this Prospectus. The Financial Adviser is acting exclusively for the Company, J.C. Flowers & Co. LLC, J.C. Flowers & Co. UK LLP and the Major Shareholder and no one else in connection with the Global Offer and will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Global Offer and will not be responsible to anyone other than the Company, J.C. Flowers & Co. LLC, J.C. Flowers & Co. UK LLP and the Major Shareholder for providing the protections afforded to its clients nor for giving advice in relation to the Global Offer or any transaction or arrangement referred to in this Prospectus.

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

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

The Banks and the Financial Adviser and their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to the Company, the Major Shareholder, J.C. Flowers & Co. LLC and/or J.C. Flowers & Co. UK LLP for which they would have received customary fees. The Banks and the Financial Adviser and any of their respective affiliates may provide such services to the Company, the Major Shareholder, J.C. Flowers & Co. LLC and/or J.C. Flowers & Co. UK LLP and any of their respective affiliates in the future.

The Offer Shares to be made available pursuant to the Global Offer will, on Admission, rank equally in all respects with all other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares after Admission.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Ordinary Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Prospective investors are hereby notified that sales of Ordinary Shares may be made in reliance on an exemption from the provisions of Section 5 of the Securities Act. The Banks, through their respective selling agents, may arrange for the offer and resale of the Ordinary Shares in the United States only to persons reasonably believed to be QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any offer or sale of shares in the United States will be made by broker-dealers who are registered as such under the US Securities Exchange Act of 1934, as amended (the "**Exchange Act**").

For a description of these and certain further restrictions on the offer, sale and transfer of the Ordinary Shares and distribution of this Prospectus, see paragraph 12 of Part XI (*Details of the Global Offer*) of this Prospectus. Please note that by receiving this Prospectus, purchasers shall be deemed to have made certain representations, acknowledgements and agreements set out herein including, without limitation, those set out in paragraph 14 of Part XI (*Details of the Global Offer*) of this Prospectus.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a licence has been filed under chapter 421-B of the New Hampshire revised statutes, annotated ("RSA") with the state of New Hampshire, nor the fact that a security is effectively registered or a person is licensed in the state of New Hampshire, constitutes a finding by the Secretary of State of the State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the secretary of state has passed in any way upon the merits or qualifications of or recommended or given approval to any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

AVAILABLE INFORMATION FOR INVESTORS IN THE UNITED STATES

Neither the Company nor any of its subsidiaries is required to file periodic reports under Section 13 or Section 15(d) of the Exchange Act. For so long as any Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, provide, upon written request, to holders of Ordinary Shares, any owner of any beneficial interest in Ordinary Shares or any prospective purchaser designated by such holder or owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

The date of this Prospectus is 5 June 2014.

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SUMMARY

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

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

Section A – Introduction and Warnings		
Element		
A.1	**Introduction and warnings**	This summary should be read as an introduction to this Prospectus. Any decision to invest in the Offer Shares should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of a Member State, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	**Subsequent resale of securities or final placement of securities through financial intermediaries**	Not applicable: the Company is not engaging any financial intermediaries for any resale of securities or final placement of securities after publication of this Prospectus.

Section B – Issuer		
Element		
B.1	**Legal and commercial name**	OneSavings Bank plc
B.2	**Domicile/legal form/legislation/country of incorporation**	The Company is a public limited company, incorporated in England and Wales with its registered office situated in England and Wales. The Company operates under the Companies Act.

B.3	**Current operations/principal activities and markets**	The Group, which is headquartered in Chatham, Kent, is a specialist lending and retail savings group serving the UK, Jersey and Guernsey. The Group is authorised by the PRA, part of the Bank of England, and regulated by the FCA and the PRA and began trading as a bank on 1 February 2011 when the trade and assets of Kent Reliance Building Society were transferred to the Company. The Group focuses its specialist lending activities on selected sub-sectors of the lending market in which it has an established presence and expertise, and where opportunities have been identified for both high, risk-adjusted returns and strong growth. The Group's specialist segments include Residential Mortgages (comprising bespoke first charge mortgages, second charge mortgages and shared ownership mortgages) and Buy-to-Let/SME. Participation in these specialist lending segments requires bespoke underwriting, experienced teams and strong relationships with specialist distributors; capabilities that are firmly and broadly established within the Group. The Group's other specialist segment is Personal Loans, which currently comprises the former Northern Rock performing consumer finance portfolio acquired from UK Asset Resolution Limited in 2013. The Group originates almost all of its organic lending through specialist intermediaries (for Group branded products) as well as through Secured Funding Lines. The Group has also demonstrated its capability and expertise to increase the size of its loan portfolio successfully and profitably through inorganic growth (selectively purchasing loan portfolios). The Group is predominantly funded by retail savings originated through online and direct channels, as well as through a Kent Reliance branded network of six branches and three third party-operated agencies in the South East of England. Diversification of funding is currently provided by a securitisation and the Group joined the Funding for Lending scheme ("**FLS**") in early 2014. A robust control and risk environment is in place to support the Group's current requirements and future growth strategy. The majority of the Group's administrative support functions are performed by its wholly owned operations in Bangalore, India, over which the Group's management retains close oversight. The Group's UK and Indian operations together provide a scalable low-cost operating platform that delivers a high quality service.
B.4a	**Recent trends**	The Group is a specialist lending and retail savings group serving the UK, Jersey and Guernsey. Similar to the Group, there are a number of specialised banks who are focused on specific sub-sectors of the UK lending and savings market. These banks are largely focused on sub-sectors of the market which are currently underserved by the large and medium-sized banks and building societies due to their

		specialised nature and the need for bespoke underwriting processes. Most are funded to some extent by retail savings, largely through the online channel, although Handelsbanken and Metro Bank are pursuing a branch based model. The UK market for lending and savings products historically has been and continues to be concentrated. The Office of Fair Trading has identified that the four largest financial services providers in the personal current account market had around 75 per cent. market share as of January 2013. In recent years, the level of concentration has increased following the nationalisation of Northern Rock in February 2008; the acquisition of HBOS by Lloyds TSB in January 2009; the acquisition of the deposits and branch network of Bradford & Bingley by Santander UK in September 2008; and the acquisition of Alliance & Leicester by Santander UK in October 2008. In the immediate aftermath of the financial crisis, mortgage lending declined rapidly. However, in recent months, mortgage lending has picked up strongly and is currently at its highest level since 2008. Indeed, gross lending for the fourth quarter of 2013 was £51 billion, representing a 36 per cent. increase relative to the fourth quarter of 2012 and gross lending in February 2014 was 40 per cent. higher than in February 2013. In addition, the Halifax House Price Index suggests that the housing market is continuing to gather momentum as prices recorded their eighteenth successive monthly increase in April 2014. The UK retail deposits market historically has been highly concentrated, with the five largest providers accounting for approximately 69 per cent. of retail deposits as at the end of 2012. The market grew strongly in 2013, with a year-on-year increase of 5.4 per cent., resulting in outstanding balances as at December 2013 of £1.3 trillion. The market primarily comprises 76 million personal current accounts (outstanding balances of £531.6 billion as of February 2014) and retail savings (outstanding balances of £649.0 billion as of February 2014). A portion of the retail savings market includes funds raised by banks directly from savers who do not have a primary banking relationship with the bank via personal current accounts. The UK Government's intervention in protecting customers' savings has improved confidence in the market, with the Financial Services Compensation Scheme providing protection for deposits up to £85,000. During the global financial crisis, banks were under pressure to reduce their reliance on wholesale funding sources due to limited availability, higher costs and regulatory guidance. The resultant reduction in the use of the wholesale funding markets and shift in funding mix created a highly competitive market for deposits and a corresponding impact on the marginal cost of retail funding. This, coupled with difficult credit conditions in the lending market, prompted the Government and Bank of

		England to launch various initiatives in the market as described below. On 13 July 2012, the FLS was launched. The objective of the scheme was to provide an incentive for banks and building societies to lend to UK households and non-financial companies by reducing funding costs for participating institutions, so that they can make loans cheaper and more easily available. On 24 April 2013, the scheme was extended for a further 12 months, with drawings now permitted until the end of January 2015 and the funding under the scheme now running until January 2019. On 28 November 2013, changes to the terms of the FLS extension were made to focus it on business lending by removing the direct incentives to expand household lending in 2014. The total drawings as of December 2013 stood at £41.9 billion, representing a significant increase compared to £17.6 billion as at June 2013.
B.5	**Description of Issuer's group**	The Company is the holding company for the Group. The Company holds (in some instances through intermediate holding companies) a number of operating companies which, as a result of the Group's history of strategic acquisitions and organic growth, are organised by a combination of the sub-sector and jurisdiction in which they operate.
B.6	**Shareholders**	At the date of this Prospectus, in so far as is known to the Company, each of the following persons is, and immediately following Admission will be, interested in 3 per cent. or more of the Company's issued share capital:

Selling Shareholder	*Ordinary Shares to be sold pursuant to the Global Offer*	*Interests following Admission assuming no exercise of the Over-allotment Option*
J.C. Flowers III	48,508,703	60.6%

Notes:

(1) J.C. Flowers III's interest in the Company is held by it through the Major Shareholder, which it controls.

(2) If the Over-allotment Option is exercised in full, the number of Ordinary Shares sold by the Major Shareholder on behalf of J.C. Flowers III will be 60,357,389.

Other than the interests of J.C. Flowers III referred to above, the Company is not aware of any person who, immediately following the Global Offer, will directly or indirectly, jointly or severally, exercise control over the Company. All Ordinary Shares will have the same voting rights.

The sale of Existing Ordinary Shares by the Major Shareholder in the Global Offer will provide J.C. Flowers III and certain of the Directors and Senior Managers with a partial realisation of their investment in the Group. To ensure that the Executive Directors and Senior Managers remain incentivised, and their interests remain aligned with other Shareholders, such individuals will only be permitted to sell up to 30 per cent. of the Ordinary Shares in which they are indirectly interested in the Global Offer (with Directors and Senior Managers remaining subject to certain lock-up arrangements pursuant to the Underwriting Agreement and separate lock-up deeds in favour of the Company and the Major Shareholder, respectively).

B.7 **Selected historical key financial information**

The selected financial information set out below has been extracted without material adjustment from the audited consolidated financial statements of the Group for the 11 months ended 31 December 2011 financial period, the 2012 financial year, the 2013 financial year and the one month period ended 31 January 2014 and the unaudited consolidated financial statements of the Group for the one month period ended 31 January 2013 set out in Part IX (*Historical Financial Information*) of this Prospectus. The audited financial statements in respect of the one month period ending on 31 January 2014 has been included in this document solely to meet the requirements of the Listing Rules and the Prospectus Rules.

Consolidated Income Statement

	Notes	**11 months ended 31 December 2011**	**Year ended 31 December 2012**	**Year ended 31 December 2013**	**1 month ended 31 January 2013 (un-audited)**	**1 month ended 31 January 2014**
		£'000	*£'000*	*£'000*	*£'000*	*£'000*
Interest receivable and similar income	2.1	42,628	87,293	150,607	9,585	15,866
Interest payable and similar charges	2.2	(43,450)	(71,132)	(79,841)	(6,973)	(6,729)
Net interest income		(822)	16,161	70,766	2,612	9,137
Fair value gains/(losses) on financial instruments	2.3	669	(561)	(840)	660	53
Gains/(losses) on sales of financial instruments	2.4	9,035	2,893	(24)	–	2,258
Fees and commissions receivable		109	241	728	65	25
Fees and commissions payable		(1,247)	(1,140)	(1,696)	(112)	(19)
External servicing fees			(1,601)	(3,503)	–	(388)
Total income		7,744	15,993	65,431	3,225	11,066
Administrative expenses	2.5	(17,061)	(18,836)	(23,986)	(1,812)	(2,527)
Depreciation and amortisation	3.7/3.8	(314)	(460)	(547)	(46)	(45)
Operating profit/(loss)		(9,631)	(3,303)	40,898	1,367	8,494
Regulatory provisions	5.5	(744)	(930)	(2,152)	–	–
Operating profit/(loss) before impairment losses		(10,375)	(4,233)	38,746	1,367	8,494
Impairment losses	3.5	(2,913)	(5,301)	(7,329)	(334)	(698)
Profit/(Loss) before negative goodwill		(13,288)	(9,534)	31,417	1,033	7,796
Negative goodwill	4.1	–	17,603	–	–	–
Profit before taxation		(13,288)	8,069	31,417	1,033	7,796
Taxation	2.7	2,144	996	(4,646)	(256)	(1,686)
Profit for the year		(11,144)	9,065	26,771	777	6,110

Consolidated Statement of Financial Position

	Notes	31 December 2011	31 December 2012	31 December 2013	31 January 2014
		£'000	*£'000*	*£'000*	*£'000*
Liquid assets					
Cash in hand and balances with the Bank of England		253	282	267	248
Loans and advances to credit institutions	3.1	239,661	291,700	269,101	252,793
Investment securities	3.2	361,337	410,339	361,045	336,692
		601,251	**702,321**	**630,413**	**589,733**
Loans and advances to customers	3.3	1,639,946	2,196,050	3,041,248	3,096,352
Derivative assets	5.10	683	–	757	810
Fair value hedges – assets		93,498	86,501	67,863	69,390
Current taxation asset		818	–	–	–
Deferred taxation asset	3.9	14,672	15,472	10,901	9,167
Intangible assets	3.7	495	910	1,117	1,099
Property, plant and equipment	3.8	1,858	4,231	4,955	5,236
Other assets	3.10	2,925	3,175	6,632	6,933
Total assets		**2,356,146**	**3,008,660**	**3,763,886**	**3,778,720**
Liabilities					
Amounts owed to retail depositors	3.11	2,081,590	2,744,646	3,251,576	3,263,720
Amounts owed to credit institutions	3.14	831	3,190	1,438	849
Amounts owed to other customers	3.13	38,394	21,763	2,351	7,357
Debt securities in issue	3.14	–	–	273,759	265,874
Derivative liabilities	5.10	95,222	63,949	22,566	24,420
Fair value hedges – liabilities		1,094	3,475	–	–
Current taxation liability		–	–	69	–
Deferred taxation liability	3.9	562	389	–	–
Other liabilities	3.15	4,551	10,241	12,826	10,700
FSCS other provisions	5.5	1,392	2,316	1,281	1,281
Subordinated liabilities	3.16	26,842	27,576	27,579	27,685
Perpetual subordinated bonds	3.17	15,327	15,189	15,263	15,370
Equity					
Equity		90,341	115,926	155,178	161,464
Total equity and liabilities		**2,356,146**	**3,008,660**	**3,763,886**	**3,778,720**

Consolidated Statement of Cash Flows

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2014
	£'000	*£'000*	*£'000*	*£'000*
Cash flows from operating activities				
Profit before tax	(13,288)	8,069	31,417	7,796
Adjustments for:				
Depreciation and amortisation	314	460	547	45
Negative goodwill	–	(17,603)	–	–
Interest on subordinated liabilities	1,142	1,299	1,256	106
Interest on perpetual subordinated bonds	1,043	1,254	1,255	106
Net impairment charge on loans and advances	2,913	5,301	7,329	698
(Gain)/loss on sale of financial instruments	(9,035)	(2,893)	24	(2,258)
FSCS and other provisions	744	930	2,152	–
Fair value losses on financial instruments	(669)	561	840	(53)
Exchange differences on foreign operations	–	–	453	–
FSCS provision paid	–	–	(3,187)	–
Tax paid	2,144	996	(489)	(163)
	(14,692)	(1,626)	41,597	6,277
Changes in operating assets and liabilities				
(Decrease) increase in loans and advances to credit institutions	(17,654)	(41,880)	87,024	–
(Increase) in loans to customers	(108,271)	(452,215)	(852,527)	(55,802)
Increase in retail deposits	376,193	663,056	506,930	12,143
(Increase) in other assets	(3,781)	(1,529)	(3,966)	(307)
(Decrease) in derivatives and hedged items	–	(21,773)	(27,817)	329
(Decrease) in bank and other deposits	(88,466)	(14,272)	(21,164)	4,417
Net increase in other liabilities	1,665	5,511	3,586	(2,026)
Cash (used in)/generated from operating activities	144,994	135,272	(266,337)	(34,969)
Cash flows from investing activities				
(Purchases) of investment securities	(172,392)	(755,891)	(1,013,170)	–
Sale of investment securities	161,721	708,563	1,060,604	26,835
Purchases of equipment and intangible assets	(738)	(3,248)	(1,559)	(308)
Acquisition of subsidiaries, net of cash acquired	–	(1,209)	–	–
Cash (used in)/generated from investing activities	(11,409)	(51,785)	45,875	26,527
Cash flows from financing activities				
Coupon paid on equity bonds	(1,450)	(1,450)	(1,450)	–
Interest paid on bonds and subordinated debt	(2,365)	(2,453)	(2,437)	–
Shares issued	65,000	15,000	15,000	–
Net issue of debt	–	–	273,759	(7,885)
Repayment of InterBay and Prestige funding on acquisition	–	(84,396)	–	–

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2014
	£'000	*£'000*	*£'000*	*£'000*
Cash generated from/ (used in) financing activities	61,185	(73,299)	284,872	(7,885)
Net increase in cash and cash equivalents	**194,770**	**10,188**	**64,410**	(16,327)
Cash and cash balances at beginning of the period				
Cash in hand and balances with Bank of England	–	253	282	267
Loans and advances to credit institutions repayable on demand	–	194,517	204,676	269,101
	–	194,770	204,958	269,368
Cash and cash equivalents at the end of the period				
Cash in hand and balances with the Bank of England	253	282	267	248
Loans and advances to credit institutions repayable on demand	194,517	204,676	269,101	252,793
	194,770	204,958	269,368	253,041
Movement in cash and cash equivalents	**194,770**	**10,188**	**64,410**	**(16,327)**

Certain significant changes to the Group's financial condition and operating results occurred during the 2011 financial period and the 2012 and 2013 financial years. These changes are set out below.

The average size of the Group's loan portfolio has grown significantly, as the Group increased its levels of organic mortgage and loan origination and acquired loan and mortgage portfolios from third parties. The Group's loans and advances to customers has increased from £1.6 billion as at the end of the 2011 financial period to £3.1 billion at 31 January 2014.

The mortgages and loans originated or acquired by the Group after 1 February 2011 have generated substantially higher yields than the back book of mortgages inherited from KRBS which were originated prior to that date. As a result, the Group's results of operations have improved, and the Group's net interest income has increased from £(822,000) as at the end of the 2011 financial period to £70,766,000 as at the end of the 2013 financial year. The net interest income for the period from and including 1 January 2014 until and including 31 January 2014 was £9,137,000, an increase from £2,612,000 (unaudited) in respect of the same period in the 2013 financial year.

There has been no significant change in the financial condition or operating results of the Group since 31 January 2014, the end of the period covered by the selected historical key financial information set out in the table above.

<table>
<tr><td>B.8</td><td>Selected key pro forma financial information</td><td>
The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effects of the Global Offer on the net assets of the Group, had the Global Offer taken place on 31 January 2014. The pro forma net assets statement is based on the audited historical financial information of the Company as at 31 January 2014 contained in Part IX (Historical Financial Information) of this Prospectus and has been prepared in a manner consistent with the accounting policies adopted by the Group in preparing its financial statements for the year ended 31 December 2013.
The unaudited combined pro forma statement of net assets has been prepared for illustrative purposes only, and by its nature addresses a hypothetical situation and, therefore, does not reflect the Group's actual financial position or results. The unaudited consolidated pro forma statement of net assets is compiled on the basis set out in the notes below and in accordance with the requirements of items 1 to 6 of Annex II to the Prospectus Rules. This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act 2006. No account has been taken of any results or other activity since 31 January 2014.
<table>
<tr><th>£'000</th><th>As at 31 January 2014</th><th>Adjustment – Net proceeds from the Global Offer[1]</th><th>Unaudited pro forma as at 31 January 2014</th></tr>
<tr><td>Cash and balances at central banks</td><td>248</td><td>–</td><td>248</td></tr>
<tr><td>Other assets</td><td>3,778,472</td><td>36,000</td><td>3,814,472</td></tr>
<tr><td>Total assets</td><td>3,778,720</td><td>36,000</td><td>3,814,720</td></tr>
<tr><td>Liabilities</td><td></td><td></td><td></td></tr>
<tr><td>Deposits</td><td>3,263,720</td><td>–</td><td>3,263,720</td></tr>
<tr><td>Other liabilities</td><td>353,536</td><td>–</td><td>353,536</td></tr>
<tr><td>Total liabilities</td><td>3,617,256</td><td>–</td><td>3,617,256</td></tr>
<tr><td>Total equity</td><td>161,464</td><td>36,000</td><td>197,464</td></tr>
<tr><td>Total liabilities and equity</td><td>3,778,720</td><td>36,000</td><td>3,814,720</td></tr>
</table>
Note:
(1) This adjustment reflects the receipt of the net proceeds from the Global Offer by the Company. The Company intends to use the proceeds it receives from the Global Offer to increase its Common Equity Tier 1 ratio, support future growth and for general corporate purposes, as well as to pay for expenses associated with the Global Offer. The expenses in relation to the Global Offer to be borne by the Company are estimated at approximately £5.7 million (inclusive of VAT), of which approximately £0.2 million was recorded in the one month ended 31 January 2014. The remaining balance of approximately £5.5 million will be paid by the Company out of cash resources.
</td></tr>
<tr><td>B.9</td><td>Profit forecast/estimate</td><td>Not applicable: no profit forecasts or estimates have been made.</td></tr>
<tr><td>B.10</td><td>Audit report – qualifications</td><td>Not applicable: there are no qualifications in the accountant's report on the historical financial information.</td></tr>
<tr><td>B.11</td><td>Insufficient working capital</td><td>Not applicable: the Group has sufficient working capital for its present requirements.</td></tr>
</table>

Section C – Securities		
Element		
C.1	**Description of type and class of securities being offered**	The Global Offer comprises Ordinary Shares in OneSavings Bank plc. The nominal value of the total issued Ordinary Share capital of the Company immediately following Admission will be £2,430,800 divided into 243,079,965 Ordinary Shares of £0.01 each, which will be issued fully paid. When admitted to trading, the Ordinary Shares will be registered with ISIN GB00BM7S7K96 and SEDOL number BM7S7K9 and it is expected that the Ordinary Shares will be traded under the ticker symbol OSB.
C.2	**Currency of issue**	The Offer Shares are denominated in British pounds sterling.
C.3	**Number of Ordinary Shares issued and par value**	On Admission, there will be 243,079,965 Ordinary Shares in issue (all of which will be fully paid). The Ordinary Shares have a par value of £0.01.
C.4	**Rights attaching to the Ordinary Shares**	The Ordinary 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 Ordinary Share held. Each Ordinary Share ranks equally for any dividend declared. Each Ordinary Share ranks equally for any distributions made on a winding-up of the Company. Each Ordinary Share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves.
C.5	**Restrictions on transfer**	Not applicable: the Ordinary Shares will be freely transferable upon Admission.
C.6	**Admission to trading**	Application has been made for the Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities which is a regulated market. Application has also been made to the FCA for the Ordinary Shares to be admitted to the premium listing segment of the Official List.
C.7	**Dividend policy**	The Directors intend to adopt a dividend pay-out ratio to reflect the growth profile of the business and are currently targeting a dividend pay-out ratio of at least 25 per cent. of profit for the year less coupons on perpetual subordinated bonds classified as equity. There are no guarantees that the Company will pay dividends or regarding the level of any such dividends. Dividend payments will be made on an approximate one-third:two-thirds split for interim and final dividends, respectively. The Directors intend to commence dividend payments with a final dividend in respect of 2014, which will be payable in the first half of 2015. The Company may revise its dividend policy from time to time.

Section D – Risks		
Element		
D.1	**Key information on the key risks that are specific to the Issuer or its industry**	• The Group's business is directly and indirectly affected by general economic conditions in the UK, the Channel Islands and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions. Adverse developments in the UK or global financial markets could have a detrimental impact on the Group's earnings and profitability. • The Group's business and financial performance have been adversely affected by a prolonged period of low Bank of England base rates and may continue to be adversely affected for so long as the base rate remains low. • Rising interest rates would put pressure on existing and new borrowers whose loans are linked to the base rate or LIBOR or borrowers who come to the end of a discounted product in an environment of higher market rates. This could lead to an increase in arrears in the Group's Residential Mortgage and Buy-to-Let/SME portfolios as well as an increase in the Group's Residential Mortgage and Buy-to-Let/SME impairment charges. • The Group is subject to capital adequacy requirements adopted by the PRA. Although the Group is in compliance with its current capital requirements, changes to regulation in this area may be imposed in the future, and failure to comply with such requirements could expose the Group to administrative actions or sanctions. • The Group is subject to liquidity risk as an inherent part of its business. Liquidity risk is the risk that an institution may not have sufficient funds at any time to make full payment in respect of liabilities falling due at that time. • The Group conducts its business subject to ongoing regulation by the FCA and the PRA. The regulatory regime requires the Group to be in compliance across many aspects of activity. If the Group fails to comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.
D.3	**Key information on the key risks that are specific to the Ordinary Shares**	• Immediately following Admission the maximum percentage of Ordinary Shares that the Major Shareholder will own is 67.2 per cent. As a result, the Major Shareholder will, through the votes it will be able to exercise at general meetings of the Company, continue to be able to exercise a significant degree of influence over, and in some cases determine, the

		outcome of certain matters to be considered by Shareholders. • Future sales of the Ordinary Shares, or the availability of Ordinary Shares for future sales, may affect the market price of the Ordinary Shares.

Section E – Global Offer		
Element		
E.1	**Net proceeds/expenses**	The Company will receive approximately £36.0 million net proceeds from the Global Offer (after bearing underwriting commissions, other estimated offering-related fees and expenses and VAT of approximately £5.7 million). The proceeds from the Global Offer receivable by the Major Shareholder will be approximately £92.8 million, before costs. The aggregate underwriting commission and amounts in respect of stamp duty or SDRT payable by the Major Shareholder in connection with the Offer are estimated to be up to approximately £3.2 million. No expenses will be charged to the purchasers of Offer Shares by the Company or the Major Shareholder.
E.2a	**Reasons for the Global Offer/Use of proceeds**	The Company intends to use the net proceeds it receives from the Global Offer (approximately £36.0 million) to fund the expenses in relation to the Global Offer and to increase its Common Equity Tier 1 ratio, support future growth and for general corporate purposes. The sale of Existing Ordinary Shares by the Major Shareholder in the Global Offer will provide J.C. Flowers III and certain of the Directors and Senior Managers with a partial realisation of their investment in the Group.
E.3	**Terms and conditions of the Global Offer**	The Global Offer comprises an offer of: • 24,411,765 New Ordinary Shares to be issued by the Company; and • 54,579,474 Existing Ordinary Shares to be sold by the Major Shareholder. In addition, up to a further 11,848,686 Ordinary Shares (representing up to 15 per cent. of the total number of Offer Shares), in aggregate, are being made available by the Major Shareholder pursuant to the Over-allotment Option. All Offer Shares will be sold at the Offer Price. Under the Global Offer, the Offer Shares will be offered to certain institutional and professional investors in the UK and elsewhere outside the United States in reliance on Regulation S of the Securities Act and in the United States to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

		Admission is expected to become effective, and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange, at 8.00 a.m. on 10 June 2014. The Global Offer is subject to the satisfaction of conditions, which are customary for transactions of this type, contained in the Underwriting Agreement, including Admission becoming effective no later than 8.00 a.m. on 10 June 2014 and the Underwriting Agreement not having been terminated prior to Admission. The Underwriting Agreement has been entered into between the Company, the Directors, the Major Shareholder and the Banks. The Underwriting Agreement provides for the Underwriters to be paid a commission in respect of the Offer Shares sold. Any commissions received by the Underwriters may be retained and any Ordinary Shares acquired by them may be retained or dealt in, by them, for their own benefit. None of the Ordinary Shares may be offered for subscription, sale, purchase or delivery, and neither this Prospectus nor any other offering material in relation to the Ordinary Shares may be circulated, in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.
E.4	**Material interests**	The Directors consider that J.C. Flowers III (through its shareholding in the Major Shareholder) has interests that are material to the Global Offer by virtue of the size of its existing indirect shareholding in the Company. The Company does not consider that these are conflicting interests, or that there are any other interests, that are material to the Global Offer.
E.5	**Selling shareholders/ Lock-up arrangements**	Up to 54,579,474 Ordinary Shares will be sold in the Global Offer by or on behalf of the Major Shareholder (assuming the Over-allotment Option is not exercised). The Ordinary Shares are being offered by the Company and the Major Shareholder. For a period of: (a) 180 days from and including the date of the Underwriting Agreement, J.C. Flowers III, each Non-Executive Director and the Major Shareholder (in respect of Ordinary Shares in which J.C. Flowers III and the Non-Executive Directors are indirectly interested) will not; and (b) for a period of 360 days from and including the date of the Underwriting Agreement each Executive Director and the Major Shareholder (in respect of Ordinary Shares in which the Executive Directors are indirectly interested) will not, in each case without the prior written consent of the Joint Bookrunners (on behalf of the Banks): (i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to

		purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) (in the case of J.C. Flowers III and each Director) redeem any of their respective shares in the Major Shareholder. The lock-up arrangements summarised above are subject to certain customary exceptions. The Joint Bookrunners may, in their sole discretion, waive all or part of any of these lock-up arrangements. Pursuant to the Underwriting Agreement, the Company has agreed that, subject to: (a) certain customary exceptions (including the issue and offer by or on behalf of the Company of the New Ordinary Shares and the Existing Ordinary Shares); and (b) the Company's right to issue Regulatory Capital Convertible Instruments at any time following Admission, during the period of 180 days from the date of the Underwriting Agreement, it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks), issue, offer, lend, mortgage, pledge, assign, charge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or any interest in Ordinary Shares or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Ordinary Shares or any interest in Ordinary Shares, or file any registration statement under the Securities Act or file or publish any prospectus with respect to any of the foregoing, or enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares. In addition, pursuant to separate lock-up deeds granted in favour of the Company and the Major Shareholder: (a) each of Rod Duke and Malcolm McCaig (as independent Non-Executive Directors) will not, for the duration of their respective directorships in the Company (in respect of certain share awards granted to them); and (b) each of the Senior Managers will not, for a period of 360 days from the date of this Prospectus, (i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or

		warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) redeem any of their respective shares in the Major Shareholder. The lock-up arrangements summarised above are subject to certain customary exceptions. The Company and the Major Shareholder may, in their sole discretion, waive all or part of any of these lock-up arrangements. In certain circumstances, it may be possible that indirect holdings of Ordinary Shares of shareholders of the Major Shareholder can be transferred so as to be held by them directly (or as they may otherwise direct). Ordinary Shares so transferred will remain subject to the terms of the lock-up arrangements applicable to those persons so far as they remain outstanding. In addition, pursuant to a separate lock-up deed granted in favour of the Company, Mike Fairey will not (in respect of the Ordinary Shares awarded to him pursuant to his employment arrangements), for the duration of his directorship in the Company, offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing. These lock-up arrangements are subject to certain customary exceptions. The Company may, in its sole discretion, waive all or part of any of these lock-up arrangements.
E.6	**Dilution**	24,411,765 New Ordinary Shares will be issued pursuant to the Global Offer. The existing Ordinary Shares will represent 89.9 per cent. of the total issued Ordinary Shares immediately following Admission.
E.7	**Estimated expenses charged to investor**	Not applicable: there are no commissions, fees, expenses or taxes to be charged to investors by the Company or the Major Shareholder under the Global Offer.

RISK FACTORS

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

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

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

RISKS RELATED TO THE GROUP'S BUSINESS

The Group's business and financial performance have been and will continue to be affected by general economic conditions in the UK, Jersey and Guernsey, and adverse developments in the UK or global financial markets could have a detrimental impact on its earnings and profitability.

The Group's business is directly and indirectly affected by general economic conditions in the UK, Jersey and Guernsey and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions.

Between 2007 and 2013, there has been significant volatility in financial markets around the world. The financial turbulence in 2008 and its after-effects on the wider economy led to generally more difficult earnings conditions for the financial sector and, at the time, resulted in the failures of a number of financial institutions in the United States, the United Kingdom and elsewhere in Europe and triggered unprecedented action by governmental authorities, regulators and central banks around the world. A number of countries in Europe, such as Greece, Ireland, Italy, Portugal and Spain (the "**GIIPS countries**"), have been particularly affected by the difficult financial and economic conditions since 2008 and are struggling with large sovereign debts and/or public budget deficits. These factors, together with weak economies and disruption in the capital markets, necessitated a range of international rescue packages and other assistance, including for Greece and Ireland in 2010, Portugal in 2011, Greece and Spain in 2012 and, most recently, Cyprus in 2013. The perceived risk of default on the sovereign debt of certain of the GIIPS countries intensified in the latter part of 2011 and into 2012, particularly in relation to Greece. This raised concern about the contagion effect such a default would have on other EU economies as well as the ongoing viability of the euro currency and the European Monetary Union ("**EMU**").

These market dislocations were also accompanied by recessionary conditions and trends in the UK and many economies around the world. The widespread deterioration in these economies adversely affected, among other things, consumer confidence, levels of unemployment, the state of the housing market, the commercial real estate sector, bond markets, equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in wholesale and retail markets, asset values, the liquidity of the global financial markets and market interest rates, which have had, and may continue to have, a material adverse effect on the Group's business, operating results, financial condition and prospects.

Since the beginning of 2013, market conditions have generally stabilised, and the UK has seen a subdued economic recovery. Consensus and market forecasts suggest that the UK recovery will continue to be sluggish, with the first increase in the Bank of England base rate not expected until early 2015. However, if volatility returns to the markets or other adverse developments were to occur, it could have an adverse effect on the Group's results and operations, financial condition and prospects.

In the UK, both public and household spending are being constrained by macroeconomic conditions, including austerity measures and an ongoing downward pressure on household incomes, and there is an additional risk that levels of unemployment could increase and real disposable incomes could decline. These pressures on households may, particularly if combined with an increase in interest rates, lead to an increase in arrears in the Group's Residential Mortgage and Personal Loans portfolios, and an associated increase in impairment provisions.

There have been signs of a pick-up in activity in the UK housing market since the middle of 2013. Similarly, after remaining relatively flat for three years, house price growth accelerated over the same period. As the wider economy continues to recover, supported by policy measures such as the FLS and Help to Buy schemes, the Group expects buyer activity to increase further. There is a risk, however, that house price growth will continue to accelerate faster than earnings, stretching affordability and leaving households more vulnerable to shocks, such as unexpectedly early or large increases in interest rates that could ultimately lead to higher retail loan losses. The Group's most significant exposure is to the residential and buy-to-let/SME mortgage market, primarily in London and South East England. Any economic downturn which has an impact on these markets or in these areas of the UK could have a disproportionate impact on the Group's financial condition and results of operations. There is potential for activity and prices to decline should the labour market situation deteriorate markedly, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy.

Continued weak growth or deterioration in economic conditions in the UK could also create uncertainty in relation to the cash flows of the Group's Buy-to-Let/SME borrowers and in relation to the value of their collateral, leading to increased impairment provisions against the Group's Buy-to-Let/SME loans.

Declining UK economic and market conditions could negatively impact the underlying credit quality of certain of the loans in the Group's Residential Mortgage and Buy-to-Let/SME portfolios and could lead to increased levels of loan loss provisions and repossession of the collateral held by the Group, which could have a material adverse effect on the Group's results of operations and financial position.

The Group's business and financial performance have been adversely affected by a prolonged period of low Bank of England base rates and may continue to be adversely affected for so long as the base rate remains low.

The Bank of England base rate has remained at 0.5 per cent. since March 2009, having fallen from 5.75 per cent. in December 2007. In the 30 years preceding December 2007, the lowest level of the base rate was 3.5 per cent. The very low level of the base rate since March 2009 was a factor in the Group's negative net interest margin of (0.11)[1] per cent. in the 2011 financial period, as wider spreads on new mortgage pricing were outweighed by reduced interest income on the base rate-linked and LIBOR-linked portions of its loan back book. At the same time, the Group faced an increased cost of retail funding principally from increased competition for UK retail savings following disruptions in the wholesale funding markets.

Although recent trends in mortgage and savings pricing (which are driven, in part, by the FLS) have partially offset the impact of continuing low base rates, consensus and market forecasts suggest that there will likely not be any increase in the base rate until 2015 and, accordingly, the Group's business and financial performance and net interest margin may continue to be affected by the continued low interest rate environment.

1 Net interest margin ("**NIM**") is calculated as net interest income, less coupons on perpetual subordinated bonds ("**PSBs**") classified as equity, as a percentage of average interest-bearing assets (net loans and advances plus liquid assets) on an annual basis. The average interest-bearing assets in this section are calculated differently from Part VI (*Selected Statistical Data*) of this Prospectus, resulting in a different NIM value. NIM for the 11 months ended 31 December 2011 has been presented on an annualised basis.

Rising interest rates could result in increased loan losses which would adversely impact the Group's financial and operational performance.

Rising interest rates would put pressure on existing and new borrowers whose loans are linked to the base rate or LIBOR or borrowers who come to the end of an incentive period in an environment of higher market rates and who may have become accustomed to the current low interest rate environment. Approximately 68 per cent. of the Group's mortgages and loans by value are currently subject to changes in interest rates, with an additional 18 per cent. reverting to variable rates after their current fixed-rate incentive period expires.

Accordingly, borrowers with a loan that is subject to a variable rate of interest or where the interest rate adjusts following an initial fixed rate or low introductory rate are exposed to increased monthly payments as and when their mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). In an increasing interest rate environment, borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates and this could lead to an increase in arrears in the Group's Residential Mortgage and Buy-to-Let/SME portfolios as well as an increase in the Group's Residential Mortgage and Buy-to-Let/SME impairment charges.

House price growth has accelerated in the second half of 2013 and this trend has continued in the first quarter of 2014, with annual price growth reaching 5 per cent. in December 2013 compared to an average of less than 3 per cent. in the first half of 2013, though at a national level UK house prices in February 2014 remained around 10 per cent.[2] below their pre-crisis peaks. If rising interest rates cause borrowers to be unable to repay their mortgage loans, that could ultimately lead to a correction in house prices and higher retail loan losses. Other factors could cause house prices to fall in the regions where the Group is exposed, such as changes to the tax regime in Jersey and/or Guernsey. If UK house prices were to fall generally or in the South East of the UK, Jersey or Guernsey or other regions to which the Group has significant exposure, the Group's mortgage impairment charges and loan loss provisions could increase as the value of the security underlying its mortgage declines, which in turn would adversely impact the Group's financial and operational performance.

In addition, the buy-to-let market in the UK has expanded rapidly in recent years from a low point in 2009, although volumes in the second quarter of 2013 remain at around half of their 2007 levels according to CML research. As at the end of the 2013 financial year, the vast majority of new and existing buy-to-let loans were on an interest only basis in part for reasons of tax efficiency.

Through the financial crisis, many of these borrowers have benefited from a combination of low interest rates, stable or growing house prices and rising rents as first time buyers have struggled to raise the required deposit to allow them to purchase their own homes. If interest rates were to rise, the credit performance of the Group's buy-to-let portfolio, which comprised 82 per cent. of the gross loans of its Buy-to-Let/SME lending segment at the end of the 2013 financial year, may deteriorate and loan loss provisions may increase, which in turn could adversely impact the Group's financial and operational performance.

The Group's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail savings or its access to wholesale funding markets becomes limited and/or becomes more expensive, and this may have an adverse effect on the Group's business and profitability.

Financial institutions such as the Group are subject to liquidity risk as an inherent part of their business. Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or of the cost of raising liquid funds becoming too expensive.

The Group's primary source of funds is through retail savings and, to date, the Group has raised limited funds in the wholesale funding market. If access to liquidity should be constrained for a prolonged period of time,

2 Halifax House Price Index

the Group's cost of funding would increase as competition for retail savings would intensify and the cost of accessing the wholesale markets would rise. This would adversely affect the Group's profitability.

Retail savers are a significant source of funding for the Group. The ongoing availability of retail savings funding is dependent on a variety of factors outside the Group's control, such as general economic conditions, market volatility, the availability and extent of deposit guarantees and the confidence of retail savers in the UK banking system and in the Group in particular. Deterioration of these or other factors could lead to a reduction in the Group's ability to access retail savings funding on appropriate terms in the future. Given the relative size of the Group's retail savings base, it is particularly exposed to any serious loss of confidence by its retail savers which results in significant withdrawals of deposits/savings. As the Group increases the proportion of its customers with online accounts in the medium term, such a liquidity event could occur quickly.

In addition to its core retail savings base, the Group has recently sourced a limited amount of wholesale funding. The Group maintains a range of funding programmes (including a securitisation and, potentially, the FLS). The availability of wholesale funding depends on a variety of factors including market conditions, the general availability of credit (in particular to the financial services industry), the volume of trading activities, and funding markets' assessment of the Group's credit strength. These and other factors may limit the Group's ability to raise funding in wholesale markets which could result in an increase in the Group's cost of funding or have other adverse effects on the Group's business, financial performance or future prospects.

Extreme market disruptions, such as the severe dislocation experienced in the funding and credit markets following the onset of the global financial crisis, could result in a prolonged and severe restriction on the Group's access to liquidity (including to government and central bank funding and liquidity support) and a prolonged and severe decline in consumer confidence which results in high levels of withdrawals from the Group's retail savings base, which could affect the Group's ability to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements, or to fulfil its commitments to lend. In such extreme circumstances, the Group may not be in a position to continue to operate without additional funding support and any inability to access such support could have a material impact on the Group's solvency.

Any significant reduction or withdrawal of the FLS scheme could increase competition for other sources of funding which could adversely impact the Group.

The Government has provided significant liquidity and credit support to UK financial institutions since April 2008 to ensure the stability of the financial system.

On 12 July 2012, the Bank of England and HM Treasury introduced the FLS. The aim of the scheme is to incentivise banks and building societies to lend to UK households and non-financial companies. The FLS is designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available.

Access to the FLS is directly linked to an institution's aggregate lending to the real economy. Those institutions that increase lending are able to borrow more and at a lower cost than those institutions that scale back their lending. Under the FLS, participating financial institutions were, for a period of 18 months to the end of January 2014, able to borrow funds with a maturity of up to four years. On 24 April 2013, the scheme was extended for a further 12 months, with drawings now permitted until the end of January 2015 and the funding under the scheme now running until January 2019 with an increased focus on lending to SMEs and reduced focus on lending to households.

The availability of government support for UK financial institutions, to the extent that it provides access to lower cost and more attractive funding than other sources, reduces the need for those institutions to fund themselves in the retail or wholesale markets. The Group received permission to participate in the FLS in January 2014 and, as at 31 March 2014, had drawn down approximately £98 million of treasury bills under the scheme in return for posting sovereign bonds as collateral. The Group is currently discussing posting mortgage collateral with the Bank of England. By participating and posting mortgage collateral, the Group may in the future have access to funding that is lower cost than accessing retail savers and may reduce the need to fund itself in the wholesale markets. There is a risk that if it ceases to remain sufficiently active in the savings market its access to such funding could be prejudiced in the future when government support is reduced or no longer available to it when the FLS ends, currently scheduled to be the end of January 2015. Any significant reduction or withdrawal of government support may increase funding costs for those institutions (including the Group) which have utilised that support. In addition, financial institutions which have relied significantly on government support to meet their funding needs will also need to find alternative sources of funding when that support is reduced or withdrawn and, in such a scenario, the Group also expects to face increased competition for funding, particularly retail funding on which it is reliant. This competition could further increase its funding costs and so have an adverse impact on its results of operations and financial position.

Recent legislative and regulatory changes and future legislative and regulatory changes are imposing or could impose operational restrictions on the Group, require the Group to raise further capital, increase the Group's expenses and/or otherwise adversely affect its business, results, financial condition or prospects.

The Group conducts its business subject to ongoing regulation by the FCA and the PRA. The regulatory regime requires the Group to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Group fails to comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities. This is particularly the case in the current market environment, which is witnessing increased levels of government intervention in the banking, personal finance and real estate sectors.

There is an increased focus by regulators on the appropriateness and sustainability of business models of regulated firms, with the regulators having the power to restrict a firm's ability to develop existing products, enter into new product areas or make acquisitions. The regulators no longer focus exclusively on financial strength of a regulated firm, but also consider non-financial resources available to the firm in assessing whether a firm continues to meet the threshold conditions. If the regulators believe a firm does not meet threshold conditions, it can remove or restrict permissions.

More specifically, and as an example, the income targets within the Group's strategic plan rely in part on the delivery of existing and new products such as new savings accounts or new specialist mortgage or lending products. There is a risk that future regulation may change the nature of product charging and/or sales in a way that has an impact on the Group's ability to deliver the planned income, that its chosen business model proves to be inappropriate or that customers are not attracted by the products and services on offer. In addition, it is possible that governments and policy committees (such as the Financial Policy Committee of the Bank of England) may in the future seek to implement policies such as loan to value caps and rental reforms in the UK with the aim of managing house price growth and rises in rents. Any such measures could negatively affect the sub-sectors in which the Group operates, and consequently could cause a reduction in the number of mortgages which the Group underwrites. Any such reduction could have a material adverse effect on the Group's business and operations.

Regulators and other bodies in the UK and worldwide have produced and, in many cases, adopted a range of legislative and regulatory proposals and changes which have and could impose operational restrictions on the Group, cause the Group to raise further capital, increase the Group's expenses and/or otherwise adversely affect its business results, financial condition or prospects. Future changes in regulation, and/or fiscal or other policies, are unpredictable and beyond the Group's control and could have a material effect on its business or operations. In particular:

- the Financial Services (Banking Reform) Act 2013 ("**Banking Reform Act**") will enact a number of reforms primarily related to the UK banking sector. The Banking Reform Act gives HM Treasury and the relevant regulators, primarily the PRA, powers to implement some of the recommendations made by the Independent Commission on Banking ("**ICB**") and in particular, the ICB's recommendations for ring-fencing requirements for larger banks. The Banking Reform Act also takes account of the recommendations of the Parliamentary Commission on Banking Standards and, in particular, its final report published in June 2013 ("Changing Banking for Good") to which the Government responded on 8 July 2013 and accepted the overall conclusions of the final report and all of its principal recommendations. Among other things, this included a new banking standards regime governing the conduct of bank staff, the introduction of a new criminal offence for reckless misconduct for senior bank staff, steps to improve competition in the banking sector and a ring-fence around retail deposits held by UK banks with the aim of separating certain core banking services critical to individuals and small and medium-sized enterprises from wholesale and investment banking services.

Much of the policy detail relating to the reforms, particularly the ring-fencing reforms, will be set out in secondary legislation and regulatory rules. Furthermore, to date, only certain provisions of the Banking Reform Act have come into force. The other provisions of the Banking Reform Act will come into force on a day or days to be appointed in commencement orders. With the exception of certain provisions relating to claims management regulation, these commencement orders will be made by HM Treasury. Therefore, depending on the final form of the law, it may have a substantial impact on banks and building societies in the UK generally, including the Group;

- additional measures contained in the Banking Reform Act include (i) the introduction of a power for the UK authorities to bail in debt issued by UK banks and building societies; (ii) increasing UK banks' and building societies' loss-absorbing capacity (including by way of bail-in bonds); and (iii) increasing the ranking of insured depositors on a winding-up to rank ahead of all other unsecured creditors. At EU level, structural reform measures that are similar to some of those contained in the Banking Reform Act are also under consideration, following the report of the European Commission's high level expert group on reforming the structure of the EU banking sector (the "**Liikanen Group**"). On 29 January 2014, the European Commission published a legislative proposal for a regulation introducing structural reforms to the EU banking sector. The final text of the regulation is not expected to be adopted before June 2015; however this is subject to change. The proposed regulation sets out a ban on proprietary trading and a power for regulators to require banks to separate certain trading activities from a deposit-taking entity. This approach differs from the separation requirements envisaged in the Liikanen report in that it does not make the separation mandatory. Instead, it provides that national regulators must consider the separation of trading activities from retail and commercial banking depending on the risk each individual core credit institution presents. In addition, the European Commission may grant derogations to individual deposit-taking banks within member states (but not to member states themselves) from the separation requirements where national legislation is equivalent to the EU legislation. It is not yet clear whether the current Banking Reform Act will be deemed equivalent and so there remains a risk that any subsequent EU legislation implementing the recommendations in the report may impose requirements which are more onerous than those in the Banking Reform Act or which may not be completely consistent with those in the Banking Reform Act;

- in June 2012, the European Commission published a legislative proposal for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, the Recovery and Resolution Directive ("**RRD**"). On 11 December 2013, the Council of the EU and the European Parliament reached trialogue agreement on the RRD. At trialogue agreement, it was agreed that the RRD should come into force on 1 January 2015 and, as an exception to this, the provisions on the bail-in tool should be applied from 1 January 2016. The RRD will require banks to maintain a minimum amount of "bail-in-able" liabilities expressed as a percentage of the institution's total liabilities on its balance sheet. Accordingly, firms which do not meet the minimum requirements will need to issue and find buyers for such bail-in-able debt. The draft RRD is not in final form and changes may be made to it in the course of the legislative process;

- in October 2013, the FCA commenced a study to examine the nature of competition in the cash savings market and obstacles to consumers switching their savings between accounts and the information that is provided to consumers. The focus of the study is interest-bearing cash savings accounts and the FCA is aware that there appears to be a low level of consumer mobility when it comes to cash savings accounts compared to other financial services products. The FCA has published its preliminary findings and intends to publish a final report in Autumn 2014;

- certain buy-to-let mortgages and second charge loans were regulated alongside other forms of consumer credit by the OFT under the Consumer Credit Act 1974. Regulation of consumer credit transferred to the FCA on 1 April 2014. In conjunction with this change, parts of the Consumer Credit Act 1974 were repealed and replaced with FCA Handbook rules. Those parts of the Consumer Credit Act 1974 that implement the (maximum harmonisation) Consumer Credit Directive (2008/48/EC) were retained.

  The FCA was involved in discussions on the proposed European Mortgage Credit Directive (the "**MCD**") (also referred to as the Directive on credit agreements related to residential property (the "**Directive**")). On 28 February 2014, the text of the Directive was published in the Official Journal of the EU ("**OJ**"). The Directive enters into force on the twentieth day following its publication in the OJ. Member States are required to transpose the MCD into national legislation and regulation by 21 March 2016.

  The FCA has noted that the Directive is less closely aligned with the UK approach to mortgage regulation in terms of scope because it applies a standard approach to certain niche mortgage markets that the FCA does not currently regulate, including buy-to-let mortgages. Therefore the FCA may need to amend the rules and guidance in the FCA Handbook and this could result in certain activities becoming subject to additional regulation. In November 2013, the FCA stated that it intends to publish a consultation on the implementation of the Directive "mid-year" in 2014 and it will be difficult to assess the potential cost implications until after this consultation is published. Similarly, the requirements for second charge firms will remain the same as those for other consumer credit firms for the time being but may be subject to change in the future as a result of the Directive being transposed;

- UK consumer law is currently undergoing reform due to the implementation of the Consumer Rights Directive and the introduction of the Consumer Rights Bill. The Consumer Rights Bill is currently going through the UK legislative process and it is uncertain when this will be completed. The Bill currently includes certain parts of the EU Consumer Rights Directive (namely provisions on the contractual status of information and delivery and risk in goods). On 13 December 2013, the Government laid the Consumer Contract Regulations 2013 (which implement certain provisions of the Consumer Rights Directive) before Parliament which will come into force on 13 June 2014 and apply to all relevant consumer contracts entered into on or after that date; and

- the Basel III reform package has been implemented in the European Economic Area (the "**EEA**") through a regulation and an associated directive (together, "**CRD IV**"). The regulation establishes a single set of harmonised prudential rules which will apply directly to all credit institutions in the EEA with the directive containing less prescriptive provisions which needed to be transposed into national law by 31 December 2013. The new prudential rules include increased minimum capital ratios, changes to the definition of capital and the calculation of risk-weighted assets, and the introduction of new measures relating to leverage, liquidity and funding. Full implementation began on 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2022. Whilst CRD IV allows regulators to phase in the new measures over a period of time, the PRA has chosen to accelerate this timetable, with most capital deductions to apply in full from 2014. The most significant impact to the Group has been the immediate full deduction of deferred tax assets from the Group's Common Equity Tier 1 capital.

  However, certain of these measures have yet to be implemented by the PRA. For example, a new ratio, calculated by dividing Tier 1 capital by total non-weighted assets and off-balance exposures (the "**leverage ratio**"), is required to be maintained at a level of at least 3 per cent. This requirement will be harmonised at EU level from 1 January 2018, until which date the UK regulators may apply such measures as they consider appropriate.

It is possible that regulatory and/or legislative changes could prompt the development of new rules to, among other things, increase competition in the markets, or analogous or competing markets, in which the Group operates. This could result in an adverse impact or increased operational and compliance costs to the industry and therefore on the Group. It is impossible to predict the effect that any of the proposed changes will have on the Group's operations, business and prospects or how any of the proposals discussed above will be implemented in light of the fundamental changes to the regulatory environment proposed by the Government. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs and/or capital requirements. Accordingly, the Group cannot assure investors that the implementation of any of the foregoing matters or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on its operations, business, results, financial condition or prospects.

The Group's guidelines and policies for risk management may prove inadequate for the risks faced by its business and any failure to properly manage the risks which it faces could cause harm to the Group and its business prospects.

The management of financial, operational, legal, regulatory and reputational risks requires, among other things, robust guidelines and policies for the accurate identification and control of a large number of transactions and events. Such guidelines and policies may not always prove to be adequate in practice. The Group faces a wide range of risks in its business activities, including, in particular:

- liquidity and funding risk, see "*The Group's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail savings or its access to wholesale funding markets becomes limited and/or becomes more expensive, and this may have an adverse effect on the Group's business and profitability*" above;

- interest rate risk, where changes in interest rate levels, yield curves and spreads may affect the Group's interest rate margin realised between lending and borrowing costs. Although the Group seeks to manage its interest rate risk through derivatives, it is unable to fully minimise its interest rate risk. Any failure to manage the Group's interest rate risk could result in a reduction of the Group's net interest income and the economic value of its assets. See also, "*The Group's business and financial performance have been adversely affected by a prolonged period of low Bank of England base rates and may continue to be adversely affected for so long as the base rate remains low*" above;

- basis risk, which arises when the Group finances an asset with a liability that re-prices from a different interest rate index. There can be no guarantee that the Group will be able to continue to effectively manage basis risk, which could result in excess losses;

- credit risk, which is the risk that a borrower or a counterparty fails to pay interest or to repay the principal on a loan or other financial instrument. The Group may be unable to accurately quantify the credit risk of its own, more recently originated loans and mortgages due to the short period the loans have been in existence;

- model risk, which is the risk that an adverse outcome (incorrect or unintended decision or financial loss) occurs as a direct result of weaknesses or failures in the design or use of a model. The adverse consequences include financial loss, poor business or strategic decision making or damage to the Group's reputation. Models are mathematical representations of business systems designed to help describe, predict, experiment with or optimise decisions and scenarios and are used throughout the Group's business; and

- operational risk, which is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems or from external event. The Group's businesses are dependent on its ability to process transactions efficiently and accurately. Operational risk and losses can result from a range of internal and external factors. Internal factors include fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules and equipment failures, particularly in relation to electronic banking applications. External factors include natural disasters, terrorist action or the failure of external systems such as, for example, operational problems at other institutions. A feature of operational risk is that financial institutions rely on systems and controls such as standard form documentation and electronic banking applications to process high volumes of transactions. As a result, any error in the Group's standard documentation or any defect in its electronic banking applications can be replicated across a large number of transactions before the error or defect is discovered and corrected and this could significantly increase the cost to the Group of remediating the error or defect, could expose it to the risk of regulatory sanction, unenforceability of contracts and, in extreme cases, could result in significant damage to its reputation.

The Group has a range of tools designed to measure and manage the various risks which it faces, see Part VII (*Risk Management*) of this Prospectus. Some of these methods are based on historical market behaviour. The methods may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historical experience. Historical data may also not adequately allow prediction of circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the Group. Such information may not always be correct, updated or correctly evaluated. In addition, even though the Group constantly measures and monitors its exposures, there can be no assurance that its risk management methods will be effective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group's financial performance and business operations.

Reputational risk could cause harm to the Group and its business prospects.

The Group's reputation is one of its most important assets and its ability to attract and retain customers and staff and conduct business with its counterparties could be adversely affected to the extent that its reputation or the reputation of its brands is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Group and its business prospects. Reputational issues include, but are not limited to:

- failing to appropriately address potential conflicts of interest;
- breaching or facing allegations of having breached legal and regulatory requirements (including, but not limited to conduct requirements, money laundering, anti-terrorism financing requirements and data protection);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices, see "*The Group is exposed to risks relating to breaches of legal or regulatory principles or requirements*" below);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping;
- technology failures that impact upon customer services and accounts;
- failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered;
- third parties on whom the Group relies, such as clearing banks and third party mortgage servicing agents, failing to provide the necessary services; and
- generally poor company performance.

A failure to address these or any other relevant issues appropriately could make customers, depositors and investors unwilling to do business with the Group, which could have a material adverse effect on its business, financial condition and results of operations and could damage its relationships with its regulators. The Group cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

The Group is heavily reliant on a small number of key employees.

The successful management and operations of the Group are reliant upon the contributions of its senior management team and other key personnel, including underwriting employees, who are key to the Group's bespoke approach to lending products. In addition, the Group's future success depends in part on its ability to continue to recruit, motivate and retain highly experienced and qualified employees. There is intense competition in the financial services industry for skilled personnel, in particular for appropriately qualified underwriting staff. Although the Group takes steps to protect itself in relation to the loss of key personnel (such as the inclusion of restrictive covenants and/or 'gardening leave' provisions in the employment contracts of key personnel), the loss of service of any of the Group's senior management team or other key personnel, or an inability of the Group to attract new personnel, could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group relies on third parties for certain critical services.

The Group's business is reliant on third parties. In particular:

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

- a significant proportion of the loans comprising the Group's acquired loan portfolios are serviced by third parties pursuant to existing contractual arrangements. There can be no guarantee that the Group will be able to renew these contracts on similar or more favourable terms. Any significant increase in fees would affect the Group's financial condition in the future;

- as noted above, the Group is reliant on third parties which service a significant proportion of the Group's acquired loan portfolios. Any failure by such third parties to comply with their contractual obligations could give rise to reputational damage which could cause harm to the Group and its business prospects. In addition, certain of these third party service providers do not have appropriate disaster recovery systems in place. Any loss of customer data or customer funds could have a significant effect on the Group's operations, and could entail significant capital expenditure by the Group to remedy such failures, which could have an adverse effect on the Group's financial condition. Such failures could also give rise to reputational damage which could cause harm to the Group and its business prospects; and

- the Group is reliant on third parties for the provision of cash-flow modelling services when it considers loan portfolio acquisitions and when updating carrying values. The adverse consequences of any modelling failure include financial loss, poor business or strategic decision making or damage to the Group's reputation.

Competition in the UK personal financial services markets may adversely affect the Group's operations.

The Group relies heavily on its retail savings franchise to fund itself. The Group's strategy is to maintain and develop its established savings franchise as a growing and stable source of funding. For a more detailed discussion of the Group's strategy, see paragraph 3 of Part II (*Information on the Company and the Group*). The Group competes mainly with other providers of personal financial services, including banks, building societies and insurance companies, and operates in an increasingly competitive UK personal financial services market. Each of the main personal financial services markets in which the Group operates is mature, so that growth requires taking market share from competitors. Some of the Group's competitors have publicly commented that they intend to grow their market share. Such banks may engage in enhanced marketing activities which may result in customers switching their savings to such competitors or may limit the Group's ability to attract new customers. This places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. The Group competes primarily on its policy of offering consistent long-term good value and better service to its customers. If the Group is unable to achieve the efficiency of its competitors in these respects, it risks losing one of its significant competitive advantages and being unable to match its strategic growth aspirations.

The UK market for financial services and the mortgage market in particular have been reshaped by the recent financial crisis. As a result of the financial crisis the banking sector generally has moved to reduce its dependence on wholesale funding, resulting in greater competition for retail deposits, which has inevitably had a negative impact on lenders' margins. Competition may intensify further in response to consumer demand, technological changes, the impact of consolidation in the UK financial sector, regulatory actions, the European Mortgage Credit Directive (which may make it easier for European financial institutions to access the UK market) and other factors. If increased competition were to occur as a result of these or other factors, the Group's business, financial condition and results of operations could be materially adversely affected.

Each of the major UK banks has announced that it will focus on improving its customer service. If the Group's customer service levels were perceived by the market to be only in line with, or materially below, those of competitor UK financial institutions, it could lose existing and potential new business. If the Group is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on its business, financial condition and results of operations.

In addition, the Group competes on credit standards. Should the Group's competitors lower their credit standards, the Group may be required to (i) do the same, to ensure that its share of the sub-sectors in which it operates does not fall or (ii) reduce its lending. Any lowering of credit standards by the Group could lead to a reduction in the quality of the security the Group takes (which could lead to increased mortgage impairment charges) and in the Group having increased levels of borrowers who may be less able to repay their mortgages or loans (which could result in the Group recording higher loan loss provisions). Any increase in the Group's mortgage impairment charges and loan loss provisions or reductions in lending would adversely impact the Group's financial and operational performance.

The Group is dependent on its IT systems, which may fail or be subject to disruption.

The Group's operations are dependent on its IT systems, and there is a risk that such systems could fail. There can be no assurance that the Group's IT systems are or will continue to be able to support a significant increase in online traffic. Although the Group has in place business continuity procedures and security measures in the event of IT failures or disruption, including backup IT systems for business critical systems, these are not, and are not intended to be, a full duplication of the Group's operational systems. Should any of these procedures and measures not anticipate, prevent or mitigate a network failure or disruption, or should an incident occur to a system for which there is no duplication, there may be a material adverse effect on the Group's business, financial condition and results of operations.

Further, the Group is currently in the process of implementing a number of IT system upgrades, in particular in relation to its customer-facing infrastructure. Should these upgrades not be completed as planned, or become subject to significant delays, the Group's existing IT systems could be adversely affected. The migration of data involved in the transition to new systems may require remediation of data or customer accounts within the transfer process. In addition, the Group's upgraded IT systems, once in place, could in themselves adversely affect the Group's existing IT systems. Any of these factors could have a material adverse effect on the Group's operational performance.

The Group is exposed to risks relating to breaches of legal or regulatory principles or requirements.

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

- the Group is subject to capital adequacy requirements adopted by the PRA. Although the Group is in compliance with its current capital requirements, changes to regulation in this area may be imposed in the future and failure to comply with such requirements could expose the Group to administrative actions or sanctions;
- certain aspects of its business may be determined by the PRA, the FCA, HM Treasury, the Financial Ombudsman Service, the Office of the Information Commissioner or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the Financial Ombudsman Service, with what is fair and reasonable in the Ombudsman's opinion;
- the FCA introduced new rules into its Handbook as a result of the Mortgage Market Review. These rules took effect on 26 April 2014 and require, among other things, an assessment of affordability in accordance with detailed requirements, with transitional arrangements where the borrower does not take on additional borrowing except for essential repairs or maintenance work, and will ban self-certified loans. These rules permit interest-only loans where there is a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan and check at least once during the term of the loan) and the cost of the repayment strategy must be part of the affordability assessment. This could give rise to additional causes of action against the Group for aggrieved customers;
- actual or alleged mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate, may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, all or any 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;
- the transfer of consumer credit regulation from the Office of Fair Trading to the FCA may result in the FCA carrying out historical reviews of credit agreements (whether originated by the Group or acquired by the Group as part of loan portfolio acquisitions) which now fall under its jurisdiction. This could result in the FCA imposing sanctions in relation to existing agreements and imposing new requirements in respect of future agreements;
- 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; and
- the Group may be liable for conduct issues (to the extent that there are any) in respect of legacy actions (or omissions) taken (or not taken) by the Kent Reliance Building Society (prior to the Group's creation) and businesses or loan portfolios acquired by the Group after February 2011.

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

The Group also faces both financial and reputational risk where legal or regulatory proceedings are brought against it or members of its industry generally in the UK High Court or elsewhere, or where complaints are made against it or members of its industry generally to the Financial Ombudsman Service or another relevant body.

There is currently a significant regulatory focus on the fairness of contract terms, sales practices and reward structures that financial institutions have used when selling financial products. However, no assurance can be given that financial institutions (including the Group) will not incur liability for past actions which are determined to have been inappropriate and any such liability incurred could be significant and have a material adverse effect on the Group's reputation, results of operations and financial position.

The Financial Services Compensation Scheme imposes significant levies on the Group which may increase in future periods.

The regulatory response to the financial crisis of 2008 has been largely designed for the bank public limited company ownership model (for example, the requirement for financial institutions to increase their capital levels and the imposition of levies by the Financial Services Compensation Scheme (the "**FSCS**"), which are not determined on a basis that reflects the relative risk of the business models of individual institutions). The FSCS pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. For further information on the FSCS, see Part XII (*Supervision and Regulation*) of this Prospectus. Based on its share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it. The amount provided for in the Group's accounts to meet its obligations to the FSCS was £1.15 million as at the end of the 2013 financial year. Whilst claims may be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants. Any such levies may be in significant amounts that may have a material impact on the Group's profits. For example, in March 2012 the FSCS and HM Treasury agreed the refinancing of £20.4 billion in loans made to the FSCS by HM Treasury to fund the compensation payments made by the FSCS to customers whose savings were put at risk by bank failures in 2008 and 2009. As a result, the FSCS was required to pay a significantly increased amount of interest which it will recover through additional levies on the financial services industry. Following recoveries since March 2012, the FSCS currently has outstanding loans of approximately £17.3 billion.

In common with other financial institutions which are subject to the FSCS, the Group also has a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure.

Historically, compensation scheme levies similar to the FSCS have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will not be any further claims against the FSCS and concomitant increased FSCS levies payable by the Group. Any such increases in the Group's costs and liabilities related to the levy may have a material adverse effect on its results of operations. Further costs and risks to the Group may also arise from discussions at national and EU levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

As a result of the structural reorganisation and reform of the UK financial regulatory authorities, the FSCS is now the responsibility of the FCA. It is possible that future policy of the FSCS and future levies on the Group may differ from those at present, and such reforms could result in the Group incurring additional costs and liabilities, which may adversely affect its business, financial condition and/or results of operations.

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

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

A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions and could have a material adverse effect on the Group's operations, business, results, financial condition or prospects.

The Group's accounting policies and methods are critical to how it reports its financial condition and results of operations. They require the Group to make estimates about matters that are uncertain.

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

The Group has identified certain accounting policies in the notes to the historical financial information set out in Part IX (*Historical Financial Information*) of this Prospectus in respect of which significant judgement is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. Specifically, effective interest rate accounting, impairments of financial assets, fair values and deferred taxation require significant judgement.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. 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. Because of the uncertainty surrounding the Group's judgements and the estimates pertaining to these matters, 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 and any such changes or restatements could be material in nature.

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

The Group's activities are principally conducted in the UK and it is therefore subject to a range of UK taxes at various rates. Future actions by the Government (or relevant European bodies) to increase tax rates or to impose additional taxes would reduce the Group's profitability. Revisions to tax legislation or to its interpretation might also affect the Group's financial condition in the future. In addition, the Group is subject to periodic tax audits which could result in additional tax assessments relating to past periods of up to six years being made. Any such assessments could be material which might also affect the Group's financial condition in the future.

The Group's support operations are based in India and could be affected by a number of economic, political and other factors affecting India which are beyond the Group's control.

The Group has its own Indian operations, based in Bangalore, which are responsible for, among other things, all of the Group's savings processing, operating the Group's call centre and processing all online instructions and emails. The Group's strategy includes using its Indian operations to perform additional functions in the future. As India remains a developing country, the Group's operations in India could be adversely affected by economic, political, legal and regulatory changes. In particular, foreign companies operating in India (directly or indirectly) could be subject to changes in applicable legislation and changes to the tax environment and the regulatory framework in which they operate. It is not possible to predict what impact such changes could have on the Group, but any reduction in its ability to provide support services to the rest of the Group could increase the Group's costs significantly and could have a material adverse effect on the Group's financial condition and results of operations.

The Group has carried forward tax losses which may not be available to set off against profits.

The Company had approximately £33 million of unutilised carried forward trading losses as at the end of the 2013 financial year. The InterBay subsidiaries had approximately £21 million of additional unutilised carried forward trading losses as at the end of the 2013 financial year. These trading losses were approximately £25 million and £1 million higher respectively at the beginning of the 2013 financial year, as these amounts were utilised against taxable profits in the 2013 financial year.

Current tax rules prevent the carry forward (or back) of trading losses beyond a change in the ownership of a company where (i) there is a major change in the nature or conduct of the trade carried on by the company in the three years before or after the change of ownership or (ii) the change in ownership of the company occurs at any time after the trade has become small or negligible and before a significant revival of the trade. The rules apply to each entity in the Group separately, and apply every time there is a change in ownership. The rules also apply to subsidiaries where there is a change in the ownership of the (ultimate) parent company.

There was a change in the ownership of the InterBay subsidiaries in August 2012. With regard to each InterBay trading subsidiary, the carry forward of its trading losses would only be restricted by reference to the date of the change of ownership where (i) there is a major change in the nature or conduct of the trade carried on by the company in the three years before or after the change in ownership or (ii) the change in ownership occurred after the trade had become small or negligible and before a significant revival of the trade.

There is a strong argument that there has not been a change in the ownership of the Company on or before the date of this Prospectus. However, it is possible that certain of the changes which have occurred in the share capital of the Company as more fully described in paragraph 3.2 of Part XIV (*Additional Information*) or the issue and sale of Ordinary Shares pursuant to the Global Offer may be regarded as giving rise to a change in the ownership of the Company and, therefore, of each member of the Group. Further, the Company cannot rule out the possibility of a change in ownership subsequent to Admission.

If it were determined that a change in the ownership of the Company (and therefore each member of the Group) had occurred, or were a change in ownership to occur on or subsequent to Admission, as described above, the carry forward of trading losses of a given Group company would only be restricted by reference to the date of change in ownership where (i) there is a major change in the nature or conduct of the trade carried on by the company in the three years before or after the change in ownership or (ii) the change in ownership occurs at any time after the trade has become small or negligible and before a significant revival of the trade.

The Directors do not consider that there has been a major change in the nature or conduct of the trade of any member of the Group in the three years before, or after (to the date of this Prospectus), any of the changes which have occurred in the share capital of the Company as more fully described in paragraph 3.2 of Part XIV (*Additional Information*). The Directors do not currently envisage that there will be a major change in the nature or conduct of the trade carried on by any member of the Group. The Directors do not consider that the scale of the activities in the trading entities has been small or negligible prior to any of the changes which have occurred in the share capital of the Company as more fully described in paragraph 3.2 of Part XIV (*Additional Information*).

Any restrictions on the Group's ability to utilise losses could have a material adverse effect on the Group's results of operations and financial position.

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

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

The Group is exposed to potential losses arising from derivative contracts and swaps.

From time to time, the Group uses hedging, forward contracts and derivative instruments, including interest rate swaps, to reduce its exposure to adverse fluctuations in interest rates. Any failure by any of the Group's counterparties to discharge their obligations or to provide adequate collateral could have a material adverse effect on the Group's results of operations and financial condition. In addition, should a significant number of fixed-rate long-term mortgages and loans be prepaid earlier than anticipated, then the Group may incur losses on the underlying swaps if those swaps have a negative fair value when they are unwound. These losses could be significant and could have a material adverse effect on the Group's results of operations and financial condition.

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

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

The Group's business and financial performance would be adversely affected by a break-up of the single euro currency.

As noted above, over the past five years, there has been significant volatility in financial markets around the world, and in Europe in particular. In addition, weak macroeconomic factors in many countries around the world, including in Europe, has resulted in negative or weak GDP growth for a number of years. Reflecting these and other concerns, in January 2012 one of the major international credit rating agencies lowered its long-term ratings in respect of nine European sovereigns, further increasing market uncertainty. Furthermore, the effectiveness of the actions aimed at stabilising European economies and reducing debt burdens is not assured and the possibility remains that the euro could be abandoned as a currency by countries that have already adopted its use or, in an extreme scenario, abandonment of the euro could result in the dissolution of the EMU. This would lead to the re-introduction of individual currencies in one or more EMU member states.

The effects on the European and global economies of the potential dissolution of the EMU, exit of one or more EU member states from the EMU and the redenomination of financial instruments from euro to a different currency are impossible to predict fully. However, if any such events were to occur they would likely:

- result in significant market dislocation;
- heighten counterparty risk; and
- have a knock-on effect on the UK economy and the creditworthiness of the Group's borrowers.

The Group anticipates that such an event would be likely to adversely impact the cost and availability of wholesale funding, thereby increasing competition for retail funds and having an adverse impact on the Group's net interest margin. Such an event would also have an adverse effect on the UK's economic recovery.

The Group's financial performance could be adversely affected if Scotland were to leave the UK.

In September 2014, Scotland will hold a referendum on whether to remain part of the UK, or leave it and become a new separate and independent state. Although the effects of Scottish independence are difficult to predict, it is likely that independence would ultimately create two separate financial jurisdictions: the continuing UK and a new, independent Scotland, which would require its own legal and regulatory framework, and possibly, its own currency. In particular, independence may ultimately create separate regulatory and tax regimes, which would be likely to diverge from the UK's over time. Although only a small proportion of the Group's customers are based in Scotland, any requirement for the Group to comply with a different regulatory regime could have a significant impact on the Group's operations, structure, costs and/or capital requirements. In addition, independence may have an adverse impact on the valuation of the Group's holdings of gilts and UK government bonds. Accordingly, the Group cannot assure investors that the impact of the occurrence of any of the foregoing matters, including uncertainty following an affirmative vote on Scottish independence, or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on its operations, business, results, financial condition and/or prospects.

RISKS RELATING TO THE GLOBAL OFFER AND TO THE ORDINARY SHARES

Minority Shareholders may have difficulty affecting the outcome of Shareholders' votes.

Following the Global Offer, the maximum percentage of Ordinary Shares that the Major Shareholder will own is 67.2 per cent. The Major Shareholder is, and immediately following Admission will be, controlled by J.C. Flowers III. Following the Global Offer, the Major Shareholder will, through the votes it will be able to exercise at general meetings of the Company, continue to be able to exercise a significant degree of influence over, and in some cases determine, the outcome of certain matters to be considered by Shareholders, including:

- the election of Directors;
- a change of control in the Company, which could deprive Shareholders of an opportunity to earn a premium for the sale of their Ordinary Shares over the then prevailing market price;
- substantial mergers or other business combinations;
- the acquisition or disposal of substantial assets;
- the issuance of equity securities; and
- the payment of any dividends on the Ordinary Shares.

The Company has entered into the Relationship Agreement with the Major Shareholder, which contains contractual obligations on the Major Shareholder to ensure that the Company operates independently of the Major Shareholder after Admission. In particular, the Relationship Agreement contains undertakings from the Major Shareholder not to (i) influence the day-to-day running of the Company at an operational level nor (ii) vote its shares in a manner which would prevent the Company from operating and making decisions for the benefit of the Shareholders as a whole. In addition, the Major Shareholder had agreed to certain standstill arrangements. Pursuant to the Relationship Agreement, the Major Shareholder has been granted the right to appoint one Non-Executive Director to the Board for so long as the Major Shareholder holds at least ten per cent. of the Company's Ordinary Shares and a further Non-Executive Director for so long as the Major Shareholder holds at least 30 per cent. of the Company's Ordinary Shares and as a result is in a position to exercise a significant degree of influence over matters requiring the approval of the Board. The concentration of ownership in the Major Shareholder may have the effect of delaying, deferring or preventing a change of control, merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could have an adverse effect on the trading price of the Ordinary Shares. There can be no assurance that the interests of the Major Shareholder will be aligned with those of the Group or of other Shareholders.

Substantial future sales of Ordinary Shares could impact their market price.

The Company cannot predict what effect, if any, future sales of Ordinary Shares, or the availability of Ordinary Shares for future sale, will have on the market price of Ordinary Shares. Sales of substantial amounts of Ordinary Shares in the public market following the Global Offer, or the perception or any announcement that such sales could occur, for example, during the period immediately prior to the expiration of any lock-up arrangements, could adversely affect the market price of Ordinary Shares and may make it more difficult for investors to sell their Ordinary Shares at a time and price which they deem appropriate, or at all.

Immediately following the Global Offer, approximately 243,079,965 Ordinary Shares will be in issue. The Major Shareholder (in respect of Ordinary Shares held by it on behalf of J.C. Flowers III, the Executive Directors and certain of the Non-Executive Directors) has agreed to lock-up arrangements in respect of Ordinary Shares held by it prior to Admission. J.C. Flowers III and each of the Directors and the Senior Managers have also agreed to certain lock-up arrangements. During the periods immediately prior to and following the end of the periods of sales restriction provided for by these lock-up arrangements, the market price of the Ordinary Shares may fall in anticipation of a sale of Ordinary Shares. Following the expiration of these arrangements, there will be no contractual restriction on the sale of the Ordinary Shares owned by the Major Shareholder, J.C. Flowers III and the Directors which were previously subject to them. Furthermore (in respect of Ordinary Shares which are the subject of lock-up arrangements of which the Joint Bookrunners are the beneficiaries), the Joint Bookrunners may, in their sole discretion, and at any time or from time to time, without notice, release these lock-up arrangements in respect of all or any portion of such Ordinary Shares. In addition (in respect of Ordinary Shares which are the subject of lock-up arrangements of which the Company and/or the Major Shareholder are the beneficiaries), the Company and/or the Major Shareholder may (as the case may be), in their sole discretion, and at any time or from time to time, without notice, release these lock-up arrangements in respect of all or any portion of such Ordinary Shares.

An active trading market for the Ordinary Shares may not develop or be sustained.

Prior to the Global Offer there has been no public trading market for the Ordinary Shares. The Company will apply to the UK Listing Authority for admission to the Official List and will apply to the London Stock Exchange for admission to trading of the Ordinary Shares on its main market for listed securities. However, there is no assurance that an active trading market for the Ordinary Shares will develop or, if developed, be sustained following the closing of the Global Offer. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected. Even if an active trading market develops, the market price for the Ordinary Shares may fall below the Offer Price, perhaps substantially. As a result of fluctuations in the market price of the Ordinary Shares, investors may not be able to sell their Ordinary Shares at or above the Offer Price, or at all.

The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, many of which will be out of the Company's control.

Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the company that has issued them. In addition, the market price of the Ordinary Shares may prove to be highly volatile, which may prevent Shareholders from being able to sell their Ordinary Shares at or above the price they paid for them. The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, many of which are and will be beyond the Company's control, including variations in operating results in the Company's reporting periods, changes in financial estimates by securities analysts, changes in market valuation of similar companies, announcements by the Company of significant contracts, acquisitions, planned investments or other capital commitments, strategic alliances, joint ventures, additions or departures of key personnel, any changes in legal and regulatory requirements, any shortfall in turnover or net profit or any increase in losses from levels expected by securities analysts, and future issues or sales of Ordinary Shares. Any or all of these events could result in a material decline in the price of the Ordinary Shares.

There are no guarantees that the Company will pay dividends or regarding the level of any such dividends.

The Group's results of operations could fluctuate and the ability of the Company to pay dividends is dependent on, amongst other things, its achieving sufficient profits. The Company might not pay dividends if the Directors believe this would cause any Group member to be less than adequately capitalised (including taking into account any regulatory restrictions that may be applicable), or if for any other reason the Directors conclude it would not be in the best interests of the Company. Future dividends will depend on, amongst other things, the Group's future profits, financial position, accounting changes, general economic conditions and other factors that the Directors deem significant from time to time. There can be no assurance that the Company will pay dividends or if it does pay dividends, regarding the amount of such dividends and consequently Shareholders may not receive their anticipated income stream.

Pre-emption rights may not be available to US and other overseas Shareholders.

In the case of certain increases in the issued share capital of the Company, existing holders of Ordinary Shares are generally entitled to pre-emption rights to subscribe for such shares, unless such rights are waived by a resolution at a meeting of the Shareholders, or in certain other circumstances as stated in the Company's Articles. US and certain other overseas Shareholders are customarily excluded from exercising any such pre-emption rights they may have unless a registration statement under the Securities Act or other applicable laws is effective with respect to those rights or an exemption from the registration requirements or similar requirements in other jurisdictions thereunder is available.

The Company has no current intention to file any such registration statement and cannot assure prospective investors that any exemption from any such registration requirements would be available to enable US or other overseas Shareholders to exercise such pre-emption rights or, if available, that it will utilise any such exemption, which could lead to US or other overseas Shareholders having their shareholdings in the Company diluted.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Mike Fairey (*Non-Executive Chairman*) Andy Golding (*Chief Executive Officer*) April Talintyre (*Chief Financial Officer*) Graham Allat (*Independent Non-Executive Director)* Rod Duke (*Senior Independent Non-Executive Director*) Tim Hanford (*Non-Executive Director*) Malcolm McCaig (*Independent Non-Executive Director*) Mary McNamara (*Independent Non-Executive Director)* Dr. David Morgan (*Non-Executive Director*) Nathan Moss (*Independent Non-Executive Director)* Stephan Wilcke (*Non-Executive Director*)
Company secretary	Zoe Bucknell
Registered office	Reliance House Sun Pier Chatham Kent ME4 4ET
Global Co-ordinator, Sponsor and Joint Bookrunner	Barclays Bank PLC 5 The North Colonnade London E14 4BB
Joint Bookrunner	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Joint Bookrunner	RBC Europe Limited (trading as RBC Capital Markets) Riverbank House 2 Swan Lane London EC4R 3BF
Co-lead Manager	Macquarie Capital (Europe) Limited Ropemaker Place 28 Ropemaker Street London EC2Y 9HD
Financial Adviser	N M Rothschild & Sons Limited New Court St Swithin's Lane London EC4N 8AL
Legal advisers to the Company as to English law and US law	Ashurst LLP Broadwalk House 5 Appold Street London EC2A 2HA
Legal advisers to the Underwriters as to English law and US law	Davis Polk & Wardwell London LLP 99 Gresham Street London EC2V 7NG
Legal advisers to the Company as to English law	King & Wood Mallesons SJ Berwin 10 Queen Street Place London EC4R 1BE
Auditor and Reporting Accountants	KPMG LLP 15 Canada Square London E14 5GL
Registrar	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND GLOBAL OFFER STATISTICS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Event	**Time and Date**
Publication of the Prospectus	5 June 2014
Commencement of conditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 5 June 2014
Admission and commencement of unconditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 10 June 2014
CREST accounts credited with uncertificated shares	8.00 a.m. on 10 June 2014
Despatch of definitive share certificates (where applicable)	By 24 June 2014

Notes:

(1) It should be noted that if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

(2) The times and dates in the table above are indicative only and are subject to change. All times are London times.

(3) No temporary documents of title will be issued.

GLOBAL OFFER STATISTICS

Offer Price per Ordinary Share	170 pence
Number of New Ordinary Shares to be issued by the Company pursuant to the Global Offer	24,411,765
Number of Existing Ordinary Shares to be sold by the Major Shareholder pursuant to the Global Offer(1)	54,579,474
Total number of Offer Shares(1)	78,991,239
Number of Ordinary Shares subject to the Over-allotment Option(2)	Up to 11,848,686
Number of Ordinary Shares in issue immediately following Admission	243,079,965
Percentage of the Existing Ordinary Share capital to be sold pursuant to the Global Offer(1)	25.0%
Estimated net proceeds of the Global Offer receivable by the Major Shareholder(1)(3)	£88.6 million
Estimated net proceeds of the Global Offer receivable by the Company(4)	£36.0 million
Expected market capitalisation of the Company at the Offer Price following Admission(5)	£413.2 million
Ticker Symbol	OSB
SEDOL Code	BM7S7K9

Notes:

(1) Assuming no exercise of the Over-allotment Option.

(2) The maximum number of Ordinary Shares subject to the Over-allotment Option will be 15 per cent. of the total number of Offer Shares.

(3) Net proceeds receivable by the Major Shareholder are stated after deduction of underwriting commissions and other expenses of approximately £4.2 million.

(4) Net proceeds receivable by the Company are stated after bearing underwriting commissions and other expenses (including VAT) of approximately £5.7 million, of which approximately £0.2 million was recorded in the one month ended 31 January 2014. The Company will not receive any of the proceeds from any sale of Existing Ordinary Shares by the Major Shareholder in the Global Offer.

(5) The market capitalisation of the Company at any given time will depend on the market price of the Ordinary Shares at that time. There can be no assurance that the market price of an Ordinary Share will equal or exceed the Offer Price.

PRESENTATION OF INFORMATION

1. NOTICE TO PROSPECTIVE INVESTORS

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

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

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

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Directors, the Major Shareholder, J.C. Flowers & Co. LLC, J.C. Flowers & Co. UK LLP, the Banks or the Financial Adviser or any of their respective representatives that any recipient of this Prospectus should subscribe for or purchase the Offer Shares.

Prior to making any decision whether to purchase any Offer Shares, prospective investors should ensure that they have read this Prospectus in its entirety and, in particular, the section entitled "*Risk Factors*", and not just rely on key information or information summarised in it. In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of this Prospectus, including the merits and risks involved. Any decision to purchase Offer Shares should be based solely on this Prospectus.

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

None of the Company, the Directors, the Major Shareholder, J.C. Flowers III, J.C. Flowers & Co. LLC, J.C. Flowers & Co. UK LLP, the Banks or the Financial Adviser or any of their representatives is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment by such offeree or purchaser.

2. PRESENTATION OF FINANCIAL INFORMATION

The Group's historical financial information in Part IX (*Historical Financial Information*) of this Prospectus has been prepared in accordance with the requirements of the PD Regulation and the Listing Rules and in accordance with IFRS as adopted by the EU. The Group's historical financial information set out in Part IX (*Historical Financial Information*) of this Prospectus comprises the 2011 financial period (comprising the 11 months commencing on 1 February 2011 and ended on 31 December 2011), the 2012 financial year, the 2013 financial year and the one month period ended 31 January 2014. The significant accounting policies are set out within note 1 of the Group's historical financial information in Part IX (*Historical Financial Information*) of this Prospectus.

Unless otherwise stated in this document, financial information in relation to the Group referred to in this document has been extracted without material adjustment from the historical financial information in Part IX (*Historical Financial Information*) of this Prospectus or has been extracted from those of the Group's accounting records that have been used to prepare that financial information. Investors should ensure that they read the whole of this document and not only rely on the key information or information summarised within it.

Unless otherwise indicated, none of the financial information relating to the Group or any operating information relating to the Group has been audited (even where such operating information includes certain financial metrics).

The audited financial statements in respect of the one month period ending on 31 January 2014 has been included in this document solely to meet the requirements of the Listing Rules and the Prospectus Rules. The Company will not be disclosing such information in the future.

3. USE OF NON-IFRS MEASURES OF FINANCIAL PERFORMANCE

The Group presents certain key performance measures that are not defined under IFRS but that it finds useful in analysing its results and that it believes are widely used by investors to monitor the results of banks generally. These measures include net interest margin, cost/income ratio, management expense ratio, impairments/average gross loans, return on equity, risk-weighted assets, risk-weighted assets as a percentage of total assets, Core Tier 1 ratio, Common Equity Tier 1 ratio and total capital ratio. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides the Group with certain discretion in making its calculations. In addition, the Group presents certain statistical data about its operations, including average balance sheet amounts, 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 banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks. These measures should not be used as a substitute for evaluating the performance of the Group based on its audited balance sheet and results of operations.

4. OPERATIONAL AND STATISTICAL DATA

The Group presents certain operational and statistical data in this Prospectus. Such data as presented in this Prospectus may not be comparable to similarly titled data presented by other companies in the banking industry and, while the method of calculation may differ across the banking industry, the Directors believe that such data is important to understanding the Group's performance from period to period and that such data facilitates comparison with the Group's peers. This operational data is not intended to be a substitute for any IFRS measures of performance. The operational data is based on the Company's estimates and is not part of the Group's financial statements and has not been audited or otherwise reviewed by outside auditors, consultants or experts.

Unaudited operational information in relation to the Group is derived from the following sources: (i) management accounts for the relevant accounting periods presented; (ii) internal financial reporting systems supporting the preparation of financial statements; and (iii) the Group's other business operating systems and records. Management accounts are prepared using information derived from accounting records used in the preparation of the Group's historical financial information contained in Part IX (*Historical Financial Information*) of this Prospectus, but may also include certain other assumptions and analyses.

5. MARKET, ECONOMIC AND INDUSTRY DATA

The market, economic and industry data used in this Prospectus has been obtained by the Company from various third party sources and reports, as identified in this Prospectus, including:

- the Bank of England;
- the Council of Mortgage Lenders;
- IRESS Limited;
- English Housing Surrey Headline Report 2012 – 2013; and
- Halifax House Price Index.

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

The Company confirms that information provided by third parties has been accurately reproduced. So far as the Company is aware and has been able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

6. ROUNDING

Certain numerical figures contained in this Prospectus including financial information, market data and certain operating data including, without limitation, capital ratios and liquidity ratios, have been subject to rounding adjustments for ease of presentation. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables may not conform exactly to the total figure given for that column or row or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

7. CURRENCIES

Unless otherwise indicated in this Prospectus, all references to "pounds sterling" or "£" are to the lawful currency of the UK.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in pounds sterling. The functional currency of all members of the Group is pounds sterling and the Group presents its financial statements in pounds sterling.

8. INTERPRETATION

Certain terms used in this Prospectus, including capitalised terms, are defined in the sections entitled "*Definitions*" and "*Glossary*".

References to the singular in this Prospectus shall include the plural and vice versa where the context requires. Any references to time in this Prospectus are to the time in London, unless otherwise stated.

9. FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "projects", "expects", "intends", "aims", "plans", "predicts", "may", "will", "seeks" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things, the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates.

Many factors may cause the Group's results of operations, financial condition and the development of the industry in which it competes to differ materially from those expressed or implied by the forward-looking statements contained in this Prospectus.

These factors include, among others:

- adverse economic conditions in the UK, Jersey and Guernsey, including, without limitation, recessions or weaker than anticipated recoveries and falls in house prices;
- increases and decreases in interest rates;
- the Group's ability to comply with laws and regulations and any changes in laws and regulations;
- the loss of any of the Group's senior management;
- interruption or failure of Information Technology systems upon which the Group's operations are reliant;
- new types of taxes or increases in taxes in the jurisdictions in which the Group operates;
- increases in employee expenses;
- increases in mortgage and loan arrears leading to increased impairment charges; and
- other factors discussed under the section entitled "*Risk Factors*".

Prospective investors are advised to read, in particular, the following parts of this Prospectus for a more complete discussion of the factors that could affect the Group's future performance and the industry in which the Group operates: the section entitled "*Risk Factors*", Part I (*Industry Overview*), Part II (*Information on the Company and the Group*), Part V (*Operating and Financial Review*) and Part IX (*Historical Financial Information*) of this Prospectus. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Prospectus may not occur.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. Even if the Group's actual results of operations, financial condition and the development of the industries in which the Group operates are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this Prospectus speak only as of the date of this Prospectus. The Company, the Directors and each of the Banks and the Financial Adviser expressly disclaim any obligation or undertaking to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable law, the Prospectus Rules, the Listing Rules or the Disclosure and Transparency Rules.

10. OVER-ALLOTMENT AND STABILISATION

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

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

11. NO INCORPORATION OF WEBSITE INFORMATION

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

12. AVAILABLE INFORMATION

The Company has agreed that, for so long as any of the Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish to any holder or beneficial owner of such restricted securities, or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon request of such holder, beneficial owner or prospective purchaser, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

13. ENFORCEMENT OF CIVIL LIABILITIES

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

PART I

INDUSTRY OVERVIEW

1. INTRODUCTION

The UK has a large and diverse market for lending and savings products, with financial services institutions offering a wide range of products and services. The Company focuses on retail lending, particularly residential and SME mortgages in specific sub-sectors of the market, whilst it predominantly sources funding from the retail savings market.

2. ECONOMIC OVERVIEW

Economic conditions in the UK began to improve in 2013 following a sustained period of economic weakness that commenced in 2008. UK Gross Domestic Product ("**GDP**") grew by 1.8 per cent. in 2013, which was the strongest annual growth rate for six years, with strong momentum in the fourth quarter when GDP increased by 0.7 per cent. compared to the previous quarter. The labour market has also experienced recent improvement. In December 2013 the UK unemployment rate was 7.2 per cent., which represents an improvement of 0.9 percentage points since December 2011. Consumer price inflation in December 2013 was in line with the 2 per cent. target set by the Bank of England and interest rates have been maintained at 0.5 per cent. The improved economic environment has also prompted a revival in the housing market, with a 30 per cent. increase in the number of housing transactions at the end of December 2013 compared to the same period in the prior year, accompanied by a 4.8 per cent. increase in the Halifax House Price Index over the 12 month period to December 2013. All statistics in this paragraph have been obtained from the sources stated in the notes to the table below.

Metric	*2009*	*2010*	*2011*	*2012*	*2013*
GDP (y-o-y %)[1]	(5.2)	1.7	1.1	0.3	1.8
Unemployment (%)[1]	7.6	7.9	8.1	8.0	7.2
Consumer Price Index (%)[1]	2.9	3.7	4.2	2.7	2.0
Bank of England base rate (%)[2]	0.5	0.5	0.5	0.5	0.5
Halifax House Price Index (% change)[3]	(10.5)	2.9	(2.6)	(0.6)	4.8

1. Office for National Statistics as of January 2014
2. Bank of England as of January 2014
3. Halifax

3. PARTICIPANTS IN THE UK MARKET FOR LENDING AND SAVINGS PRODUCTS

The UK financial services market is highly developed, with total lending to the private sector of £2.2 trillion[3] and total retail deposits of £1.4 trillion[4] as of 28 February 2014.

Market overview

The UK market for lending and savings products historically has been concentrated and continues to be so. This is demonstrated in exhibit 1 below. The OFT has identified that the four largest financial services providers in the personal current account market had around 75 per cent. market share as of January 2013.[5] An important factor behind this concentration is believed to be the difficulty for customers in switching current account providers, leading to significant inertia.

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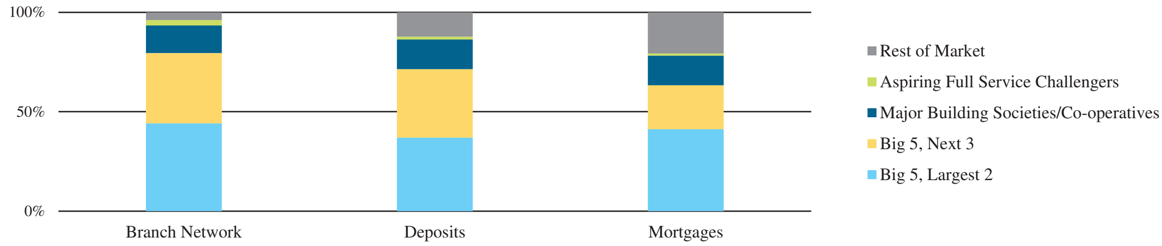
3 Bank of England - includes all outstanding amounts of lending of monetary financial institutions to the UK private sector.

4 Bank of England - includes all amounts of outstanding monetary financial institutions' sterling retail deposits from the private sector.

5 Office of Fair Trading - Review of the Personal Current Account Market (January 2013).

Exhibit 1: Overview of the UK Supply-Side (share by player type as of 31 December 2011)[6]



TOP 7 BY SHARE	LBG, RBS, Barclays, HSBC, Santander, Nationwide, Cooperative	LBG, HSBC, Santander, Nationwide, Barclays, RBS, Cooperative	LBG, Santander, Nationwide, Barclays, RBS, HSBC, NRAM

In recent years, the level of concentration has increased following a number of corporate events including the nationalisation of Northern Rock in February 2008; the acquisition of HBOS by Lloyds TSB in January 2009; the acquisition of the deposits and branch network of Bradford and Bingley by Santander UK in September 2008; and the acquisition of Alliance & Leicester by Santander UK in October 2008.

Consolidation has also accelerated in the building society sector in recent years. A number of factors have driven this consolidation, but the predominant driver has been the inability of building societies to raise equity capital to absorb loan losses and fund growth, due to their mutual structure (see paragraph 3.2 below). As a result, the number of building societies in the UK has fallen from 80 in 1995 to 45 as at 31 October 2013.

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

3.1 Large banks

The five major banks account for approximately 69 per cent. of retail deposits and approximately 62 per cent. of residential mortgage lending as at the end of 2012. This group of banks comprises Barclays, HSBC Bank PLC ("**HSBC**"), Lloyds Banking Group PLC ("**LBG**"), Royal Bank of Scotland Group PLC ("**RBS**") and Santander UK PLC ("**Santander UK**"). These institutions are universal banks which provide a wide range of products and services across the banking spectrum, including clearing services, consumer and corporate lending, insurance, asset management, investment banking, risk management, foreign currency transactions, current accounts and other corporate and retail deposits. Furthermore, many of these banks have significant overseas operations. Clients are originated and serviced through a variety of channels, including branches, intermediaries, online and telephony. In retail banking, these institutions tend to principally focus on traditional, high volume consumer businesses and tend to rely primarily on automated and scorecard-based processes and procedures when underwriting new loans.

Given their scale and importance to the UK financial system, these banks have been the beneficiary of government support, either explicitly or implicitly. In recent years, a number of these large banks have been the subject of negative publicity, whether due to their need for state aid during the financial crisis or their alleged complicity in scandals such as London Interbank Offered Rate ("**LIBOR**") rate fixing, mis-selling of payment protection insurance, interest rate swaps and credit card theft insurance. As a result, these institutions have faced heightened and sustained regulatory, political and public scrutiny. The most direct consequences have been changes in senior executive management teams, fines and a focus on increasing regulatory capital levels.

For example, in addition to the capital and liquidity requirements that are imposed by the PRA on all the firms that it regulates (see Part V (*Operating and Financial Review*) of this Prospectus for further details), the large banks were included in the capital shortfall exercise that was conducted by the PRA in June 2013 of the largest eight banks and building societies in the UK. The exercise required the

6 Oliver Wyman: Perspectives on the UK Retail Banking Market (November 2012). Includes institutions: Big 5: Barclays, HSBC, LBG, RBS,Santander; Major Building Societies/Co-operatives: Cooperative Bank, Clydesdale, Nationwide; Aspiring full service challengers: Metro Bank, Tesco Bank, Virgin Money.

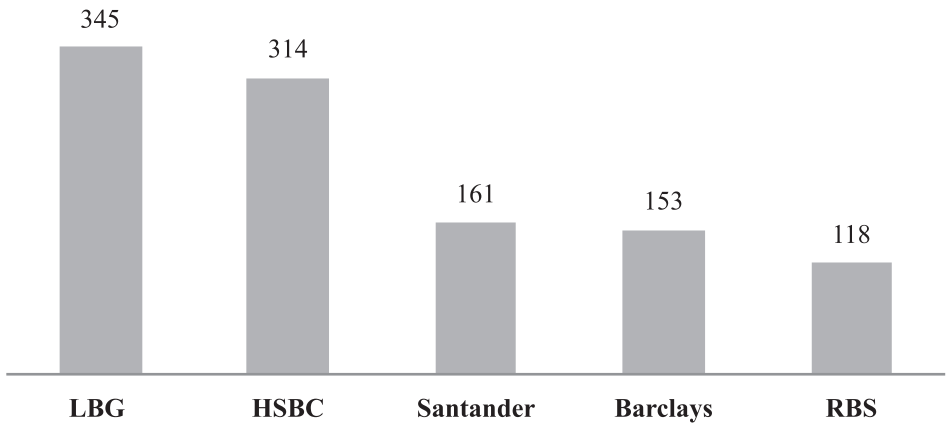
eight institutions to meet a minimum Basel III defined equity capital ratio of 7 per cent., by the end of 2013, after including adjustments for expected future losses, a realistic assessment of future costs of customer redress and a more prudent calculation of risk-weights. This was an accelerated timeline compared to Basel III/CRD IV and the requirements imposed by the PRA on the banks and building societies that did not form part of this group. As part of its review, the PRA also introduced a 3 per cent. leverage ratio target ("**PRA Leverage Ratio**") on the institutions that were part of the exercise. The PRA Leverage Ratio target is calculated as fully loaded Common Equity Tier 1 capital (after applying certain PRA adjustments) together with any new issuance of Additional Tier 1 securities and divided by CRD IV Leverage Exposure. The PRA requested the institutions to meet the 3 per cent. PRA Leverage Ratio target ahead of the Basel III/CRD IV deadline.

Furthermore, in October 2012, the Financial Stability Board ("**FSB**") and the Basel Committee on Banking Supervision finalised a principles-based framework for domestic systemically important banks, which may lead to a requirement for the large UK banks and building societies to hold capital in excess of Basel III minimums. In addition, Barclays and HSBC have been classified by the FSB as globally systemically important financial institutions, which require them to hold additional loss absorption capacity above that required by Basel III standards.

The ICB and Liikanen recommendations have made it increasingly likely that large banks (likely to be defined as those with over £25 billion of retail deposits) will have to ring-fence their retail banking activities in a separately capitalised subsidiary.

The total assets of these institutions are listed below in exhibit 2.

Exhibit 2: Total assets of large UK banks (£ billion)[7]



3.2 Building societies

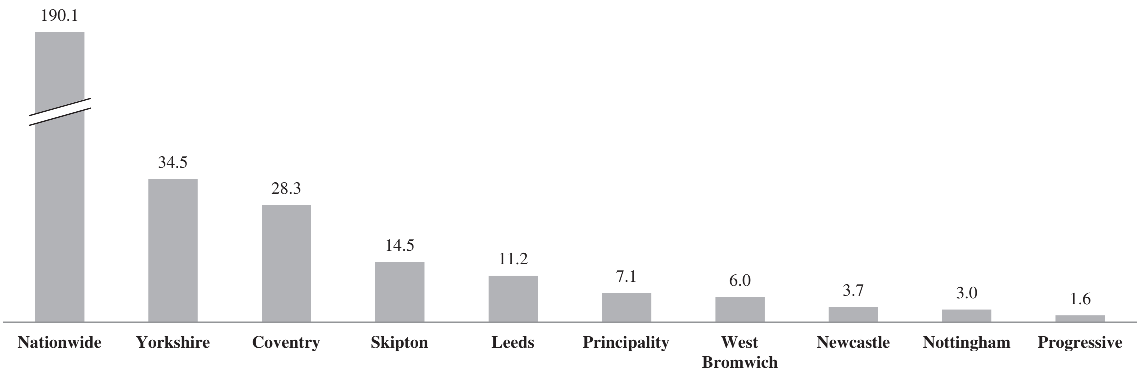
Building societies are owned by, and run for the benefit of, their members, who form the majority of a society's mortgage and savings customers. Building societies are governed by the UK Building Societies Act 1986 with regards to the type of assets and liabilities that they can originate, which amongst other things specifies that at least 75 per cent. of a building society's loan assets must be secured on residential property and at least 50 per cent. of funding is required to be raised from retail depositors. As a result, building societies in the UK are primarily focused on mortgage lending and are primarily funded by deposits. Building societies have traditionally been unable to access the equity capital markets, limiting their ability to raise equity capital in a distressed scenario or to fund growth.

7 Total assets as at 31 December 2013. Figures represent Barclays UK Retail & Business Banking, LBG Retail, RBS UK Retail, HSBC Retail Banking and Wealth Management, and Santander UK Retail. HSBC figures converted at exchange rate of USD/GBP = 0.6065.

Building societies are influential players in the UK financial services market and represented approximately 16 per cent. of the total residential mortgage market and approximately 21 per cent. of household savings as at 31 December 2012. The market is concentrated, with the top 10 building societies representing approximately 94 per cent. of the total assets provided by the building society sector as of December 2013, with the largest, Nationwide, having total assets exceeding the aggregate assets of the other building societies in the top 10.

Due to its size, Nationwide was also included in the capital shortfall exercise conducted by the PRA in June 2013 on the largest eight banks and building societies in the UK. The most recently reported total assets of the top 10 building societies are listed below in exhibit 3.

Exhibit 3: Total assets of Top 10 building societies (£ billion)[8]



3.3 **Medium-sized banks**

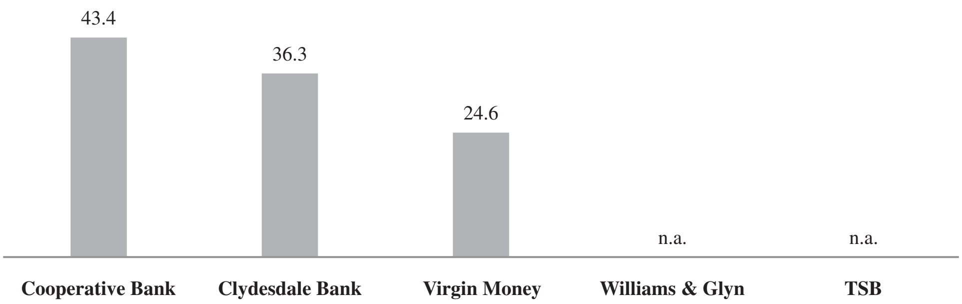
A number of medium-sized banks are also active in the UK lending and savings market. These include Virgin Money (which acquired Northern Rock Plc in January 2012), Clydesdale Bank (owned by National Australia Bank, which announced a strategic review of the operation in February 2012) and the Cooperative Bank (which is in the process of completing a recapitalisation and restructuring).

In addition, to comply with European Commission rulings, LBG and RBS are in the process of carving out and disposing of some of their retail and SME operations, which will create two new independent medium-sized banks, TSB and Williams & Glyn respectively. LBG is planning to conduct an IPO of TSB (the bank with 631 branches being formed and disposed of by LBG ("**TSB**")), whilst RBS has sold a minority stake in Williams & Glyn (a bank which will have 314 branches) to a consortium of private equity and institutional investors, with a view to listing the business over the coming years. The ICB believes that the prospects for increased competition in UK retail banking will be improved by the creation of these new entities.

These banks broadly seek to service the same mainstream retail and commercial market that the large banks also target, but arguably do not benefit from the economies of scale of the large banks.

8 Nationwide, Yorkshire, Coventry, Skipton, Leeds and Principality, Newcastle, Nottingham and Progressive as of 31 December 2013. West Bromwich as of 30 September 2013.

Exhibit 4: Total assets of medium-sized banks (£ billion)[9]

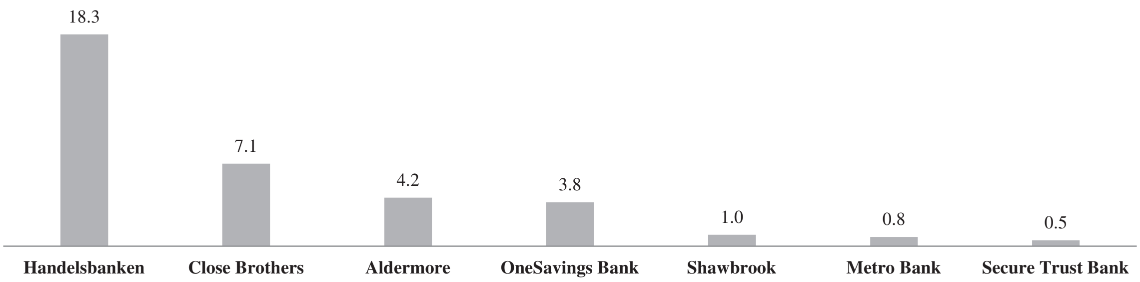


3.4 **Specialised banks**

There are a number of specialised banks, similar in structure to the Group, that are focused on specific sub-sectors of the UK lending and savings market. Banks in this category include Close Brothers, Aldermore, Handelsbanken, Shawbrook, Metro Bank and Secure Trust Bank. Some of these institutions have been in existence for many years, with some having recently changed ownership and received fresh equity capital. Others are newly established, with relatively limited track records. In future, this group is also likely to include Paragon, which acquired a banking licence on 18 February 2014.

These banks are largely focused on sub-sectors of the market which are currently underserved by the large and medium-sized banks and building societies due to their specialised nature and the need for bespoke underwriting processes. Most are funded to some extent by retail savings, largely through the online channel, although Handelsbanken and Metro Bank are pursuing a principally branch-based model.

Exhibit 5: Total assets of specialised banks (£ billion)[10]



9 Cooperative Bank and Virgin Money as of 31 December 2013 and Clydesdale Bank as of 31 March 2014. Williams & Glyn and TSB have not yet produced stand-alone financial accounts.

10 Close Brothers as of 31 January 2014, Aldermore, OneSavings Bank, Handelsbanken and Secure Trust Bank as of 31 December 2013, Shawbrook and Metro Bank as of 31 December 2012. Handelsbanken figure converted at exchange rate of SEK/GBP = 0.0942.

"Challenger Banks"

Following the financial crisis, a range of banks have been referred to as "Challenger Banks" by the press and regulators. The ICB defined challenger banks as banks which are "large enough to be a threat to incumbents but with a strong incentive to compete to increase market share" and particularly referenced TSB (the bank being formed and disposed of by LBG). The term has also been applied to the smaller, specialised banks, such as Aldermore (which re-launched under new ownership) and Metro Bank (which was the first bank to be granted a high-street bank licence in over 150 years[11]).

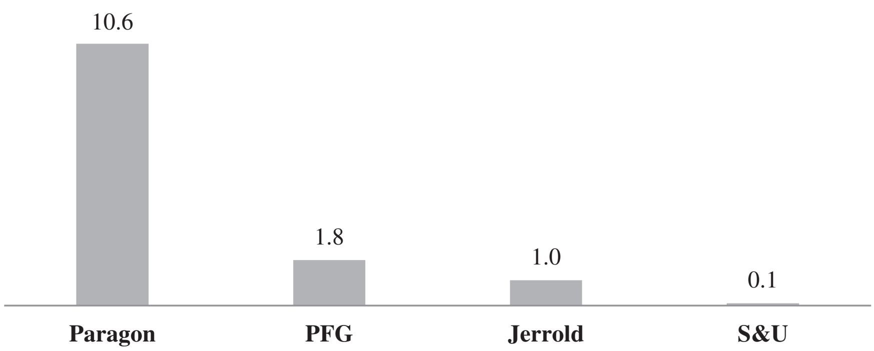
These banks are also increasingly benefiting from broad regulatory and political support. For example, the Chancellor of the Exchequer, George Osborne, was quoted as saying: "I want upstart challengers offering new and better services that shake up the established players…I want to make it easier to start a small bank and grow the business" (speech by George Osborne on 4 February 2013). In addition, the PRA has eased a number of capital and liquidity restrictions for start-up banks, including permission to apply a 4.5 per cent. minimum Common Equity Tier 1 capital requirement under the Basel III regime (compared to 7 – 9.5 per cent. requirement which applies to the major existing banks) and a removal of automatic new bank liquidity premia[12].

3.5 Finance companies

A number of non-bank finance companies have traditionally been active in the UK financial services sector, including Paragon (although it has recently acquired a banking licence), Provident Financial (which in addition holds a banking licence through its subsidiary Vanquis Bank), Jerrold and S&U. Only the banking subsidiaries of Paragon and Provident Financial are regulated by the PRA.

These companies are typically active in a specific sub-sector within the consumer and corporate lending markets, focusing in particular on those areas which are relatively underserved by the mainstream lenders. Most of these companies do not have a banking licence and are therefore unable to access retail funding through deposits, instead being principally funded through wholesale markets, mostly via securitisations and bank funding lines. During the financial crisis, the disruption in the wholesale funding markets restricted the ability of some of these companies to grow their lending activities.

Exhibit 6: Total assets of specialised finance companies (£ billion)[13]



3.6 Other institutions

A number of non-financial groups, including retailers such as Tesco, Sainsbury's, Marks & Spencer, and the Post Office, have seen an opportunity to leverage their trusted brands and deep client

11 Metro Bank press release, 5 March 2010.

12 Financial Conduct Authority (2013) – The FCA and the Bank of England relax the barriers to entry for new bank entrants.

13 Paragon as of 31 March 2014, S&U as of 31 January 2014, Provident Financial Group (PFG) as of 31 December 2013 and Jerrold as of 30 June 2013.

databases to establish their presence in the market for lending and savings products, often through co-operation agreements with existing banks and insurance companies.

In addition, private banks, foreign banks, investment banks and insurance companies have at various times been active in the UK deposit taking and mortgage and SME lending markets. Certain foreign banks, such as ICICI, Bank of Baroda, Bank of China and others are active niche deposit takers. However, the failure of some foreign banking operations during the financial crisis (e.g. IceSave) is still fresh in the memories of the UK public.

Furthermore, a recent phenomenon is the rise to prominence of new business models such as crowd-funding and peer-to-peer lending. Whilst still in their infancy, they are providing a legitimate and increasingly popular alternative to the conventional sources of finance and bank deposits.

4. MARKETS IN WHICH THE COMPANY OPERATES

4.1 UK retail deposits market

The UK retail deposits market has historically been highly concentrated, with the five largest providers accounting for approximately 69 per cent. of retail deposits as at the end of 2012. The market grew strongly in 2013, with a year-on-year increase of 5.4 per cent., resulting in outstanding balances as at December 2013 of £1.3 trillion.

The market primarily comprises approximately 76 million personal current accounts[14] (outstanding balances of £531.6 billion as of February 2014) and retail savings (outstanding balances of £649.0 billion as of February 2014).[15] A portion of the retail savings market includes funds raised by banks directly from savers, who do not have a primary banking relationship with the bank via personal current accounts.

Retail savings are sourced directly (e.g. call centres and online) and via branches, with limited involvement of intermediaries. However, "best-buy" tables published in the media or on price comparison websites such as moneyfacts.co.uk and thisismoney.co.uk provide guidance to customers shopping around for the best savings rates.

The UK Government's intervention in protecting customers' savings has improved confidence in the market. In 2010, the protection for deposits under the Financial Services Compensation Scheme ("**FSCS**") was increased from £50,000 to £85,000.

During the global financial crisis, banks were under pressure to reduce their reliance on wholesale funding sources due to limited availability, higher costs and regulatory guidance. The resultant reduction in the use of the wholesale funding markets and shift in funding mix created a highly competitive market for deposits and had a corresponding impact on the marginal cost of retail funding. This, coupled with difficult credit conditions in the lending market, prompted the Government and Bank of England to launch various initiatives in the market as described below.

On 13 July 2012, the FLS was launched. The objective of the scheme is to provide an incentive for banks and building societies to lend to UK households and non-financial companies by reducing funding costs for participating institutions, so that they can make loans cheaper and more easily available. Access to the FLS is directly linked to how much each institution lends to the real economy. Those that increase lending are able to borrow more and at a lower cost than those that scale back their lending. Under the FLS, participating financial institutions are, for a period of 18 months to the end of January 2014, able to borrow funds with a maturity of up to four years. On 24 April 2013, the scheme was extended for a further 12 months, with drawings now permitted until the end of January 2015 and the funding under the scheme now running until January 2019. On 28 November 2013, changes to the terms of the FLS extension were made, to focus it on business lending by removing the

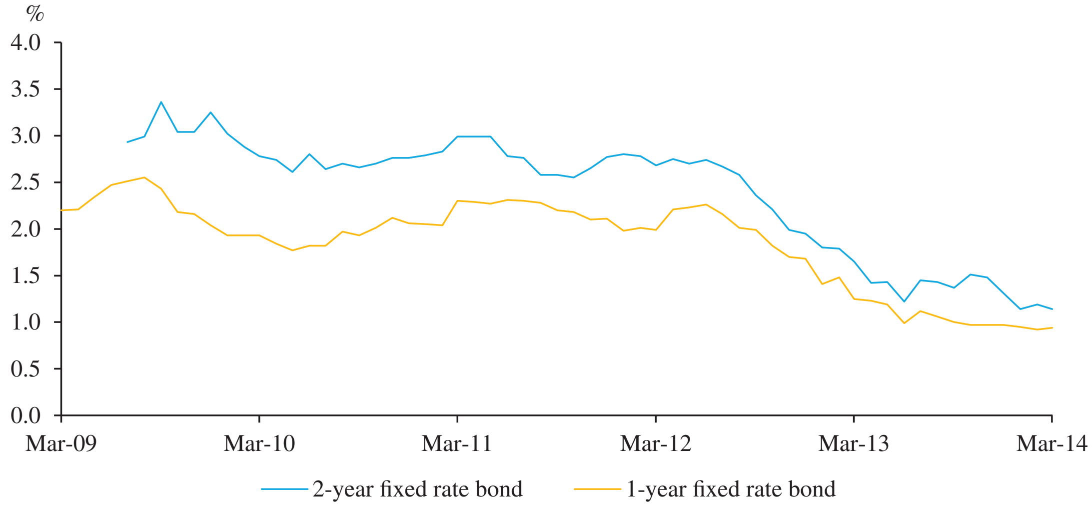
14 As of January 2013.

15 Bank of England – Sectoral deposits and divisia money. Figures for household sector only.

direct incentives to expand household lending in 2014. The total drawings as of December 2013 stood at £41.9 billion, representing a significant increase compared to £17.6 billion as at June 2013.

More recently, liquidity requirements have been relaxed by the UK regulators and the funding markets have improved, with greater access to alternative non-deposit funding provided by HM Treasury and a gradual re-opening of many wholesale funding markets (e.g. senior unsecured funding). As a result, competition for deposits has reduced, resulting in lower retail funding costs (see exhibit 7 below), while the Bank of England's base rate remains unchanged.

Exhibit 7: Banks and Building Societies fixed rate bonds spread over BoE base rate[16]

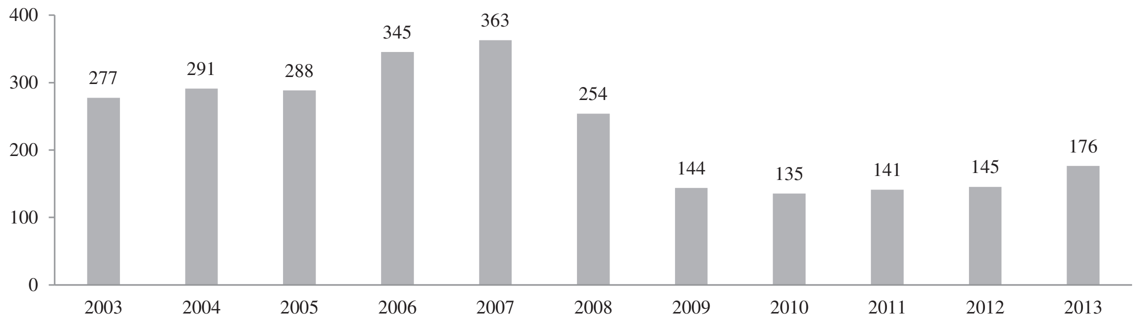


4.2 **UK residential mortgage market**

Large banks account for the majority of gross residential mortgage lending in the UK. As shown in exhibit 8 below, in the immediate aftermath of the financial crisis, mortgage lending declined rapidly. However, in recent months, mortgage lending has picked up strongly and is currently at its highest level since 2008. Indeed, gross lending for the fourth quarter of 2013 was £51 billion, representing a 36 per cent. increase relative to the fourth quarter of 2012 and gross lending in February 2014 was 40 per cent. higher than in February 2013.[17] In addition, the Halifax House Price Index suggests that the housing market is continuing to gather momentum as prices recorded their eighteenth successive monthly increase in April 2014.

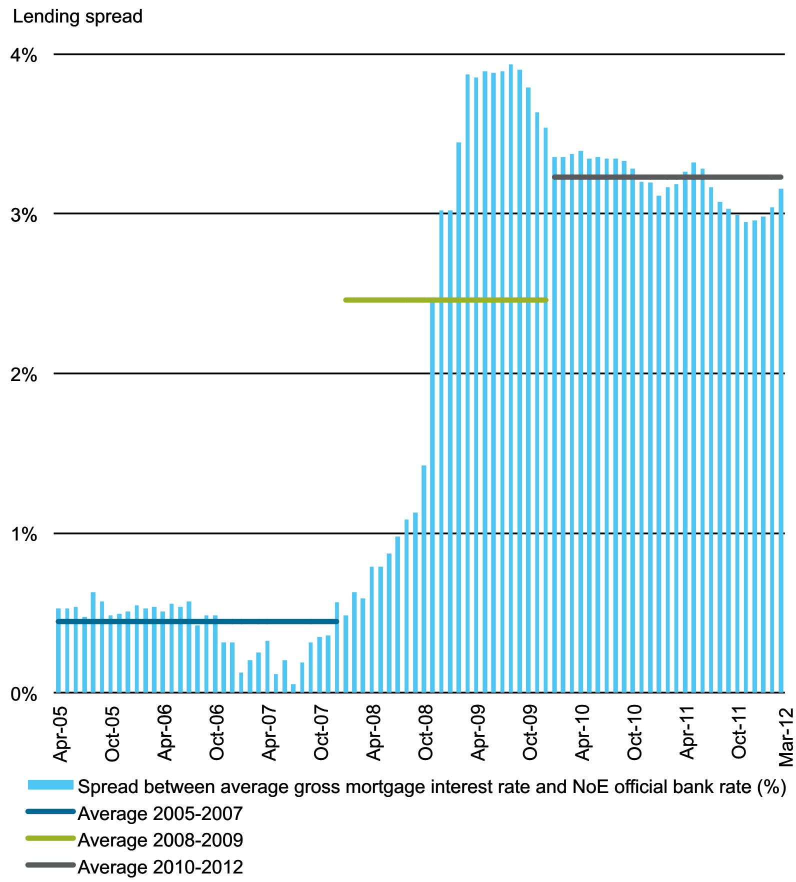
16 Bank of England.
17 Council of Mortgage Lenders – Gross mortgage lending statistics.

Exhibit 8: Development in gross residential lending (£ billion)[18]



At the same time, mortgage spreads (calculated as the difference between mortgage rates and the Bank of England base rate) continue to remain relatively high compared to historical trends, as shown in exhibit 9 below:

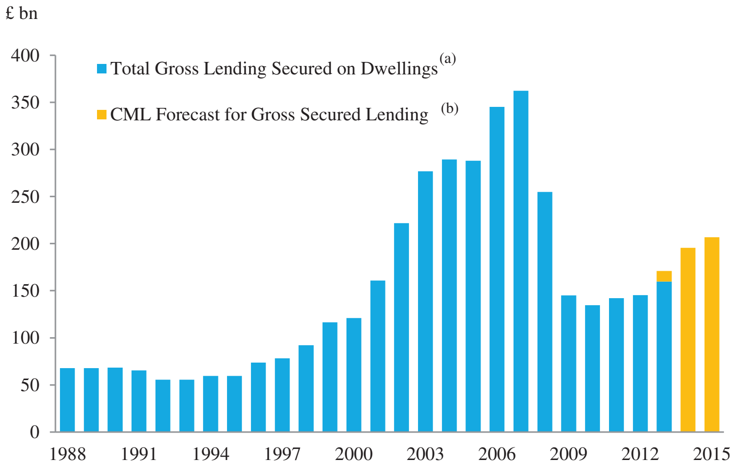
Exhibit 9: Mortgage spreads over time – April 2005 to March 2012[19]



As the economy continues to recover, mortgage lending is expected to further strengthen and arrears are expected to remain stable at current levels (see exhibits 10 and 11 below)[20].

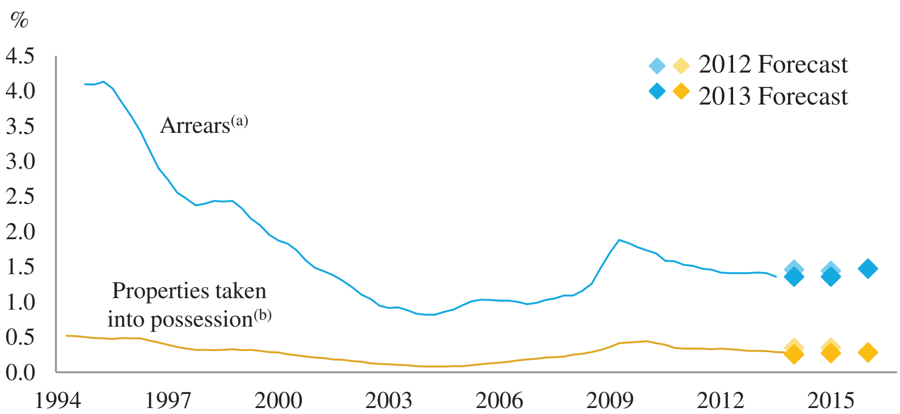
18 Council of Mortgage Lenders.
19 FSA Mortgage PSD, Bank of England.
20 Bank of England - Trends in Lending (January 2014).

Exhibit 10: Gross Lending Secured on Dwellings[21]



a) The bar for 2013 comprises the CML forecast for the year with gross secured lending data up to November.
b) CML forecasts for 2013, 2014 and 2015 made in December 2013.

Exhibit 11: Mortgage Arrears and Possession Rates[22]



a) Mortgages in arrears of 2.5% or more of the outstanding mortgage balance. Data are available from end-1994, are semi-annual up to end-2007 and quarterly since then. The light magenta diamonds show the CML forecast for end-2013 and end-2014 made in December 2012 and the dark magenta diamonds show the CML forecast for end-2013, end-2014 and end-2015 made in December 2013.
b) Properties taken into possession over the preceding 12 month period. Data are semi-annual up to end-2007 and quarterly since then. The light green diamonds show the CML forecast for end-2013 and end-2014 made in December 2012 and the dark green diamonds show the CML forecast for end-2013, end-2014 and end-2015 made in December 2013.

Within the residential mortgage market, there are a number of attractive sub-sectors that lend themselves to tailored underwriting procedures and generally command higher margins compared to mainstream mortgages. Examples of products in this market include:

- lending to financially sophisticated borrowers with complex asset and income structures that do not fit easily into rigid standardised lending criteria;

21 Bank of England – Trends in Lending (January 2014). Total gross lending secured on dwellings. Data cover sterling lending by UK monetary financial institutions and other lenders to UK individuals. Non-seasonally adjusted.

22 Bank of England – Trends in Lending (January 2014). Note: Series expressed as the proportion of the number of outstanding mortgages. Non-seasonally adjusted.

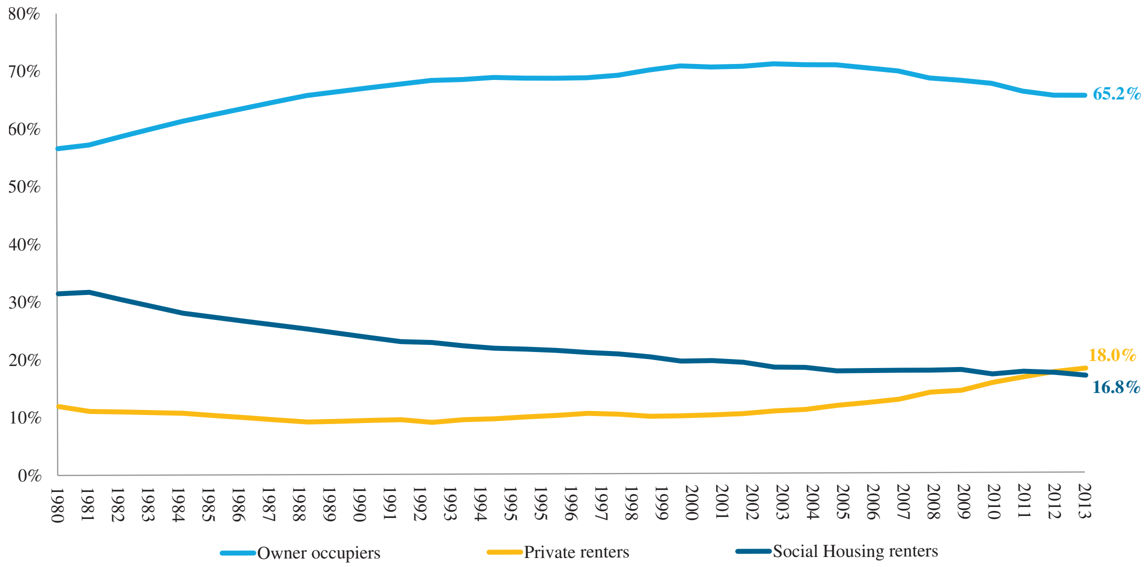
- larger loans sizes than those normally offered by the large banks;
- lending to near-prime customers;
- lifetime equity release mortgages;
- shared ownership mortgages (where the borrower buys a residential property in conjunction with a housing association); and
- second charge mortgages.

4.3 **UK Buy-to-Let Lending/Specialist SME market**

(a) **Buy-to-Let**

Demand in the Private Rented Sector ("**PRS**") has been increasing in recent years, with 18 per cent. of all UK housing stock in the PRS as at December 2013 – an increase of 95 per cent. since 2000.[23] At the same time, the amount of social housing properties as a percentage of the entire housing sector has decreased 7 per cent. between 2000 and 2013, further driving the demand for PRS as it is viewed as the only major alternative to home ownership. Sector growth is expected to continue, with the Department for Communities and Local Government forecasting that by 2020 more than 20 per cent. of the UK housing stock will be in the PRS and that by 2030 this will reach 25 per cent.[24]

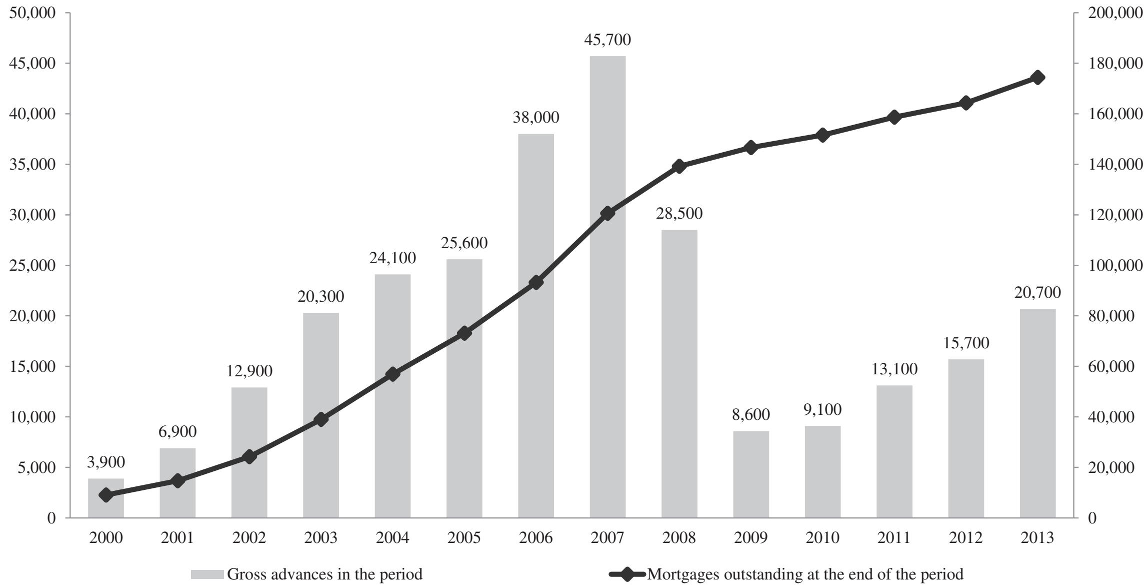
Exhibit 12: Trends in UK housing stock from 1980 to 2013[25]



The buy-to-let mortgage market has increased rapidly during the last few years and between December 2000 and December 2013 the number of outstanding buy-to-let mortgages grew from 120,300 to 1.53 million, whilst the amount of outstanding mortgages rose from £9.1 billion to £174.4 billion. Although the buy-to-let mortgage market suffered during the financial crisis, it has picked up in recent years, and gross advances in 2013 were 32 per cent. higher than in 2012, as demonstrated in exhibit 13 below. The recovery in buy-to-let activity is forecast to continue.[26]

23 English Housing Survey Headline Report 2012-2013.
24 Stephen Stringer, Deputy Director, Expanding the rented Sector Programme, DCLG, to CML Conference 19 June 2013.
25 English Housing Survey Headline Report 2012-2013.
26 Council of Mortgage Lenders market commentary, 10 December 2013.

Exhibit 13: Buy-to-let mortgages outstanding at the end of period and gross lending during period (£ million)[27]



This market has seen an increase in the number of professional landlords. The National Landlords Association states that its average landlord has ten properties and is likely to be actively engaged in the management of his portfolio (as compared to using an agent).

(b) **Commercial/Semi-Commercial**

Since the start of the financial crisis, the large banks have reduced their commercial lending to SMEs, as they have sought to reduce their balance sheets and manage their capital resources. At the smaller end of the market, the large banks are less equipped to customise their product offering and underwriting.

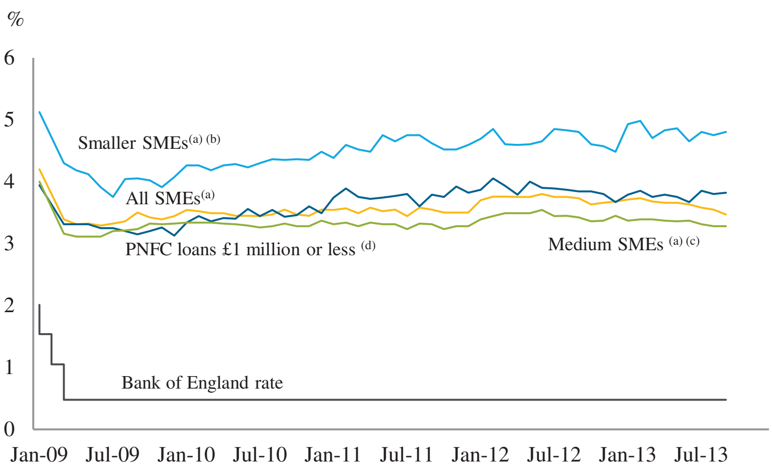
Whilst gross lending to SMEs increased by 11.8 per cent. in 2013 compared to 2012, credit conditions for SMEs continue to remain tight, with a decrease of 12.5 per cent. to £165 billion in the stock of loans outstanding to SMEs between January 2012 to December 2013.

Loans in this segment include loans secured on a combined retail and residential property, for example, a shop unit with flats above, or on commercial investment property, or on a business park or industrial estate.

Spreads on lending to SMEs have also remained high in the past few years, as demonstrated in exhibit 14 below:

27 Council of Mortgage Lenders – Buy-to-let market summary.

Exhibit 14: Indicative interest rates on lending to SMEs[28]



a) Median by value of SME facilities (new loans, new and renewed overdrafts) priced at margins over base rates, by four major UK lenders (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland). Data cover lending in both sterling and foreign currency, expressed in sterling.
b) Smaller SMEs are those with annual debit account turnover on the main business account of less than £1 million.
c) Medium SMEs are those with annual debit account turnover on the main business account of between £1 million and £25 million.
d) Weighted average of new lending to PNFCs of all sizes by UK monetary financial institutions (MFIs) for advances less than or equal to £1 million, an indicator of pricing for small business loans. Data cover lending in sterling. The Bank's effective interest rates series are currently compiled using data from 23 UK MFIs.

(c) Development Finance

Development finance includes the financing of residential development sites against land/site values and is generally aimed at experienced developers with significant track records. As at December 2013, loans outstanding to the construction sector amounted to approximately £52 billion, of which £4 billion was attributable to construction of domestic buildings.

(d) Personal Loans

The unsecured loans market caters to a diverse array of requirements, including home improvements, purchase of consumer goods, personal debt consolidation, purchase of motor vehicles, etc. The UK's consumer credit industry is one of Europe's largest with unsecured loans exceeding approximately £201 billion[29] as at the end of 2013.

Banks are increasingly facing competition in the personal loans market from finance companies such as Hitachi Finance and peer-to-peer lenders such as RateSetter.

28 Bank of England - Trends in Lending (January 2014). Note: indicative rates that do not reflect the impact of cashback deals or fees. Data for Bank Rate are to end-December, and for all other series to end-November. Non-seasonally adjusted.

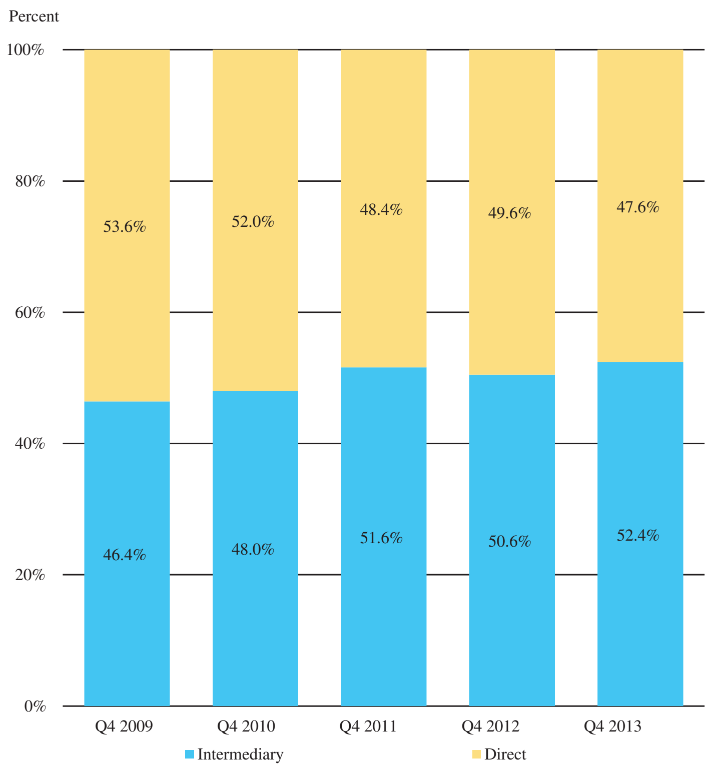
29 Bank of England - Unsecured Personal Borrowing statistics as of 2013YE.

Lending Distribution

Specialist residential mortgages and buy-to-let mortgages are distributed directly by lenders through branch networks and direct channels, and through intermediaries. Intermediaries have become an increasingly significant distribution channel in the UK mortgage market, having been responsible for only 35 per cent. of lending in 2000 compared to 52 per cent. in the first quarter of 2013.[30]

For specialist areas of the market, this figure has been even higher. In addition to catering to specialist requirements, other factors behind the growth in mortgage lending via intermediaries include the increase in product diversity and an increase in the number of lenders with limited or no branch networks.

Exhibit 15: Proportion of sales by channel[31]



Mortgage intermediaries in the UK are regulated by the FCA (previously the FSA) under the Mortgage Conduct of Business rules. The recent Mortgage Market Review ("**MMR**") reforms came into force on 26 April 2014, and require most interactive sales to be advised, although execution-only sales will be allowed in certain circumstances. Brokers anticipate that the biggest impact to their market place will be a lengthened mortgage application.

Commercial/semi-commercial loans are typically originated through intermediaries, whereas development finance loans are typically originated directly through the lender's direct distribution network.

30 FCA Mortgage Market Review as of August 2013.
31 FCA website - Mortgage Product Sales Data (PSD).

PART II

INFORMATION ON THE COMPANY AND THE GROUP

1. OVERVIEW OF THE GROUP'S BUSINESS

The Group, which is headquartered in Chatham, Kent, is a specialist lending and retail savings group serving the UK, Jersey and Guernsey.

The Group is authorised by the PRA, part of the Bank of England, and regulated by the FCA and the PRA and began trading as a bank on 1 February 2011 when the trade and assets of Kent Reliance Building Society were transferred to the Company.

The Group focuses its specialist lending activities on selected sub-sectors of the lending market in which it has an established presence and expertise, and where opportunities have been identified for both high, risk-adjusted returns and strong growth. The Group's specialist segments include Residential Mortgages (comprising bespoke first charge mortgages, second charge mortgages and shared ownership mortgages) and Buy-to-Let/SME. Participation in these specialist lending segments requires bespoke underwriting, experienced teams and strong relationships with specialist distributors; capabilities that are firmly and broadly established within the Group. The Group's other specialist segment is Personal Loans, which currently comprises the former Northern Rock performing consumer finance portfolio acquired from UK Asset Resolution Limited in 2013.

The Group originates almost all of its organic lending through specialist intermediaries (for Group branded products) as well as, from time to time, through Secured Funding Lines. The Group has also demonstrated its capability and expertise to increase the size of its loan portfolio successfully and profitably through inorganic growth (selectively purchasing loan portfolios).

The Group is predominantly funded by retail savings originated through online and direct channels, as well as through a Kent Reliance branded network of six branches and three third party-operated agencies in the South East of England. Diversification of funding is currently provided by a securitisation and the Group joined the Funding for Lending scheme in early 2014.

A robust control and risk environment is in place to support the Group's current requirements and future growth strategy. The majority of the Group's administrative support functions are performed by its wholly owned operations in Bangalore, India, over which the Group's management retains close oversight. The Group's UK and Indian operations together provide a scalable low-cost operating platform that delivers a high quality service.

The Group's retail savings and lending businesses are offered under the following brands:

KentReliance

InterBay Commercial

Heritable Development Finance

Prestige Finance

Guernsey Home Loans

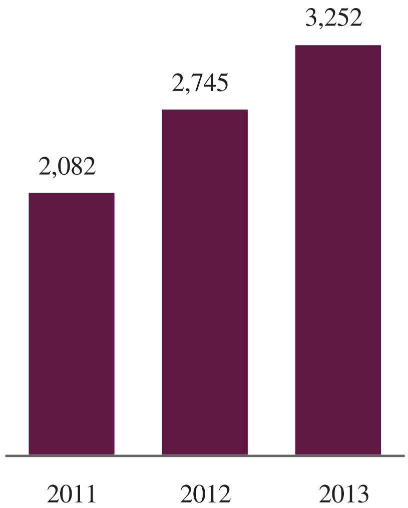
Jersey Home Loans

2. KEY STRENGTHS OF THE GROUP

2.1 An established and stable retail savings franchise providing access to reliable, lower cost funding

Through the Kent Reliance brand, the Group has the benefit of an established and stable savings franchise, with approximately 142,000 savings customers operating approximately 180,000 savings accounts as at the end of the 2013 financial year, with an average balance per account of approximately £22,600. Only approximately 4,500 accounts had balances above £85,000 (which is the maximum level of compensation which a customer may claim under the FSCS). Accordingly, the vast majority of the Group's customers' savings are fully protected by the FSCS. The chart below sets out the Group's retail savings balances as at 31 December 2011, 31 December 2012 and 31 December 2013.

(£/millions)



The Group's savings franchise provides a platform from which its specialist lending franchises can grow. Stability, consistency and relatively low cost of funding are seen by the Group as sources of comparative advantage versus certain other lenders who rely in whole or in part on wholesale funding such as bank warehouse lines and securitisation funding. The Group enjoys high levels of loyalty from its retail savings customers; the average length of the Group's savings customer relationship is approximately 8 years (and approximately 14 years for branch-based savings customers). This established retail savings franchise provides relative stability of funds and has enabled the Group to access additional retail funding quickly and efficiently.

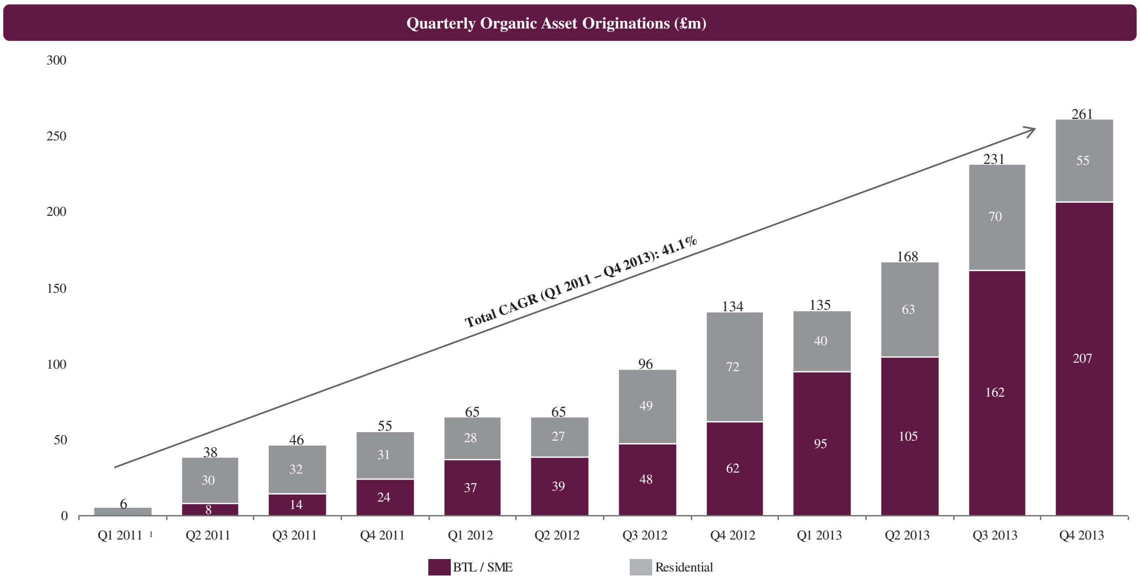
The perception of the Group's brands, mutual heritage and branch network are important differentiators in the competitive savings market. A number of those customers who access the Group through its direct channels have an awareness of the Group's history and physical presence on high streets in the South East of England. These differentiators give the Group a distinct brand identity compared to certain of the Group's direct-only competitors.

2.2 The Group operates in underserved sub-sectors of the UK lending market

Since the financial crisis, some specialist lending sub-sectors have been underserved by certain of the large and medium-sized UK retail banks and building societies, which have focused on core markets (such as non-bespoke mainstream residential mortgage lending), as they have sought to delever their balance sheets in part by reducing their overall lending activities. In addition, unlike certain of the medium-sized and larger banks and building societies, the Group does not use automated and scorecard-based processes when underwriting new loans, and is therefore better equipped to operate in the sub-sectors which it serves, which require bespoke, manual underwriting. The ability to provide bespoke, manual underwriting enables the Group to react quickly and flexibly to the non-standard requests which are more common in these sub-sectors. The difficult conditions which have persisted in the securitisation market and, in recent years, the withdrawal of funding lines by some major banks have also constrained the ability of some of the specialist finance companies to operate in these specialist lending markets.

The lending market in the UK has, the Directors believe, a number of underserved sub-sectors which are growing both on a cyclical basis and, in some cases, a structural basis. Structural growth (i.e. overall growth in the market size regardless of the economic cycle) is driven by long-term trends such as the rise of privately rented households in the UK, which help drive growth in the buy-to-let market (both pre- and post-financial crisis), and changes in the labour force participation patterns in the United Kingdom (reduction of long-term "normal" employment in stable jobs with corresponding rises in part-time work, self-employed work, contract work and economic migrants), which drives the need for more specialist manual underwriting approaches. Cyclical growth is growth which is affected by the economic cycle. The sub-sectors in which the Group operates which have been subject to cyclical growth include second charge mortgage lending, semi-commercial/commercial lending and property development finance.

The Directors believe that, as a result of these factors, the Group has been able to grow its organic origination volumes significantly over the period from the start of the 2011 financial period until the end of the 2013 financial year.



Note – Q1 2011 relates to the two month period ended 31 March 2011.

2.3 A focus on specialist mortgage products producing higher returns in comparison to non-specialist mortgage products

The Group focuses on a number of specialist mortgage and lending products, offered across the Group's brands, comprising:

- bespoke residential mortgage lending;
- shared ownership lending;
- second charge lending;
- specialist residential development finance; and
- buy-to-let lending.

New origination in these specialist markets has produced higher returns, in comparison to non-specialist mortgage products. The Group's organic origination in the second half of the 2013 financial year generated returns on equity in excess of 40 per cent.[32] in the Group's Residential Mortgages and Buy-To-Let/SME segments.

As a result of the Group's expertise in these specialist products and its focus on bespoke underwriting, as well as the Group's relatively low operational costs, the Directors believe that the Group will continue to achieve higher returns in the specialist mortgage and lending sub-sectors in which the Group currently operates.

2.4 The Group benefits from long-established and strong relationships with intermediaries

The Group benefits from long-established and strong relationships with a network of third party intermediaries, which form the distribution channel for the majority of its organic loan origination. The Group's Chief Executive Officer, Andy Golding, and Chief Operating Officer, Clive Kornitzer, have both held senior management positions at John Charcol (one of the UK's largest mortgage brokers) and have a clear understanding of the primary concerns and wishes of intermediaries.

In particular, the Directors believe that the close working relationship that the Group has developed with its network of intermediaries allows it to remain at the forefront of innovation in respect of products in the sub-sectors in which it operates. The Group's underwriters provide a responsive and personalised service to these intermediaries to find bespoke solutions for the intermediaries' customers. The Group's regular engagement with intermediaries also means that the Group is considered a key supplier by those intermediaries when recommending suitable products to their customers.

2.5 The Group operates a flexible and dynamic business model

The Group operates a flexible and dynamic business model, which enables the Group to adapt quickly and efficiently to market conditions and access new specialist markets.

The Group's Transactional Credit Committee meets at least once a week to review complicated underwriting requests or potential new types of products, which allows the Group to create and rollout bespoke products quickly and efficiently.

Through the Group's bespoke, people-led underwriting model, with limited reliance on automated underwriting, it is able to respond to intermediaries' requests quickly and efficiently to ensure its customers get a high quality of service. This model has helped the Group to maintain and grow its market share in the sub-sectors of the specialist mortgage and lending markets in which it operates.

2.6 A cost efficient and scalable banking model

The Group's product-focused specialist business model allows it to operate at a lower cost-to-income ratio than many other banks. By avoiding the heavy investment required to compete in current account banking (and the corresponding compliance and customer relationship management capital expenditure that is required) the Group is able to concentrate on its key processes:

- providing a responsive service to intermediaries;
- underwriting mortgages; and
- running savings products efficiently.

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32 Based on the Group's product pricing tools which take into account full loadings for expenses, funding cost assumptions, loan losses (calculated based on probability of default and loss given default assumptions), tax and based on a conservative 11 per cent. CRD IV CET1 ratio.

In addition, the Group's approach of using intermediaries to distribute its lending products also means that it does not need to employ a large number of employees or to operate a large branch network to market and sell its products, so helping to minimise overheads.

The Group maintains an operations function in India (established in 2004), based in Bangalore, which provides low cost and stable administrative support to the Group. In particular, the Indian operations provide operational support including primary servicing and processing, customer enquiries and IT support. All control function teams maintain close day-to-day interaction with the UK, with reporting lines to the Group's UK-based management. As at the end of the 2013 financial year, the Group had 152 employees in India (compared with 237 employees in the UK), with a significantly lower average compensation cost per head than in the UK. The Group's low cost-to-income ratio model is largely due to this Indian back office function and the Directors believe that there is significant potential to leverage the Group's Indian operations further, by moving additional functions, including some of the less complex processes necessary for the Group's lending activities, to India. The Group will also be able to increase the output of its Indian operations without material capital expenditure by adding flexibility to shift patterns to enable extended operating hours and increasing the work-space.

As the Group has grown since the beginning of the 2011 financial period, it has been able to maintain a management expense ratio of less than 0.9[33] per cent. for each of the 2011 financial period, the 2012 financial year and the 2013 financial year.

2.7 A strong balance sheet with high quality collateral

The Group continues to focus on achieving long-term stable levels of profit and the strength of its risk assessment process is a key element in achieving this goal. The Group has a strong balance sheet underpinned by high quality collateral, with an average loan-to-value ratio of 63.8 per cent. (as at the end of the 2013 financial year). Approximately 80 per cent. of the Group's mortgages had a loan-to-value ratio of less than 80 per cent., with only 1.4 per cent. of the Group's loan book having a loan-to-value ratio in excess of 100 per cent.

The majority of the Group's mortgage lending is secured against property in London and the South East of England, as well as in Jersey and Guernsey. There remains an imbalance between the supply and demand for residential sales property in these regions, which has created a strong excess demand, leading to increasing house prices. The Directors believe that demand for mortgages in these geographical areas will remain high and that there is unlikely to be any imminent significant deterioration in the Group's collateral.

The loans organically originated by the Group after its formation in February 2011 have exhibited low arrears due in part to the Group's bespoke underwriting processes, together with an increased focus on collections and arrears management. As at the end of the 2013 financial year, only 11 of these organically originated loans were in arrears (out of 4,852). In addition, following a concerted effort by the Group, the level of arrears on the Group's legacy portfolios which it inherited from Kent Reliance Building Society, as well as the portfolios inherited as part of acquisitions of InterBay and Prestige, is falling in absolute numbers.

2.8 The Group maintains appropriate levels of capital with strong liquidity ratios

The Group maintains levels of regulatory capital[34] which are in excess of its regulatory requirements (9.3 per cent. at the end of the 2013 financial year). The Directors believe that the Group is well placed to meet the new capital and liquidity requirements from both Europe and the implementation of the recommendations of the ICB. The Group estimates that its Common Equity Tier 1 capital ratio, assuming compliance with CRD IV on a fully loaded basis to be 8.4 per cent. as at the end of the 2013 financial year. In the future, the Group will seek to maintain a buffer above a 10 per cent. fully loaded

33 Management expense ratio is calculated as administrative expenses, depreciation and amortisation, as a percentage of average total assets on an annual basis. The management expense ratio for the 11 months ended 31 December 2011 has been presented on an annualised basis.

34 Regulatory capital is the Core Tier I Ratio calculated as Core Tier 1 capital as a percentage of risk-weighted assets at the Reporting Date.

CRD IV Common Equity Tier 1 capital ratio. For a discussion of the Group's capital and capital ratios, see Part V (*Operating and Financial Review*) of this Prospectus. In the future, the Group may issue Regulatory Capital Convertible Instruments, to provide additional funding and to diversify its regulatory capital.

The Group also maintains strong levels of liquidity, with a net[35] liquid assets/liabilities ratio of 17.9 per cent. as at the end of the 2013 financial year. The Group intends to target a net liquid assets/liabilities ratio of between 17 and 20 per cent. in the future. For a discussion of the Group's liquidity and capital resources, see paragraph 5.1 of Part V (*Operating and Financial Review*) of this Prospectus.

2.9 **An experienced management team with a strong risk management background**

The Group has an experienced Executive Management Team, who have been integral to the growth of the Group's business following the Group's formation in 2011 and who have adopted a clearly defined strategy for the Group. The Executive Management Team is led by Andy Golding (Chief Executive Officer) who is supported by April Talintyre (Chief Financial Officer).

Other key members of the dynamic and cohesive management team include Jens Bech (Commercial Director), Zoe Bucknell (General Counsel and Company Secretary), Richard Davis (Chief Technology Officer), John Eastgate (Sales and Marketing Director), Clive Kornitzer (Chief Operating Officer), Mark Paskowitz (Chief Risk Officer) and Richard Wilson (Chief Credit Officer).

The Group's Executive Management Team has many years of operating experience in UK retail and SME lending and deposit taking, complemented by high quality risk, credit, finance and compliance professionals with backgrounds from Goldman Sachs, Morgan Stanley, Oliver Wyman and the HMT Asset Protection Agency. The Directors believe that, through its experienced management team, the Group is well-positioned to continue to execute the Group's strategy and grow the business. Further details of the Group's executive management's experience are set out in Part III (*Directors, Senior Managers and Corporate Governance*) of this Prospectus.

3. THE GROUP'S STRATEGY

3.1 **To be a leading UK specialist lender in chosen sub-sectors**

The Group's strategy is to be a leading specialist lender to consumers, entrepreneurs and SMEs in the UK, Jersey and Guernsey, primarily funded by its longstanding, stable savings franchise. Responsible lending is and will continue to be integral to the Group's lending strategy, supported by its underwriting philosophy, strong credit quality controls for non-standard borrowers and its objective to treat customers fairly. In the future the Group intends to focus more heavily on the Buy-to-Let/SME lending sub-sectors as the products in these sub-sectors tend to generate higher net interest income.

The Group will continue to evaluate opportunities to grow its share of the specialist lending sub-sectors in which it currently operates, as well as to move into new specialist sub-sectors, exploiting its funding advantage, bespoke underwriting capabilities, risk management culture and ability to adapt quickly. The Group has demonstrated its ability to enter new markets, through the hiring of teams or people or business acquisitions, such as InterBay Commercial in August 2012, Prestige Finance in September 2012 and the creation of Heritable Development Finance in December 2013. The Group has in the past also partnered with several niche finance companies to enter into Secured Funding Lines and will continue to evaluate similar opportunities in the future (with the intention to enter up to £100 million of Secured Funding Lines and portfolio acquisitions every year). In addition, the Group will continue to evaluate and make opportunistic loan portfolio acquisitions.

35 Net liquid assets/liabilities ratio is the liquid asset ratio. This is calculated as point in time liquid assets divided by the sum of point in time retail and non-retail funding balances including the securitisation

3.2 Retaining its focus on bespoke and responsive underwriting

Bespoke and responsive underwriting processes are integral to the Group's principal strategy to be a leading UK specialist lender. The Group will retain a focus on carrying out bespoke, manual underwriting, recognising that this expertise is necessary to be a leader in the specialist sub-sectors in which the Group operates. The Group will also retain a focus on providing a responsive service to intermediaries and will continue to work closely with intermediaries to assess carefully the financial circumstances of each underlying client. Through this iterative process, involving its Credit Committee where appropriate, the Group will continue to deliver bespoke underwriting solutions for the intermediaries' clients, whilst retaining a responsible and conservative approach to collateral quality.

3.3 Deepen existing relationships with intermediaries

The Group originates almost all of its organic lending through specialist intermediaries. The Group recognises the important role that these intermediaries play and how important it is that the Group continues to develop and maintain these relationships. The Group will continue providing a personal, responsive service to the intermediaries with whom it works. The Group will seek to deepen its existing relationships with intermediaries and will conservatively expand the panel of intermediaries with whom it works.

3.4 Leverage its operational structure to continue to deliver cost efficiency as the Group grows

The Group intends to leverage its current operational structure to enhance cost efficiency, which will enable it to further lower its cost-to-income ratio and thereby deliver high, risk-adjusted returns on equity as its business grows. The Group's objective is to maintain a cost-to-income ratio below 35 per cent. each year for the current financial planning cycle that lasts until the end of 2016. This objective will include maintaining the Group's simple operating model, as well as increasing the scale and scope of the support functions carried out by its wholly owned and operated Indian operations. The Group's strategy is to migrate basic mortgage and lending servicing tasks to India from the UK. The Directors believe there remain substantial opportunities to enhance the scale of its Indian support operations, by adding flexibility to shift patterns to enable extended operating hours and increasing work-space. In addition, the significant skills base of highly trained graduates in Bangalore will provide further scope for growing the existing value added support functions such as human resources, compliance, finance, data analytics and information technology. The Group will also continue to develop its online offering of savings accounts/products (but does not currently intend to expand its branch network).

3.5 Maintain and develop the Group's established savings franchise as a growing and stable source of funding

The Group recognises that an established and resilient savings franchise represents the foundation on which its lending franchises can prosper. The Group's strategy is to maintain and develop its savings franchise by continuing to offer a multi-channel approach, which includes its physical branch presence in the South East of England, as well as maintaining its online and direct channels. The Group will also continue to offer competitive new savings products and preferential terms for the renewal of existing products as compared to the open market.

In line with its mutual heritage, the Group will continue to eschew 'new customer only' savings products and focus on keeping customer churn low, ensuring that there are limited barriers to switching savings products and offering long-term good value rates for existing long-standing customers. The Group intends to continue its community engagement and charitable initiatives in London with the Great Ormond Street Hospital and various charities in Kent, thereby helping to maintain the regional character and brand identity in the South East of England.

3.6 **Continue delivering high, risk-adjusted returns**

The Group's strategy is to continue to offer specialist lending products, through organic origination, as well as through new markets where the Group believes it can achieve high, risk-adjusted returns. The Group's objectives are to achieve a return on equity in excess of 25 per cent. and a cost/income ratio of less than 35 per cent. each year for the current financial planning cycle that lasts until the end of 2016,[36] while maintaining its existing conservative risk profile, a buffer above a 10 per cent. fully loaded CRD IV Common Equity Tier 1 capital ratio and a loan-to-deposit ratio of less than 100 per cent.[37]

Having established a high quality Board, management team, scalable systems and a low-cost operating platform as well as risk management and compliance infrastructure fit for purpose for a significantly larger balance sheet than the Group currently enjoys, the Directors believe that the Group is well placed to deliver continued growth of the business.

4. HISTORY AND DEVELOPMENT OF THE GROUP

The Kent and Canterbury Building Society was established in 1847 as a traditional building society and grew through a series of mergers with the Chatham Reliance (established 1898), Dover District (established 1861) and Herne Bay (established 1888) to form the Kent Reliance Building Society.

In 2002, Kent Reliance Building Society acquired the Standard Chartered Grindlays mortgage business in Jersey and Guernsey, which was subsequently rebranded as Jersey Home Loans and Guernsey Home Loans.

The Group was formed on 1 February 2011 and, following a capital investment of £50 million by funds advised by J.C. Flowers & Co. LLC acting through the Major Shareholder, the Kent Reliance Building Society transferred its business to a new entity, OneSavings Bank Plc. As part of this transaction, the members of the Kent Reliance Building Society became members in KRPS, which, immediately prior to Admission, is expected to hold approximately 0.31 per cent. of the Company's issued share capital.

Since February 2011, the Group has expanded its customer offering through the following developments:

- the acquisition of InterBay Commercial, a specialist semi-commercial/commercial lender, in August 2012;
- the acquisition of the Prestige Group, an established second charge lender, in September 2012; and
- the establishment of Heritable Development Finance, a provider of specialist residential development finance, in December 2013.

In 2004, Kent Reliance Building Society set up Easiprocess Pvt Limited, an Indian subsidiary, with its main operations in Bangalore, to provide cost-efficient operational and back office support to its building society operations. The Kent Reliance Building Society subsequently set up a further Indian subsidiary, Easioption BPO Services Pvt Limited in Pune, to service work overflow from the Kent Reliance Building Society, as well as provide services to other building societies. During the 2012 financial period, Easioption BPO Services Pvt Limited was closed to third party servicing business and subsequently shut down entirely in 2013, with its operations transferred to Easiprocess Pvt Limited in Bangalore. The Group's Indian operations now focus only on providing administrative support to the rest of the Group.

5. THE GROUP'S OPERATIONS

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

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36 This objective does not represent any forecast, target or expectations as to future results or performance and there can be no assurance that the objective will be met.

37 Excluding the impact of any drawdown under the FLS.

5.1 The Group's Savings Franchise

The Group's savings franchise comprises online and direct distribution, a physical branch presence, a well-recognised brand in Kent Reliance and long-standing customer relationships, all supported by a low-cost offshore processing platform in Bangalore, India. The Group's integrated and diversified distribution network enables its savings customers to choose how and when to undertake their transactions with it. The Group receives deposits through a number of channels:

- direct channels (comprising postal and telephone deposits), which represented 46 per cent. of new deposits acquired during the 2013 financial year;
- online channels, which represented 38 per cent. of new deposits acquired in the 2013 financial year; and
- branches, which represented 16 per cent. of new deposits acquired in the 2013 financial year.

The Group offers a wide variety of fixed, notice, easy access and regular savings products, including ISAs, but has made a deliberate decision not to offer current accounts (given the significant level of additional infrastructure and cost that would be required). At the end of the 2013 financial year, the Group had approximately 142,000 savings customers operating approximately 180,000 savings accounts, with an average balance per account of approximately £22,600. The vast majority of savers are fully covered by the Financial Services Compensation Scheme with only approximately 4,500 accounts with balances above £85,000.

Consistent with its mutual heritage, the Group operates a savings product strategy which avoids the use of 'introductory bonuses' and 'new-customer only' offers that could create barriers to customers moving their money around within the Group in favour of long-term value for money rates. This strategy, together with its established Kent Reliance brand, has helped the Group achieve an average retention rate of 88 per cent. on bond maturities in the 2013 financial year.

The Group has also been able to access additional retail funding quickly and efficiently, with the ability to raise significant levels of deposits on short timescales, as required, by offering new savings products with sufficiently attractive returns to ensure they are placed towards the top of the "best buy" tables. At the same time, the trusted reputation of the Kent Reliance brand has enabled the Group to attract funding from new customers without having to operate at the top of the "best buy" savings tables (as newer or less recognisable brands have to do).

This customer-focused philosophy is also reflected in the average length of the Group's savings customer relationships being approximately 8 years, and approximately 14 years for branch-based accounts.

The Group has seen significant growth in the amounts owed to retail depositors, which has enabled the Group to grow its specialist mortgage and loan offerings.

5.2 The Group's Lending Franchise

The Group operates in multiple high-margin specialist lending sub-sectors, originating loans organically using a number of established Group brands and from time to time through Secured Funding Lines. The Group has also purchased third party-branded loan portfolios in the secondary market. The Group segments its lending by product, focusing on the customer's need and reason for a loan. The Group categorises its three lending segments as Buy-to-Let/SME, Residential Mortgages and Personal Loans.

The Group's lending philosophy

Specialism is a key component of how and in which markets the Group chooses to lend. Its specialist markets are those in which lending products are less commoditised and more bespoke, and manual underwriting and detailed understanding of the customer and the collateral are critical to good lending.

Further, responsible lending is integral to the Group's lending philosophy and strategy. Lending is therefore based on an individual underwriter making the assessment that the customer has the ability to repay based on his cash flow, has the behavioural propensity to repay based on his past behaviour and general profile, and provides the Group with sufficient collateral or lending margin to compensate for any risks arising from the first two criteria. Integral to this lending philosophy is treating customers fairly, based on a clearly identified customer lending need.

Buy-to-Let/SME

The Buy-to-Let/SME segment comprises secured lending on property for investment and commercial purposes. This segment also includes the Group's development finance lending business, which commenced in 2014. In the 2013 financial year, the Group's Buy-to-Let/SME segment loan book's approximate composition was as follows: 82 per cent. Buy-to-Let loans and 18 per cent. SME loans.

Certain key financial information in respect of the Buy-to-Let/SME segment's performance over the last three financial periods is as follows:

	2011 financial period £ million	2012 financial year £ million	2013 financial year £ million
Gross loans	415	613	1,099
Risk-weighted assets	260	338	513
Net interest income	2.3	3.2	17.2
Contribution to profit	0.1	(0.8)	12.0

BTL mortgages

The Group originates own brand buy-to-let ("**BTL**") mortgages in the UK, Jersey and Guernsey via mainstream and specialist intermediaries. The Group utilises the Kent Reliance brand in the main UK BTL market and the Jersey Home Loan and Guernsey Home Loan brands in the Jersey and Guernsey BTL market, respectively. The average size of mortgages offered in the 2013 financial year was approximately £206,000.

BTL lending comprises residential investment property lending to prime credit quality borrowers, often professional landlords with established portfolios, or to high net worth clients looking to diversify their investments. Borrowers include large portfolio landlords who have reached lending limits with mainstream lenders or who wish to diversify their sources of financing. It also includes lending to limited companies subject to the provision of personal guarantees.

The Group's specialist BTL products also include HMOs, student accommodation and loans to expatriates (generally UK citizens who wish to turn their UK residence into a rental property while working overseas).

Commercial and semi-commercial

The Group provides small commercial and semi-commercial property loans to individuals and limited companies in the UK through the InterBay brand. InterBay, acquired in 2012, focuses on the commercial broker community, lending to customers with investment properties, semi-commercial (part residential and part commercial properties) or small commercial properties. Commercial lending requires specialist expertise to understand the assets, quickly assess a true valuation and evaluate the financial profile of the borrower. As well as bringing these specialist capabilities to the Group, the acquisition of InterBay included a portfolio of semi-commercial and commercial mortgages. The average size of loans offered in the 2013 financial year was approximately £390,000.

Residential development finance

The Group acquired the operating infrastructure, systems and staff of Heritable Partners Limited in December 2013 and began development finance lending in early 2014. Heritable Partners Limited was established in 2012 by the former management team of the structured property finance unit of Heritable Bank Plc to work out and recover the structured property finance loan book of Heritable Bank which went into administration in 2008, following the failure of its Icelandic parent bank, Landsbanki. The team have a long and proven track record in the development finance market.

This sub-sector requires specialist case assessment, a clear understanding of the development process and ongoing management throughout the life of the loan. The Group employs three specialist underwriters with an average of approximately 15 years' experience in this sub-sector.

The Group provides development loans to small and medium-sized developers of residential property in the South of England through the Heritable Development Finance brand. Loans are staged with independent chartered surveyors signing off each stage of the development before funds are released.

Residential Mortgages

The Residential Mortgages segment comprises lending to customers who live in their own homes, secured either via first or second charges against the residential home. This segment also includes the Group's shared ownership lending business. In the 2013 financial year, the Group's Residential Mortgage loan book's approximate composition was as follows: 70 per cent. residential first charge mortgages, 10 per cent. second charge mortgages and 20 per cent. shared ownership lending.

Certain key financial information in respect of the Residential Mortgage segment's performance over the last three financial periods is as follows:

	2011 financial period £ million	**2012 financial year £ million**	**2013 financial year £ million**
Gross loans	1,257	1,614	1,765
Risk-weighted assets	590	715	723
Net interest income	(3.1)	13.0	42.3
Contribution to profit	(4.3)	8.6	37.8

Residential first charge mortgages

The Group originates residential mortgages organically in the UK, Jersey and Guernsey principally through specialist intermediaries. The Group uses the Kent Reliance brand in the UK for first charge mortgages, the Prestige brand for second charge mortgages and the Jersey Home Loan and Guernsey Home Loan brands in Jersey and Guernsey, respectively, for first charge mortgages. Lending in Jersey and Guernsey requires specialist local market knowledge due to the different risk characteristics, tax and legal frameworks. All underwriting and broker liaison with the local Jersey and Guernsey mortgage brokers is undertaken from the UK.

Under the Kent Reliance brand in the UK, the Group distributes specialist first charge mortgages through specialised, typically London-based, brokers. These high margin products include bespoke residential and shared ownership mortgages. The average size of mortgages offered in the 2013 financial year was approximately £248,000.[38]

Bespoke residential lending requires specialist expertise and detailed bespoke underwriting to assess the complex financial profile of the borrower and includes:

- lending to UK high net worth customers, sometimes with non-standard incomes, who typically require larger loans, with a London or South East England bias, thereby providing these customers with an alternative to private banks who may require pooling of assets under management;
- lending to non-UK citizens resident in the UK working in well-paid jobs;

38 This figures excludes shared ownership loans.

- lending to UK near-prime customers including bespoke credit repair (e.g., following life events such as divorce or redundancy); and
- lending to fund self-build and insurance-backed, high LTV lending on new build property, in partnership with UK house builders.

Shared ownership lending

The Group offers shared ownership lending in the UK through its Kent Reliance brand. Shared ownership lending comprises lending to borrowers who are buying a residential property in conjunction with a housing association. Borrowers are often key workers in areas, such as London, where property prices are many multiples of average income. Lending requires specialist knowledge of regulations, processes, and housing association expectations and requirements, in particular in relation to recoveries. Through a mortgage protection clause in the shared ownership lease, the Group is able to recover losses from the housing association's share of equity in the event that there is a shortfall on sale of the property. The average size of shared ownership loans offered in the 2013 financial year was approximately £97,000.

Second charge mortgages

The Prestige Group was acquired by the Group in September 2012 and is the Group's lending platform for second charge mortgages. Prestige operates through intermediaries typically specialising in second charge mortgages and other CCA-regulated products, and has dedicated interactive intermediary IT systems and underwriting processes. The average size of mortgages offered in the 2013 financial year was approximately £39,000. Borrowers are typically seeking to fund a major purchase or home improvement or to consolidate and reschedule other consumer debt without refinancing their existing first charge mortgage as it often carries a low interest rate margin.

Secured Funding Lines

The Group also from time to time originates mortgages organically through Secured Funding Lines, subject to agreed lending and underwriting criteria. The Group provides Secured Funding Lines to other lenders through the OneSavings Bank brand, secured against pools of loan collateral. The terms of the Secured Funding Lines require the third party lender to abide by strict criteria for underwriting of the underlying loan. The advance rate varies depending on the quality of the underlying assets.

Secured Funding Lines provide indirect access to certain high yielding, specialist segments, such as residential bridge finance. As at the end of the 2013 financial year, the Group had £37 million of Secured Funding Lines.

Inorganic origination

The Group also acquires mortgages inorganically through selective portfolio purchases, following extensive due diligence in each case. The Group has made 11 mortgage portfolio acquisitions since 1 February 2011, with a carrying value of £590 million as at the end of the 2013 financial year. The Group acquired the InterBay Group and Prestige Group mortgage portfolios through its acquisition in 2012 of those companies. The remaining acquired mortgage portfolios are serviced under the Reliance Property Loans brand by specialist third party servicers who provide administrative and management services to the Group, including processing customer data, handling inbound telephone calls from customers, processing correspondence, direct debit processing and providing monthly arrears statements. In aggregate these portfolios have been acquired at a significant discount to par and predominantly comprise relatively high-yielding (in comparison to the KRBS inherited portfolios), well-seasoned mortgages which were originated prior to the start of the financial crisis in 2007. The portfolios display on average higher levels of arrears than the Group's organically originated mortgage portfolio. However, the higher arrears portfolio is mitigated by either having a high cash yield or where the relevant loans were acquired at a significant discount to par. In addition, the "look through" loan-to-value of the acquired portfolios is only 58 per cent., providing a substantial cushion against losses.

Personal Loans

This segment makes up the Group's unsecured lending, which currently comprises the former Northern Rock performing consumer finance portfolio of approximately 70,000 customers acquired from UK Asset Resolution Limited in 2013. These are seasoned, individually small, amortising, medium duration unsecured loans, serviced by a professional third party servicer. The portfolio had a carrying value of £203 million as at the end of the 2013 financial year.

As at the end of the 2013 financial year, the portfolio's cumulative cash collections since the date of purchase (15 July 2013) were £72.2 million, slightly ahead of the Group's expectations at the time of its acquisition. Arrears levels defined as 90 days past due were zero at 31 December 2012 and loans which were 90 days past due had risen to only £7.0 million by the end of the 2013 financial year (having been expected to rise to £12.9 million by the end of the 2013 financial year). The portfolio is currently serviced by Capita, pursuant to contractual arrangements entered into by the Group in December 2013.

6. LOAN DISTRIBUTION NETWORK

Almost all of the Group's loans are originated through third party intermediaries. These tend to specialise in certain markets and fall into five categories:

- *Directly authorised firms*

  Directly authorised firms are FCA-regulated and, in the 2013 financial year, generated approximately 33 per cent. of the Group's lending. Their typical clients are high net worth individuals and professional landlords with large property portfolios.

- *Networks*

  Networks are umbrella organisations for intermediaries. Networks themselves are directly authorised by the FCA. Their members, referred to as authorised representatives, are therefore indirectly regulated by the FCA. In the 2013 financial year, networks generated approximately 3 per cent. of the Group's lending. Their typical clients are landlords with smaller portfolios.

- *Clubs and packagers*

  Clubs and packagers act as conduits into the Company for directly authorised firms and authorised representative intermediaries who would otherwise not be able to submit business to the Group because they are not on the Group's panel of approved intermediaries. They tend to comprise unregulated firms and, in the 2013 financial year, generated approximately 49 per cent. of the Group's lending. Their typical clients are mainstream BTL and residential borrowers.

- *Commercial*

  Commercial intermediaries tend to be unregulated and, in the 2013 financial year, generated approximately 12 per cent. of the Group's lending. Their typical clients are commercial/semi-commercial property investors.

- *Secured loans*

  Firms specialising in secured lending have been required to have a consumer credit licence from the OFT and, since 1 April 2014, have required interim FCA permissions. In the 2013 financial year, such firms generated approximately 3 per cent. of the Group's lending. Their typical clients are homeowners requiring additional borrowing.

The underwriting process

The underwriting process commences with the broker entering its application into the origination system. A simple assessment of the application is carried out and either a decision is issued in principle or the case is referred for bespoke underwriting.

Marginal decline applications and those under £750,000[39] are manually assessed and underwritten by specialist teams. All marginal declined applications are entered into the Group's bespoke underwriting procedures to establish whether adjusted pricing is appropriate.

Bespoke underwriters review all non-standard product applications (which include non-UK citizens, HMOs, individuals with complex income situations and applicants looking to buy non-standard property). The Group employs specialist underwriters for each of its lending products, who interact directly with the intermediaries.

The Group operates varying mandate levels dependent upon the type of loan. First charge exposures above £750,000[40] are either approved by enhanced mandate holders (Head of Underwriting/Chief Credit Officer) if up to £1 million, or the transactional credit committee if above £1 million. The transactional credit committee is chaired by the Head of Underwriting and voting members are the Chief Executive Officer, the Chief Financial Officer, the Group Chief Operating Officer, the Chief Risk Officer and the Chief Credit Officer. Other senior staff members will be invited to attend meetings as required.

7. SECURITISATION

In October 2013, the Group completed its first residential mortgage-backed securitisation, Rochester Financing No.1 plc. The Group securitised approximately £376 million of first charge mortgages. The Group issued investment grade-rated notes corresponding to 86.5 per cent. of the nominal value of the mortgages (with 4.5 per cent. cash reserves).

The securitisation provided a diversification of the Group's funding sources, with £273 million of the notes sold to third party investors, raising term funding at a cost comparable to retail deposits. It also provided the group with an independent validation of the credit quality and performance of its underlying assets that were securitised.

The key terms of Rochester Financing No. 1 plc are as follows:

Class of Notes	Initial Principal Amount £m	Interest rate pre-step-update (16 January 2018)	Ratings (Standard & Poor's/Fitch)	Status
A1	213.0	3m Libor + 1.45%	AAA(sf)/AAAsf	Sold
A2	40.0	2.607% per annum	AAA(sf)/AAAsf	Sold
B	20.0	3m Libor + 1.5% (issue price = 97.82%)	AA+(sf)/Aasf	Sold
C	26.5	3m Libor + 1.5%	AA-(sf)/Asf	Retained
D	31.2	3m Libor + 1.5%	A-(sf)/BBBsf	Retained
E	13.2	3m Libor + 1.5%	BBB+(sf)/BBB-sf	Retained
F	51.2	3m Libor + 1.5%	Not rated	Retained

8. INDIAN OPERATIONS

The Group uses its Indian operations, which are based in Bangalore, to provide administrative and process support to its UK savings and lending businesses. As the end of the 2013 financial year, the Group had 152 Indian employees. The Group's Indian operations have close day-to-day interaction with the UK and maintain functional reporting lines to the Group's UK management team.

39 This figure is in respect of mortgages originated under the Kent Reliance brand. This threshold is lower for loans and mortgages originated under the Group's other brands.

40 This figure is in respect of mortgages originated under the Kent Reliance brand. This threshold is lower for loans and mortgages originated under the Group's other brands.

The Group's Indian operations support its savings business by:

- carrying out all savings processing;
- taking all customer calls;
- processing all online instructions and emails;
- reviewing and processing the Group's post, which is scanned in the Group's Chatham head office and then sent to India;
- moving money (as per customer instructions); and
- conducting compliance and fraud monitoring.

The Group's Indian operations support its lending business by:

- processing all mortgage payments;
- chasing late payments (after a loan is three payments in arrears it gets transferred back to the Group's special collections team in the UK); and
- processing and responding to all standard queries from borrowers (such as balance queries).

9. EMPLOYEES

As at the end of the 2013 financial year, the Group had 389 employees. The average number of employees (including Directors) employed by the Group for the 2011 financial period, the 2012 financial year and the 2013 financial year was 254, 291 and 342, respectively.

10. PROPERTY

Save for the Group's head office in Chatham and the Chatham branch of KRBS (which the Group owns the freehold of), the remainder of the properties utilised by the Group are occupied under leasehold terms.

	Leasehold/ Freehold/Franchise	**Term Expiry Date**	**Property Use**
Sun Pier, Chatham	Freehold	N/A	Head Office
250 High Street, Chatham	Freehold	N/A	Branch
Unit 35, Whitefriars Shopping Centre 5a Rose Lane, Canterbury, Kent	Leasehold	June 2027	Branch
99 Mortimer Street, Herne Bay	Franchise	N/A	Agency
4 Marsh Parade, Hythe	Franchise	N/A	Agency
12 Windmill Street, Gravesend	Leasehold	2970	Branch
76 High Street, Littlehampton	Franchise	N/A	Agency
14 High Street, Maidstone	Leasehold	2026	Branch
Unit 2, Ground Floor, Michael Gill Building, Tolgate Lane, Strood, Kent	Leasehold	27 February 2021	Branch
Redshank, St Mary's Island	Leasehold	September 2014	House
Second Floor, 85 Newman Street, London	Leasehold	June 2015	Office
Prestige House, 16 Melbourne Road, Bushey, Watford WD23 2LN	Leasehold	2016	Office
Part of Second Floor Forum, Three Solent Business Park, Hampshire	Leasehold	24 March 2019	Office

11. INFORMATION TECHNOLOGY

The Group is committed to maintaining high standards of data protection, client information and information security and aims to ensure that up to date security software and technologies are utilised.

The Group's in-house information technology team manages its information technology infrastructure and various core banking applications. The technology team also work with specialist third party suppliers who provide mortgage origination, mortgage servicing, workflow systems and websites. Third party supplier relationships also extend to the provision of network and security infrastructure management.

A major upgrade programme to the Group's IT commenced in 2012 and enhancements to deliver further efficiency and growth via an infrastructure and application refresh programme are ongoing. The upgrade provides a combination of expanding capacity of existing systems and implementing industry standard platforms. To date the programme has delivered a stable, scalable, monitored and secure infrastructure.

The key elements of the upgrade programme to the Group's IT infrastructure include enhancements to its data centre, expansion of processing and storage capacity, improved offsite data recovery capabilities and improved network resilience and bandwidth. Alongside this programme there has been significant investment in the overall security infrastructure.

The systems upgrade programme has included significant investment in the systems on which processing is undertaken, including: (i) implementation of industry standard systems for mortgage originations provided by DPR Consulting Limited; (ii) capacity expansion of the in-house Bastion savings system; (iii) further enhancements to workflow systems; and (iv) new management information systems and analysis tools which will provide a foundation for enhanced reporting across the business.

Additional improvements scheduled for 2014 and 2015 include: (i) a new online savings portal for customers; (ii) replacement of the existing mortgage servicing system with the industry standard Phoebus platform; (iii) upgrades to the workflow automation systems; and (iv) replacement of payment systems.

The Company has invested in disaster recovery systems and processes in relation to its information technology systems which are regularly monitored and tested. Primary systems are backed up to a disaster recovery centre.

The Group relies on a number of third parties to provide IT services and software licences. In particular:

- Phoebus Software Limited provides a mortgage servicing system which is currently also used by the Group's development finance provider, Heritable Development Finance. It is intended that this system will be deployed across the Kent Reliance Portfolios during the second half of 2014 and across the Group from 2015 onwards;
- Sota provides the Group with a disaster recovery location and hosting centre for websites;
- Bottomline provides the Group with payment systems for its direct debit services; and
- Dell Secureworks provides the Group with managed IT security services.

For risks relating to the Group's IT arrangements, see *"Risk Factors – The Group is dependent on its IT systems, which may fail or be subject to disruption"*.

12. DIVIDEND POLICY

The Directors intend to adopt a dividend pay-out ratio to reflect the growth profile of the business and are currently targeting a dividend pay-out ratio of at least 25 per cent. of the profit for the year less coupons on perpetual subordinated bonds classified as equity. There are no guarantees that the Company will pay dividends or regarding the level of any such dividends.

Dividend payments will be made on an approximate one-third:two-thirds split for interim and final dividends, respectively. The Directors intend to commence dividend payments with a final dividend in respect of 2014, which will be payable in the first half of 2015. The Company may revise its dividend policy from time to time.

PART III

DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

1. DIRECTORS

The current members of the Board are:

Name	Position	Date of Birth
Mike Fairey	Non-Executive Chairman	17 June 1948
Andy Golding	Chief Executive Officer	3 January 1969
April Talintyre	Chief Financial Officer	20 September 1965
Graham Allatt	Independent Non-Executive Director	10 April 1948
Rod Duke	Senior Independent Non-Executive Director	5 May 1950
Tim Hanford	Non-Executive Director	26 April 1964
Malcolm McCaig	Independent Non-Executive Director	25 May 1955
Mary McNamara	Independent Non-Executive Director	30 August 1960
Dr. David Morgan	Non-Executive Director	14 March 1947
Nathan Moss	Independent Non-Executive Director	15 November 1955
Stephan Wilcke	Non-Executive Director	3 June 1970

The business address of each Director is Reliance House, Sun Pier, Chatham, Kent ME4 4ET.

The management expertise and experience of each Director is set out in their biography below:

Mike Fairey, Non-Executive Chairman

Mr Fairey joined OneSavings Bank in 2014. Prior to joining OneSavings Bank, Mr Fairey was a Non-Executive Director at Legal & General Group Plc. Between 1991 and 2008, Mr Fairey held a number of senior positions at the Lloyds Banking Group and was the Deputy Chief Executive Officer between 1998 and 2008. Mr Fairey is currently also the Chairman of the Lloyds TSB Pension Fund, APR Energy plc and Vertex Group and is a Non-Executive Director of the Energy Savings Trust.

Andy Golding, Chief Executive Officer

Mr Golding joined OneSavings Bank in 2012. Mr Golding has over 28 years' experience in financial services and has held senior positions at NatWest, John Charcol and Bradford & Bingley. Between 2004 and 2011, Mr Golding was the Chief Executive Officer of the Saffron Building Society. Mr Golding holds a number of positions with industry institutions including membership of the Building Societies Association's council and the Council of Mortgage Lenders executive committee. Mr Golding is also a Director of the Building Societies Trust and has served as a Non-Executive Director for Northamptonshire NHS.

April Talintyre, Chief Financial Officer

Ms Talintyre joined OneSavings Bank in 2012. Prior to joining OneSavings Bank, Ms Talintyre worked for Goldman Sachs International for over 16 years, most recently as an Executive Director in the Rothesay Life pensions insurance business and prior to that as an Executive Director in the finance division in London and New York. Ms Talintyre began her career at KPMG in the general audit department and has been a Member of the Institute of Chartered Accountants in England and Wales since 1992.

Graham Allatt, Independent Non-Executive Director

Mr Allatt joined OneSavings Bank in 2014. Mr Allatt is a senior commercial and retail banker who worked in credit and risk roles at a number of the UK's major banks for 30 years, including being Acting Group

Credit Director at Lloyds TSB and Chief Credit Officer at Abbey National. Prior to this he spent 18 years in the NatWest Group culminating in the role of Managing Director, Credit Risk at NatWest Markets. A qualified Chartered Accountant, Mr Allatt is on the finance committee of the British Library and was involved in housing associations for nearly 30 years as Treasurer and Board member in the North of England and in London.

Rod Duke, Senior Independent Non-Executive Director

Mr Duke joined OneSavings Bank in 2012. Mr Duke was formerly a Group General Manager at HSBC Bank Plc with responsibility for UK distribution – branches, call centres and internet banking – for both personal and commercial customers. Mr Duke was with HSBC Bank Plc for 33 years and has extensive experience across retail and commercial banking. Mr Duke's previous directorships include VISA (UK), HFC Bank plc and HSBC Life. Mr Duke also served on the board of Alliance & Leicester plc until its takeover by Santander. Mr Duke is a Fellow of the Institute of Financial Services.

Tim Hanford, Non-Executive Director

Mr Hanford joined OneSavings Bank in 2010. Mr Hanford is a Managing Director of J.C. Flowers & Co. UK LLP. Prior to his role at J.C. Flowers & Co. UK LLP, he was Head of Private Equity at Dresdner Bank and a member of the Institutional Restructuring Unit's Executive Committee. Mr Hanford has also served as an Executive Director of various Schroder Group companies, based in London, Hong Kong and Tokyo, where he was responsible for structured finance. Mr Hanford holds an MS degree from Stanford University's Graduate School of Business, where he was a Sloan Fellow, and a BSc degree in Chemical Engineering from Birmingham University.

Malcolm McCaig, Independent Non-Executive Director

Mr McCaig joined OneSavings Bank in 2010. Mr McCaig was Chairman of the Kent Reliance Building Society and later Kent Reliance Provident Society. Mr McCaig has worked extensively in the financial services sector. Mr McCaig was a Partner at both Ernst & Young and Deloitte, and has held senior management positions at Prudential, National Australia Bank and CIGNA. Mr McCaig's Non-Executive Director portfolio includes Unum, Punjab National Bank (International) Ltd, Renaissance Capital and Crest Nicholson.

Mary McNamara, Independent Non-Executive Director

Ms McNamara joined OneSavings Bank in 2014. Ms McNamara was Chief Executive Officer of the Commercial Division and Board Director of the Banking Division at Close Brothers Group PLC, responsible for the Asset, Invoice and Leasing businesses in the UK and overseas from 2010 to 2013. Ms McNamara spent a year as Chief Operating Officer of Skandia, the European arm of Old Mutual Group and prior to that, 17 years at GE Capital, running a number of businesses including GE Fleet Services Europe and GE Equipment Finance. Ms McNamara is Chair of Governors of the Leasing Foundation.

Dr. David Morgan, Non-Executive Director

Dr Morgan joined OneSavings Bank in 2010. Dr Morgan became the managing director in charge of J.C. Flowers & Co for Europe and Asia Pacific in December 2009. From 1999 to 2008, he served as Chief Executive Officer of Westpac Banking Corporation, a global top 20 bank. Prior to joining Westpac, Dr Morgan was the Senior Deputy Secretary of the Australian Federal Treasury. Dr Morgan was Chairman of the Australian Bankers Association from 2006 to 2007. In 2009, Dr Morgan was awarded an Order of Australia in the Australia Day Honours by the Federal Government for his service to the finance sector. This recognised his role as a leader in the development of policies affecting the regulation of financial institutions, corporate social responsibility and economic reform. Dr Morgan holds a M.Sc. (Economics with Distinction) and a Ph.D. (Economics) from the London School of Economics.

Nathan Moss, Independent Executive Director

Mr Moss joined OneSavings Bank in 2014. Mr Moss was Group Strategy Director at Friends Life from 2010 to 2013 and responsible for group strategy, corporate development and innovation. A business development and marketing specialist he joined Scottish Widows in 2002 as Managing Director, Marketing & Distribution before becoming Managing Director of Wealth Management at Lloyds TSB Group in 2007, responsible for strategy and business performance. Prior to this Mr Moss spent 18 years with HSBC Group including four years as General Manager, Personal Financial Services, and culminating as Chief Operating Officer of Merrill Lynch HSBC, being responsible for the creation and launch of the global joint venture. Mr Moss has a degree in Industrial Economics from Nottingham University, and an MBA (Distinction) from Manchester Business School and is currently a Non- Executive Director of Homeserve Membership Ltd.

Stephan Wilcke, Non-Executive Director

Mr Wilcke joined OneSavings Bank in 2011 as an Independent Non-Executive Director and Chairman of the Risk Committee. He moved into the role of Executive Chairman in early 2012. Between 2009 and 2011, Mr Wilcke was the Chief Executive Officer of the Asset Protection Agency, an executive arm of HM Treasury. Prior to this, Mr Wilcke advised various central banks on difficult situations created by the credit crunch. He was also a Partner and the Head of European Financial Services at private equity firm Apax Partners. Mr Wilcke started his career at management consultancy Oliver Wyman where he progressed to partner level. Mr Wilcke is currently on the general council of the Hellenic Financial Stability Fund, is a Member of the Financial Services Commission of Jersey and is a Member of the Board and Investment Committee of EMF Capital Partners Ltd.

2. SENIOR MANAGERS

In addition to the Executive Directors, each of the following persons is a senior manager and member of the Group's Executive Management Team:

Jens Bech, Commercial Director

Mr Bech joined OneSavings Bank as Chief Risk Officer in 2012, before becoming Commercial Director in 2014. Mr Bech joined OneSavings Bank from the Asset Protection Agency, an executive arm of HM Treasury, where he held the position of chief risk officer. Prior to joining the Asset Protection Agency, Mr Bech spent nearly a decade at management consultancy Oliver Wyman where he advised a global portfolio of financial services firms and supervisors on strategy and risk management.

Zoe Bucknell, General Counsel and Company Secretary

Ms Bucknell joined OneSavings Bank in 2011. Ms Bucknell is a qualified solicitor in England and Wales and company secretary with over 16 years of broad financial services industry experience gained within a range of businesses including international law firm Linklaters, Salaam Halal Insurance, Hiscox Plc and Lloyd's of London.

John Eastgate, Sales & Marketing Director

Mr Eastgate joined OneSavings Bank in 2012. Prior to joining OneSavings Bank, Mr Eastgate was Sales & Marketing Director at Saffron Building Society from 2008 until 2012. Between 2003 and 2008, Mr Eastgate was Head of Banking, Head of Mortgages and Group Account Director at Experian. He held the position of Practice Manager (financial services) at BroadVision UK Limited from 2001 until 2002. Between 1999 and 2001, Mr Eastgate was Senior Manager at Barclays.

Clive Kornitzer, Group Chief Operating Officer

Mr Kornitzer joined OneSavings Bank in 2013. Mr Kornitzer has over 25 years of financial services experience, having worked at several financial organisations including Yorkshire Building Society, John

Charcol and Bradford and Bingley. Prior to joining OneSavings Bank, Mr Kornitzer spent six years at Santander where he was the Chief Operating Officer for the intermediary mortgage business. Mr Kornitzer has also held positions at the European Financial Management Association and been the Chair of the FS Forums Retail Banking Sub-Committee. Mr Kornitzer recently became a Fellow of the Chartered Institute of Bankers.

Mark Paskowitz, Chief Risk Officer

Mr Paskowitz joined OneSavings Bank in 2012 as Deputy Chief Risk Officer and was appointed as Chief Risk Officer in January 2014. Prior to joining OneSavings Bank, Mr Paskowitz spent two years at the Asset Protection Agency, an executive arm of HM Treasury, as Director of Risk. Between 2004 and 2009, Mr Paskowitz was a Consultant at management consultancy Oliver Wyman.

Richard Davis, Chief Technology Officer

Mr Davis joined OneSavings Bank in 2013. Prior to joining OneSavings Bank, Mr Davis spent four years at Morgan Stanley as an interim transaction manager and IT director in the EU residential mortgage division. Between 2004 and 2008, Mr Davis was also the IT director of MoneyPartners, an Investec subsidiary. Prior to this, Mr Davis spent 2001 to 2004 at General Electric as chief information officer of GE Money home lending.

Richard Wilson, Chief Credit Officer

Mr Wilson joined OneSavings Bank in 2013. Prior to joining OneSavings Bank, Mr Wilson worked for Morgan Stanley, spending two years as Vice President of the residential whole loan trading department and four years as Director of European credit risk and Head of Credit at Advantage Loans. Between 1988 and 2006, Mr Wilson held various roles at Yorkshire Building Society, including the position of Mortgage Application Centre Manager.

3. CORPORATE GOVERNANCE

The Board is committed to the highest standards of corporate governance. On Admission, the Board will comprise 11 members, comprising six independent Non-Executive Directors (including the Chairman who is considered independent at the date of his appointment), two Executive Directors and three Non-Executive Directors who are not regarded as independent for the purposes of the UK Corporate Governance Code. The Board regards Mike Fairey, as Chairman, as independent upon his appointment and regards Graham Allatt, Rod Duke, Malcolm McCaig, Mary McNamara and Nathan Moss as independent Non-Executive Directors for the purposes of the UK Corporate Governance Code. Rod Duke will be the Company's senior independent director (the "**SID**"). The SID should be available to Shareholders if they have concerns that the normal channels of Chairman, Chief Executive Officer or other Executive Directors have failed to resolve or for which such channels of communication are inappropriate. Dr. David Morgan, Tim Hanford and Stephan Wilcke are not regarded as independent for the purposes of the UK Corporate Governance Code.

The UK Corporate Governance Code recommends, in the case of a FTSE 350 company, that at least half the board of directors (excluding the chairman) should comprise 'independent' non-executive directors, being individuals determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the relevant individual's judgement. Where a company is outside the FTSE 350, the UK Corporate Governance Code recommends that the board of directors comprises at least two 'independent' non-executive directors. As at the date of this Prospectus, the Company (being outside the FTSE 350) complies with the recommendations of the UK Corporate Governance Code concerning the number of independent non-executive directors the Company should have.

4. RELATIONSHIP WITH THE MAJOR SHAREHOLDER

Immediately following Admission (assuming no exercise of the Over-allotment Option) the Major Shareholder will own 67.2 per cent. of the issued share capital of the Company. Assuming no exercise of the Over-allotment Option, through its shareholding in the Major Shareholder, J.C. Flowers III will be indirectly interested in 147,201,904 Ordinary Shares immediately following Admission. The Major Shareholder has entered into a Relationship Agreement with the Company which will have effect from Admission. The Relationship Agreement is intended to ensure that the Company and the Group are capable of carrying on business independently of the Major Shareholder for so long as the Major Shareholder holds a Relevant Interest.

Pursuant to the Relationship Agreement, the Company has agreed with the Major Shareholder that it may appoint one Non-Executive Director to the Board and to each of the Nomination Committee and Risk Committee for so long as it (together with its respective affiliates) holds, directly or indirectly, at least 10 per cent. of the Company's Ordinary Shares and a further Non-Executive Director to the Board for so long as it holds, directly or indirectly, at least 30 per cent. of the Company's Ordinary Shares. On Admission, Dr. David Morgan and Tim Hanford will be the JCF Directors.

The Directors believe that the terms of the Relationship Agreement will enable the Group to carry on its business independently of the Major Shareholder and ensure that all agreements and transactions between the Group, on the one hand, and the Major Shareholder and its associates and/or persons acting in concert with the Major Shareholder or its associates, on the other hand, will be at arm's length and on a normal commercial basis. For further information in relation to the key terms of the Relationship Agreement, please see paragraph 23.4 of Part XIV (*Additional Information*).

5. BOARD COMMITTEES

As envisaged by the UK Corporate Governance Code and the PRA Handbook, the Board has established four committees: Audit, Risk, Remuneration and Nomination Committees, each with written terms of reference. If the need should arise, the Board may set up additional committees as appropriate.

5.1 Audit Committee

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

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

The UK Corporate Governance Code recommends that the Audit Committee comprises at least three members who are all independent non-executive directors (two in the case of companies outside the FTSE 350) and includes one member with recent and relevant financial experience. In a company outside the FTSE 350, the chairman may be a member of (but may not chair) the committee so long as he was considered independent on appointment as chairman. The Audit Committee currently comprises three members, all of whom are independent Non-Executive Directors: Graham Allatt, Rod Duke and Malcolm McCaig. The committee is chaired by Malcolm McCaig.

5.2 **Risk Committee**

The Risk Committee has responsibility for, among other things, oversight of the Group's risk appetite, risk monitoring and capital management. It focuses in particular on ensuring that the Group maintains an adequate Risk Management Framework and maintains appropriate levels of capital in the Group, as well as advising the Board on the overall risk appetite. The Risk Committee meets at least four times a year, and more frequently if required. The ultimate responsibility for setting the Group's risk appetite remains with the Board.

The terms of reference of the Risk Committee cover such issues as membership and the frequency of meetings, as mentioned above, together with the requirements of any quorum for and the right to attend meetings. The responsibilities of the Risk Committee covered in its terms of reference include the following: risk appetite, risk management framework, approval of lending up to 20 per cent. of Common Equity Tier 1 on a connected basis and capital and liquidity management oversight. The terms of reference also set out the authority of the Committee to carry out its responsibilities.

The UK Corporate Governance Code does not make any specific recommendations in respect of Risk Committee membership, although the PRA Handbook provides that the Risk Committee should be constituted of members, the majority of whom do not hold executive responsibility. As such, the Risk Committee currently comprises five members, three of whom are independent Non-Executive Directors: Graham Allatt, Rod Duke, Mary McNamara, April Talintyre and Stephan Wilcke. The committee is chaired by Rod Duke.

5.3 **Remuneration Committee**

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

The terms of reference of the Remuneration Committee cover such issues as membership and frequency of meetings, as mentioned above, together with the requirements for quorum and the right to attend meetings. The responsibilities of the Remuneration Committee covered in its terms of reference include the following: determining and monitoring policy on and setting levels of remuneration, termination, performance-related pay, pension arrangements, reporting and disclosure, share incentive plans and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the committee to carry out its responsibilities.

The UK Corporate Governance Code recommends that the Remuneration Committee comprises at least three members (two in the case of companies outside the FTSE 350) who are all independent non-executive directors, one of whom may be the Chairman (but who may not chair the Remuneration Committee). The Remuneration Committee comprises three members, all of whom are independent Non-Executive Directors: Malcolm McCaig, Mary McNamara and Nathan Moss. The committee is chaired by Mary McNamara.

5.4 **Nomination Committee**

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary, taking into account the skills and expertise that will be needed on the Board in the future. The Nomination Committee's terms of reference deal with such things as membership, quorum and reporting responsibilities. The Nomination Committee will meet at least once a year.

The UK Corporate Governance Code recommends that a majority of the members of the Nomination Committee should be independent non-executive directors. The Nomination Committee comprises four members, two of whom are independent Non-Executive Directors: Rod Duke, Mike Fairey, Dr David Morgan and Nathan Moss. The committee is chaired by Mike Fairey.

6. SECURITIES DEALING CODE

Upon Admission, the Company will adopt a code on dealings in relation to the securities of the Group which requires full compliance with the requirements of the Model Code. The Company shall require the Directors and other persons discharging managerial responsibilities within the Group to comply with the Company's securities dealing code, and shall take all proper and reasonable steps to secure their compliance.

PART IV

SELECTED FINANCIAL INFORMATION AND KEY PERFORMANCE INDICATORS

The following tables present selected financial and other information of the Group as at the dates and for the periods indicated. Investors should read the whole of this Prospectus and not rely on the selected information in this Part IV (*Selected Financial Information and Key Performance Indicators*). This selected financial information of the Group is extracted without material adjustment from the audited consolidated IFRS historical financial information of the Group set out in Part IX (*Historical Financial Information*) of this Prospectus except as specified below.

The selected financial information in the tables below headed Profit and loss data and Financial position data has been extracted without material adjustment from the audited consolidated historical financial information as at and for the 11 month period ended 31 December 2011, the year ended 31 December 2012, the year ended 31 December 2013 and the one month period ended 31 January 2014 and the unaudited consolidated financial information for the one month period ended 31 January 2013 included in Part IX (*Historical Financial Information*) of this Prospectus.

The financial period ended 31 December 2011 consisted of 11 months. As a result, the financial information for the 11 months ended 31 December 2011 is not directly comparable to the financial information for the 12 months ended 31 December 2012.

Certain of the key performance indicators presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides the Group with certain discretion in making its calculations. Because of the discretion that the Group and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks. See paragraph 3 of the section entitled "*Presentation of Information*".

Profit and loss data (extracted without material adjustment from the consolidated historical financial information of the Group set out in Part IX (Historical Financial Information) of this Prospectus, unless otherwise indicated and audited except as specified below).

	11 months ended 31 December 2011	**Year ended 31 December 2012**	**Year ended 31 December 2013**	**1 month ended 31 January 2013 (unaudited)**	**1 month ended 31 January 2014**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Net interest income/(expense)	**(822)**	**16,161**	**70,766**	**2,612**	**9,137**
Gains/(losses) on sales of financial instruments	9,035	2,893	(24)	–	2,258
Fees and commissions receivable	109	241	728	65	25
Fees and commissions payable	(1,247)	(1,140)	(1,696)	(112)	(19)
External servicing fees	–	(1,601)	(3,503)	–	(388)
Administrative expenses	(17,061)	(18,836)	(23,986)	(1,812)	(2,527)
Regulatory provisions	(744)	(930)	(2,152)	–	–
Impairment losses	(2,913)	(5,301)	(7,329)	(334)	(698)
Negative goodwill	–	17,603	–	–	–
Profit/(loss) before taxation	**(13,288)**	**8,069**	**31,417**	**1,033**	**7,796**
Profit/(loss) for the relevant period	**(11,144)**	**9,065**	**26,771**	**777**	**6,110**

Certain key performance indicators

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
	%	%	%
Net interest margin(1)	(0.11)	0.57	2.11
Cost/income ratio(2)	276	133	38
Management expense ratio(3)	0.88	0.72	0.72
Impairments/average gross loans(4)	0.20	0.27	0.28
Return on equity(5)	nm	9	22

Notes:

(1) Net interest margin ("**NIM**") is calculated as net interest income, less coupons on perpetual subordinated bonds ("**PSBs**") classified as equity, as a percentage of average interest-bearing assets (net loans and advances plus liquid assets) on an annual basis. The average interest-bearing assets in this section are calculated differently from Part VI (*Selected Statistical Data*) of this Prospectus, resulting in a different NIM value. NIM for the 11 months ended 31 December 2011 has been presented on an annualised basis.

(2) Cost/income ratio is calculated as administrative expenses, depreciation and amortisation, as a percentage of total income less coupons on PSBs classified as equity.

(3) Management expense ratio is calculated as administrative expenses plus depreciation and amortisation, as a percentage of average total assets on an annual basis. The management expense ratio for the 11 months ended 31 December 2011 has been presented on an annualised basis.

(4) Impairments/average gross loans is calculated as impairment losses during the year, as a percentage of average gross loans to customers on an annual basis.

(5) Return on equity is calculated as profit after taxation, less coupons on PSBs classified as equity, as a percentage of average shareholders' equity (excluding £22m of PSBs classified as equity). Average shareholders' equity is calculated by adding the shareholders' equity at the beginning of a period to the shareholders' equity at the end of a period and dividing the result by two.

Financial position data (extracted without material adjustment from the consolidated historical financial information of the Group set out in Part IX (Historical Financial Information), unless otherwise indicated and audited except as specified below).

	31 December 2011	31 December 2012	31 December 2013	31 January 2014
	£'000	£'000	£'000	£'000
Loans and advances to credit institutions	239,661	291,700	269,101	252,793
Loans and advances to customers	1,639,946	2,196,050	3,041,248	3,096,352
Amounts owed to retail depositors	2,081,590	2,744,646	3,251,576	3,263,720
Amounts owed to credit institutions	831	3,190	1,438	849
Amounts owed to other customers	38,394	21,763	2,351	7,357
Total equity and liabilities	**2,356,146**	**3,008,660**	**3,763,886**	**3,778,720**

Certain key performance indicators

	31 December 2011	31 December 2012	31 December 2013
Risk-weighted assets (£m)[(1)]	855	1,092	1,423
Risk-weighted assets as % of total assets (%)[(2)]	36	36	38
Core Tier 1 ratio (%)[(3)]	7.7	8.5	9.3
Total capital ratio (%)[(4)]	**15.2**	**14.3**	**13.5**

Notes:

(1) Risk-weighted assets ("**RWA**") are calculated using a standardised approach.

(2) Risk-weighted assets as a percentage of total assets are calculated as risk-weighted assets, as a percentage of total assets at the reporting date.

(3) Core Tier 1/Common Equity Tier 1 ratio is calculated as Core Tier 1 capital, as a percentage of risk-weighted assets at the reporting date.

(4) Total capital ratio is calculated as total capital for regulatory purposes, as a percentage of risk-weighted assets at the reporting date.

PART V

OPERATING AND FINANCIAL REVIEW

The following discussion of the financial condition and results of operations of the Group should be read in conjunction with the audited consolidated financial statements of the Group and the accompanying notes for the 12 months ended 31 December 2013 and 2012 and for the 11 months ended 31 December 2011, and with the information relating to the business of the Group included elsewhere in this Prospectus. The discussion includes forward-looking statements that reflect the current view of the Group's management and involve risks and uncertainties. The actual results of the Group could differ materially from those contained in any forward-looking statements as a result of factors discussed below and elsewhere in this Prospectus, particularly in the sections headed "Risk Factors" and "Presentation of Information – Forward-looking Statements". Prospective investors should read the whole of this Prospectus and not just rely upon summarised information set out in this Part V (Operating and Financial Review).

1. OVERVIEW

Headquartered in Chatham, Kent, the Group is a specialist lending and retail savings group, authorised by the PRA, part of the Bank of England, and regulated by the FCA and PRA. The Group began trading as a bank on 1 February 2011 when the trade and assets of Kent Reliance Building Society ("**KRBS**") were transferred into the business.

The Group originates almost all of its organic lending through specialist intermediaries (for Group branded products) as well as from time to time through Forward Flow Agreements and Secured Funding Lines (for third-party branded products). The Group also sources loan portfolios inorganically.

The Group focuses on specialist lending activities in selected sub-sectors of the market where it has established expertise, platforms and capabilities, and which offer risk-adjusted high returns and strong growth opportunities. The Group's specialist lending segments include Residential Mortgages (comprising first charge, second charge and shared ownership), Buy-To-Let/SME and Personal Loans. Participation in these specialist lending segments requires bespoke underwriting, experienced teams and strong relationships with specialist distributors; capabilities firmly established at the Group.

The Group inherited a back book of mortgages from KRBS originated prior to 1 February 2011 that is low-yielding in current market conditions as it contains a high proportion of tracker mortgages or fixed rate mortgages swapped to three-month LIBOR. Following the transfer of business the Group recommenced lending and has grown its balance sheet and NIM significantly over the last three years through a mixture of higher-margin organic origination and loan portfolio purchases.

The majority of the Group's administrative support functions are performed by its wholly owned operation in Bangalore, India, over which the Group's management retains close oversight. Third party branded loans originated through portfolio purchases are serviced by specialist third party servicers, again with close management oversight.

The Group's primary source of income is interest receivable and similar income on loans and advances and liquid assets less interest payable on its retail and other funding. The Group's funding is predominantly from retail savings products with a small amount of wholesale funding, which includes a securitisation (from October 2013). The Group also has two tranches of perpetual subordinated bonds listed on the London Stock Exchange and a number of additional subordinated loan agreements.

2. FACTORS AND TRENDS INFLUENCING RESULTS OF OPERATIONS

The Group's results of operations are influenced especially by the following factors and trends:

2.1 Macroeconomic environment

The economic environment will continue to influence the housing market and the landscape for savers, who are suffering with very low rates on all but the longest-term savings accounts. The continuing low interest rate environment, falling unemployment levels and the now evident economic recovery provide a challenging but different context in which to operate than has been present in recent years. In particular, the FLS had a major downward impact on the cost of retail funding as it pushed significant liquidity into the various mortgage markets. This increased liquidity, combined with the Government's Help to Buy schemes and improving economic environment generally, has boosted the UK housing market (particularly in London and the South East which are key areas for the Group), with an increase in mortgage lending and house prices particularly since the beginning of 2013.

Consensus forecasts and guidance from the Bank of England point towards gently rising interest rates over the coming years, although the Bank of England base rate is currently at 50 basis points (where it has been since March 2009) and is not expected to increase prior to 2015. Historically, deposit rates have been above the Bank of England base rate when the latter was low, while generally being below the Base Rate when interest rates have been high. Retail deposits are still extremely expensive relative to LIBOR by long-term historical standards, but they have become cheaper over the past year, as the unprecedented deposit price competition between banks during the financial crisis eased once regulators decided that UK banks had amassed enough liquidity and facilitated access to lower cost marginal liquidity, for example, through the FLS. The Group's average rate paid on deposits was 2.54 per cent., 2.96 per cent. and 2.41 per cent. for 2013, 2012 and 2011, respectively. This decreased pricing for retail deposit funds has been a contributing factor to the Group's improved net interest margin over the past two years. Once interest rates start to rise, it is expected that deposit margins relative to LIBOR will normalise, boosting net interest margins across the banking system.

2.2 Lending volumes

The Group's ability to grow its balance sheet through new lending has a direct impact on its total income and its profit for the relevant period. During the period under review the Group has been assisted by the improving economic environment, which led to an increase in demand for mortgages in the market generally. Please see paragraph 4.2 of Part I (*Industry Overview*). Over the period under review, the size of the Group's loan portfolio has grown, from £1,640 million at year-end 2011 to £2,196 million at year-end 2012 and £3,041 million at year-end 2013.

The Group's strategy is to identify growth opportunities in underserved higher-margin sub-sectors of the market. One of the key sub-sectors for the Group is Buy-to-Let. Demand for housing in the UK continues to increase, with the trend towards multiple-location living, coupled with the average age of the first-time home buyer on the increase, resulting in the private rented sector playing an important part in the housing supply chain. During the period under review, the Company focused on BTL origination, increasing the BTL loan balance by £613 million from £288 million as at 31 December 2011 to £901 million as at December 2013, while decreasing its organically originated residential loan balance by £95 million, from £1,115 million to £1,020 million. This strategy increased the proportion of BTL mortgages that comprise the Company's total loan balance from 17.2 per cent. to 29.4 per cent., and the proportion that comprises its own brand organically originated book from 18.8 per cent. to 45.0 per cent. over the period. A further sub-sector that the Group has entered in early 2014 is Development Finance. New housing starts in the UK are significantly below where they need to be to accommodate population growth and therefore this presents a growth opportunity for the Group.

By definition, there is less competition in underserved sub-sectors, which tends to result in better pricing for lending to these sectors. A number of factors mitigate against the likelihood of a substantial increase in competition, including the non-standardised approach required to underwrite business in the sub-sectors which does not fit with the operating strategy of the larger lenders and the Group's strong relationships with the intermediaries who introduce the business.

The Group has developed a close working relationship with its network of mortgage intermediaries, that allows it to remain at the forefront of innovation in respect of products in the sub-sectors in which it operates. The Group's underwriters provide a responsive and personalised service to these mortgage intermediaries to find bespoke solutions for the mortgage intermediaries' customers. The Group's regular engagement with mortgage intermediaries also means that the Group is considered a key supplier by those mortgage intermediaries when recommending suitable products to their customers.

The Group has also been able to leverage its strong capital position to take advantage of opportunities to acquire loans through the purchase of third party branded books of mortgage business.

2.3 Lending Margins

The Group's ability to increase its net interest income and thus its total income and profit for a given period depends on the margins it can achieve on its lending, which is dependent on the rates it charges on its loans, the fees it charges its borrowers, its cost of funds and the commissions it pays to intermediaries. The portfolio that the Group inherited from KRBS has lower margins, but as the Group has succeeded in expanding its portfolio with new lending, the relative contribution of the KRBS back book has fallen, resulting in higher average portfolio yields.

A competitive environment between lenders can place downward pressure on mortgage rates and therefore margins. The Group's strategy of focusing on specialist lending sub-sectors allows it to operate in a less competitive part of the mortgage market. With lower competition for its specialist and bespoke mortgage products, the Group believes that it is able to achieve higher pricing than would be the case if it focused exclusively on mainstream lending.

Commissions paid to intermediaries and fees charged to borrowers (net fee and commission income) are recorded in the Group's statement of profit or loss as part of interest receivable and similar income. Although these fees and commissions may often largely offset each other, any differences will have an effect on margins. As the Group's loan portfolio, originated through specialist intermediaries, has grown over the period under review, the level of such fees and commissions as a component of interest receivable and interest income has grown. Any increase in commissions payable not offset by fee income could reduce the yield on the loan and have an adverse impact on the Group's lending margins. Conversely, any increase in fees earned relative to commissions payable would have a positive impact on the Group's lending margins. In particular, loans in the BTL segment, which the Group is focused on growing, generally have higher fees earned than commissions paid (and a higher net fee income than residential loans), although this will vary by product.

Retail deposits are the Group's primary source of funding, and as such changes in the cost of retail deposits could have a significant impact on the profitability of the Group. A large proportion of the Group's lending is linked or hedged to LIBOR or linked to Base Rate and as such there will be an impact on the Group's margins from the spread between retail savings rates and LIBOR and Base Rate as outlined above.

3. PRESENTATION OF FINANCIAL RESULTS

3.1 Preparation of financial statements

The Group prepares its financial statements under International Accounting Standards ("**IFRS**") as adopted by the European Union ("**EU**") and interpretations issued by the International Financial Reporting Interpretations Committee ("**IFRIC**"). The Group's year-end is 31 December. As such, the results presented for the period ended 31 December 2011 represent the 11 months between 1 February 2011 (when the Group started trading) and 31 December 2011.

3.2 **Year on year comparability of results**

In 2012, the Company acquired the InterBay Group, a specialist SME lender, and the Prestige Group, a specialist second charge lender. In each case the fair value of net assets acquired exceeded the purchase consideration giving rise to negative goodwill. Negative goodwill is recognised directly in profit or loss in the year of acquisition and accordingly an aggregate one-off gain of £17.6 million was recognised in 2012 comprising £4.4 million in respect of the InterBay Group, and £13.2 million in respect of the Prestige Group.

In addition, the results for the period ended 31 December 2011 cover the 11 months from 1 February 2011 (when the Group started trading) to 31 December 2011. These results will not, therefore, be directly comparable to the results for the periods ended 31 December 2012 and 31 December 2013, which include a full 12 months.

Results covering the one month period ended January 2014 have been included to ensure the historical financial information presented in this Prospectus covers three years, as required by the Listing Rules and the Prospectus Rules. This one month period will not be reported upon in future years and should not be considered representative of results for 2014.

One-off gains were also recognised in 2011 (£9.0 million), 2012 (£2.9 million) and January 2014 (£2.3 million) on the sale of treasury assets.

4. RESULTS OF OPERATIONS

The following table sets out the Group's results of operations for the period under review:

	11 months ended 31 December	**Year ended 31 December**	
	2011	**2012**	**2013**
	(£'000)	**(£'000)**	**(£'000)**
Interest receivable and similar income	42,628	87,293	150,607
Interest payable and similar charges	(43,450)	(71,132)	(79,841)
Net interest income/(expense)	**(822)**	**16,161**	**70,766**
Fair value gains/(losses) on financial instruments	669	(561)	(840)
Gains/(Losses) on sales of financial instruments	9,035	2,893	(24)
Fees and commissions receivable	109	241	728
Fees and commissions payable	(1,247)	(1,140)	(1,696)
External servicing fees	–	(1,601)	(3,503)
Total Income	**7,744**	**15,993**	**65,431**
Administrative expenses	(17,061)	(18,836)	(23,986)
Depreciation and amortisation	(314)	(460)	(547)
Operating profit/(loss)	**(9,631)**	**(3,303)**	**40,898**
Regulatory provisions	(744)	(930)	(2,152)
Impairment losses	(2,913)	(5,301)	(7,329)
Profit/(Loss) before goodwill	**(13,288)**	**(9,534)**	**31,417**
Negative goodwill	–	17,603	–
Profit/(Loss) before taxation	**(13,288)**	**8,069**	**31,417**
Taxation	2,144	996	(4,646)
Profit/(Loss) for the year	**(11,144)**	**9,065**	**26,771**

4.1 **Explanation of line items**

Interest receivable and similar income

Interest receivable and similar income includes interest income on all interest-bearing financial assets measured at amortised cost, interest income on available for sale investments and interest on derivatives hedging financial assets.

Interest income on financial assets measured at amortised cost (loans and advances and held to maturity investments) is recognised in profit or loss using the effective interest rate ("**EIR**") method. The EIR is the rate which exactly discounts the expected future cash flows, over the expected life of the financial asset, to the net carrying value of the financial asset. In calculating the EIR the Group estimates the cash flows considering all contractual terms but not future credit losses. Interest receivable and similar income includes net fee and other income where it is directly attributable to individual loans and forms an integral part of that loan's EIR. Potential early repayment charges, origination fees received and paid on mortgage assets, together with any premium paid, or discount received, on acquired mortgage books and acquisition costs of mortgage books are included within loans and advances to customers and are amortised over the expected life of the mortgage assets using the EIR method.

Interest receivable and similar income is shown after taking into account the net income or cost from the Group's portfolio of interest rate swaps which hedge the Group's fixed rate lending to LIBOR. In addition, interest receivable and similar income includes interest earned on available-for-sale financial assets recognised on an EIR basis.

Loans and advances also include securities purchased under agreements to resell at a pre-determined price. The difference between the sale and repurchase price is treated as interest which is accrued over the life of the agreement under the EIR method.

Intermediaries' fees and commissions that are an integral part of the EIR of a financial asset are recorded in interest receivable and similar income.

Interest payable and similar charges

Interest payable and similar charges represent the Group's cost of funding after associated swap costs/income. Interest payable and similar charges include interest payable on the following financial liabilities, together with interest on derivatives hedging them, to the extent applicable:

- retail deposits;
- the 7.875 per cent. PSBs with terms that allow no discretion over the payment of interest;
- other subordinated liabilities;
- wholesale borrowings;
- securitisation notes; and
- securities sold subject to repurchase agreements at a pre-determined price.

Interest expense on financial liabilities measured at amortised cost is recognised in profit or loss using the EIR method. Directly attributable transaction costs (such as legal and distribution costs) are included in financial liabilities and are amortised over the expected life of the liability using the EIR method.

The difference between the sale and repurchase price for securities sold subject to repurchase agreements is treated as interest and accrued over the life of the agreement using the EIR method.

The Company's 6.591 per cent. PSBs are classified as equity as they were issued with terms that include discretion over the payment of interest. As such, coupons on these PSBs are accounted for as dividends and do not form part of interest payable or similar charges.

Fair value gains/(losses) on financial instruments

The Group uses derivative financial instruments, in particular interest rate hedges, to hedge its exposure to the interest rate risk arising from financing and investment activities. From time to time it also uses basis and inflation swaps to reduce fair value basis and inflation risk. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading.

Derivative financial instruments are recognised on the balance sheet at their fair value with changes in their fair value being recognised as profit or loss. Fair values are calculated by discounting the expected future cash flows of these instruments at the prevailing interest rates.

The Group designates certain interest rate derivatives as a fair value hedge of a portfolio of recognised assets or liabilities (macro fair value hedge). If the criteria specified in IAS 39 are met, these derivatives are accounted for using hedge accounting. Where there is an effective hedge relationship for fair value hedges, the changes in fair value of the hedged item arising from the hedged risk are recognised as profit or loss. The fair value changes of both the hedged item and the derivative substantially offset each other and thereby reduce profit volatility. To qualify for hedge accounting, the hedge relationship must be clearly documented and the derivative must be expected to be highly effective in offsetting the hedged risk. In addition, the derivative's effectiveness must be tested throughout the life of the hedge relationship. The Group discontinues hedge accounting when testing demonstrates that a derivative is not or has ceased to be highly effective as a hedge, the derivative ceases through expiry or sale, or the underlying hedged item matures, is sold or is repaid.

Gains/(losses) on sales of financial instruments

Gains/(losses) on sales of financial instruments include gains/(losses) on the sale of assets in the Group's liquidity portfolio that are classified as loans and advances or available for sale assets.

Fees and commissions receivable

Fees and commissions receivable comprise fees and commissions that are not an integral part of the EIR of a financial asset. They are recognised on an accruals basis as services are provided or on the performance of a significant act.

Fees and commissions payable

Fees and commissions payable comprise fees and commissions payable that are not an integral part of the EIR of a financial liability. This mainly comprises commissions payable to KRPS, one of the Company's parents, and other parties for running branches for the Group on an agency basis. Commissions are based on an agreed percentage of retail savings balances at the branches. The Group bought out the KRPS agency agreement in December 2013 for consideration of £0.7 million satisfied by the grant of Ordinary Shares in the Company to KRPS and is now managing those branches directly.

Fees and commissions payable are recognised on an accruals basis as services are received or on the performance of a significant act by the supplier.

External servicing fees

The Group uses specialist third parties to service its acquired mortgage books and mortgages originated under third-party Forward Flow Agreements. Forward Flow Agreements enable third party specialist lenders to originate mortgages under their own brands pursuant to the Group's underwriting criteria, which are then transferred onto the Group's balance sheet together with the relevant collateral, at regular intervals. External servicing fees are recognised on an accruals basis as services are received. These services include both primary servicing and special servicing of arrears.

Administrative expenses

Administrative expenses include all operating expenses of the Group other than depreciation and amortisation. Administrative expenses principally consist of staffing, facilities, marketing and support costs, professional adviser fees and other costs. These expenses are recognised on an accruals basis as services are received or on the performance of a significant act by the supplier.

Depreciation and amortisation

Depreciation and amortisation includes depreciation on property, plant and equipment and amortisation of intangible assets. Property, plant and equipment comprise freehold land and buildings, major alterations to office premises, computer equipment, motor vehicles and fixtures. Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives as follows:

Buildings	50 years
Equipment, fixtures and vehicles	5 years

These assets are reviewed for impairment annually and, if they are considered to be impaired, are written down immediately to their recoverable amounts.

Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a unique and identifiable asset controlled by the Group and will generate future economic benefits. Software costs are amortised on a straight-line basis in profit or loss over the estimated useful life of the software, which is generally five years. Intangible assets are reviewed for impairment on an annual basis.

Regulatory provisions

Regulatory provisions comprise FSCS levies and other provisions. The Group incurs FSCS levies through its participation in the retail savings market. The annual levies are recognised on 1 April each year based on retail deposit balances as at 31 December in the prior year in accordance with the Group's accounting policy which is in line with IFRIC 21's interpretation of IAS 37.

Other provisions include amounts relating to payment protection insurance claims. These are primarily to cover the Financial Ombudsman's costs for claims referred to them and amounted to £130,000 as at 31 December compared to £150,000 as at 31 December 2011 and 2012.

Impairment losses

The Group regularly assesses whether there is evidence that a financial asset or a portfolio of financial assets not carried at fair value through profit or loss is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date (a "**loss event**"), and that loss event has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Impairment losses and any subsequent reversals are recognised in profit or loss. Following impairment, interest income is recognised using the original EIR. When a loan is uncollectible, it is written off against the related provision. 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 are taken through profit or loss.

Negative goodwill

Negative goodwill arises on an acquisition if the fair value of the net assets acquired exceeds the purchase consideration. Negative goodwill is recognised directly in profit or loss in the year of acquisition.

Taxation

Taxation includes taxation at the applicable weighted average rate on the Group's profit/(loss) before taxation, adjusted for expenses not deductible for taxation purposes, non-taxable income (such as negative goodwill), interest payable on PSBs classed as equity, timing differences and other adjustments. It also includes the initial recognition of deferred tax assets ("**DTAs**") for acquired trading losses and the impact of changes in taxation rates on the Group's DTAs once the rate change has been substantially enacted.

DTAs are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset. The recognition of deferred tax is mainly dependent on the projections of future taxable profits and future reversals of temporary differences.

4.2 Results of operations for 2014 and 2013

Net interest income increased 249.8 per cent to £9.1 million in January 2014 from £2.6 million in January 2013. This increase is principally due to the growth of the mortgage book in February 2013 through December 2013, coupled with £85.0 million of new organic origination in January 2014. The net interest margin (calculated as net interest income, less coupons on PSBs classified as equity, as a percentage of average interest-bearing assets) grew to 2.88 per cent. for January 2014 from 1.01 per cent. for January 2013. This increase in net interest margin principally reflects the impact of higher yielding organic mortgage origination and portfolio purchases in the year to 31 January 2014 and lower liquidity levels and cost of retail funds in January 2014.

The Group's Operating profit increased 520.8 per cent. to £8.5 million in January 2014 from £1.4 million in January 2013. This increase includes a £2.3 million gain on sale of residential mortgage-backed securities ("**RMBS**"). Operating profit excluding the sale of RMBS increased 355.8 per cent to £6.2 million in January 2014 from £1.4 million in January 2013. The Group's cost/income ratio (normalised to remove the effect of the £2.3 million gain on sales of financial instruments) decreased to 29.6 per cent. for January 2014 from 59.8 per cent. for January 2013.

Profit after tax increased 686.0 per cent. to £6.1 million in January 2014 from £0.8 million in January 2013. This strong increase is the result of the improved operating profit described above.

4.3 Results of operations for 2013 and 2012

Interest receivable and similar income

Interest receivable and similar income increased by £63.3 million, or 72.5 per cent., to £150.6 million for the 12 months ended 31 December 2013 from £87.3 million for the 12 months ended 31 December 2012. This increase was principally the result of increases in interest receivable on residential mortgages, Buy-to-Let/SME mortgages, and personal loans due to a 38.5 per cent. growth in loans and advances from £2,196 million at 31 December 2012 to £3,041 million at 31 December 2013, and an increase in the average yield. The increase in yield reflects the positive impact of higher-yielding organic origination and loan portfolio purchases in 2013 and the full year's impact of origination and portfolio purchases made during 2012. These increases further diluted the impact of the lower-yielding back book inherited from KRBS.

The average interest yield achieved by the Group on its lending portfolio was 5.55 per cent. and 4.18 per cent. for 2013 and 2012, respectively (based on annual average balances).

The following table sets out the components of interest receivable and similar income for the periods indicated:

	Year ended 31 December 2012	Year ended 31 December 2013
	£'000	£'000
On residential mortgages	73,494	100,135
On BTL/SME mortgages	23,262	42,729
On personal loans	–	14,488
On reverse repo transactions	–	39
On investment securities	4,291	3,386
On other liquid assets	2,787	1,942
Net expense on derivative financial instruments	(16,541)	(12,112)
	87,293	150,607

Residential mortgages. Interest receivable on residential mortgages increased by £26.6 million, or 36.2 per cent., from £73.5 million in the 12 months ended 31 December 2012 to £100.1 million in the 12 months ended 31 December 2013. This increase was primarily due to the impact of higher-margin new lending and portfolio acquisitions, which increased average interest yields and also increased the overall size of the portfolio.

Gross loans to customers increased over this period from £1,614 million as at 31 December 2012 to £1,765 million as at 31 December 2013. The volume of organically-originated residential lending increased by 30 per cent. in 2013 to £227 million from £175 million in 2012. This included completions under Group brands as well as completions under uncommitted funding lines to two established lenders (a second charge lender and a bridge lender) as well as two third-party Forward Flow Agreements (which expired in December 2013).

The Group purchased residential mortgage portfolios with a gross value of £182 million for £133 million during 2013. In 2012, the Group purchased residential portfolios with a gross value of £419 million for £338 million, including loan books acquired through the acquisition of the Prestige Group.

Buy-to-Let/SME mortgages. Interest receivable on Buy-to-Let/SME mortgages increased by £19.5 million, or 83.7 per cent., from £23.3 million in the 12 months ended 31 December 2012 to £42.7 million in the 12 months ended 31 December 2013. This increase was primarily due to increased lending with higher yields.

Gross loans to customers increased over this period from £613 million at 31 December 2012 to £1,099 million at 31 December 2013. Organic mortgage origination in 2013 amounted to £567 million, up from £185 million in 2012, driven by new lending under the Kent Reliance, InterBay, Guernsey Home Loans Limited and Jersey Home Loans Limited brands.

In 2012, the Group purchased an SME mortgage book through the acquisition of the InterBay Group, which is included in the Buy-to-Let/SME segment. This book had a fair value of £51 million at acquisition and a gross value of £53 million.

Personal loans. The Group purchased the former Northern Rock performing consumer loan pool (comprising higher margin, seasoned, performing unsecured loans) at a discount to the outstanding principal balance from UK Asset Resolution ("**UKAR**") in July 2013 for £258 million. Interest receivable on these loans was £14.5 million in the 12 months ended 31 December 2013. These loans had a gross value of £205 million as at 31 December 2013.

Interest payable and similar charges

Interest payable and similar charges increased by £8.7 million, or 12.2 per cent., to £79.8 million in the 12 months ended 31 December 2013 from £71.1 million in the 12 months ended 31 December

2012. The following table sets out the components of interest payable and similar charges for the periods indicated:

	Year ended 31 December 2012	Year ended 31 December 2013
	£'000	£'000
Retail deposits	70,033	77,987
Perpetual Subordinated Bonds	1,254	1,255
Subordinated liabilities	1,299	1,256
Wholesale borrowings	530	1,550
Net income on derivative financial instruments	(1,984)	(2,207)
	71,132	79,841

The increase in interest payable and similar charges in 2013 resulted almost entirely from an £8.0 million increase in interest payable on retail deposits (which comprised over 97 per cent. of total interest payable), supplemented by a £1.0 million increase in interest payable on wholesale borrowings.

The increase in interest payable and similar charges on retail deposits was due to an 18 per cent. increase in retail deposit balances to £3,252 million as at 31 December 2013 from £2,745 million as at 31 December 2012, partially offset by the lower cost of retail funds. The cost of retail funds, which reflects the amount of interest that the Group is required to pay on retail deposits, continued to fall during the year as competition for retail funds declined, due to the increased availability of liquidity in the market including the impact of Government stimulus in the form of the FLS.

Interest payable and similar charges on wholesale deposits increased primarily due to the Group's inaugural mortgage securitisation, Rochester No. 1 Plc, in October 2013. Under this securitisation programme, AAA and AA+ rated notes with a nominal value of £273 million were sold, raising secured term funding for the Group. The transaction provided funding diversification at a comparable cost to retail savings.

Net interest income

Net interest income increased[41] more than fourfold from £16.2 million in the 12 months ended 31 December 2012 to £70.8 million in the 12 months ended 31 December 2013 due to the movements in interest receivable and similar income and interest payable and similar expense explained above.

Net interest margin increased from 57 basis points in 2012 to 211 basis points in 2013. The improvement in net interest margin reflects the positive impact of organic origination and loan portfolio purchases in 2013 and the full year's impact of new origination and loan portfolio purchases in 2012, all of which provided the Group with higher returns than the low yielding back book. In addition, as described above, the cost of retail funds continued to fall during the year as competition decreased as additional liquidity entered the market.

Fair value gains/(losses) on financial instruments

Fair value losses on financial instruments were £0.8 million in the 12 months ended 31 December 2013 compared to £0.6 million in the 12 months ended 31 December 2012. The following table sets out the components of fair value gains/(losses) on financial instruments for the periods indicated:

41 Net interest margin is calculated as net interest income, less coupons on perpetual subordinated bonds classified as equity, as a percentage of average interest-bearing assets (net loans and advances plus liquid assets) on an annual basis. The average interest-bearing assets in this section are calculated differently from Part VI (*Selected Statistical Data*) of this Prospectus, resulting in a different NIM value.

	Year ended 31 December 2012	Year ended 31 December 2013
	£'000	£'000
Ineffective portion of hedges	1,340	673
Amortisation of cancelled swaps	(841)	(2,755)
Net gains/(losses) on unmatched swaps	(1,060)	1,135
Debt valuation adjustment	–	107
	(561)	(840)

The ineffective portion of hedges reduced to £0.7 million in the 12 months ended 31 December 2013 from £1.3 million in the 12 months ended 31 December 2012, as the Group reduced its interest rate sensitivity by reducing exposures within defined maturity periods. This included changes within the Group's liquidity portfolio and the cancellation of long-dated swaps, which increased amortisation of cancelled swaps (representing the amortisation of the hedged adjustment) to £2.8 million in the 12 months ended 31 December 2013 from £0.8 million in the 12 months ended 31 December 2012. The swaps were effective hedges when cancelled and as such the cancellation costs and fair value of cancelled swaps are amortised over the original life of the swap.

Unmatched swaps include basis and inflation swaps, which are fair valued through profit and loss. The movement between the years is mainly due to unmatched interest rate swaps being subsequently matched or maturing.

The debt valuation adjustment ("**DVA**") is calculated on the Group's derivative liabilities and represents exposure of the holders to the risk of the Group's default. The DVA is required by IFRS 13.

Credit valuation adjustment ("**CVA**"), the Group's exposure to the risk of derivative counterparty default also required by IFRS 13, was immaterial due to derivatives being collateralised and the high credit ratings of counterparties.

Gain on sales of financial instruments

Gains/(losses) on sales of financial instruments decreased to roughly nil in the 12 months ended 31 December 2013 from a gain of £2.9 million in the 12 months ended 31 December 2012. During 2012, the Group realised a one-off gain on the sale of treasury assets forming part of the Group's liquidity portfolio.

Fees and commissions receivable

Fees and commissions receivable increased to £0.7 million in the 12 months ended 31 December 2013 from £0.2 million in the 12 months ended 31 December 2012. In 2013 and 2012, fees and commissions receivable mainly related to servicing fee income in the Prestige Group. The increase was attributable to having the Prestige Group for all of 2013 following its acquisition in July 2012.

Fees and commissions payable

Fees and commissions payable increased to £1.7 million in the 12 months ended 31 December 2013 from £1.1 million in the 12 months ended 31 December 2012. These mainly comprised commission payable to KRPS, one of the Company's parents and other parties for running branches for the Group on an agency basis. The £0.6 million increase in fees and commissions payable was primarily due to KRPS commission which included a one-off charge of £0.7 million in December 2013 when the Group bought out the KRPS agency agreement. The branches previously managed by KRPS are now directly managed by the Group.

External servicing fees

External servicing fees more than doubled to £3.5 million in the 12 months ended 31 December 2013 from £1.6 million in the 12 months ended 31 December 2012. This was due to additional portfolio purchases and mortgages originated under Forward Flow Agreements during 2013 and a full year's impact in 2013 of assets acquired in 2012, all of which are serviced by specialist third party servicers.

Total income

Total income increased more than fourfold to £65.4 million in the 12 months ended 31 December 2013 from £16.0 million in the 12 months ended 31 December 2012 due primarily to the increase in net interest income described above.

Administrative expenses

Administrative expenses increased 27.3 per cent. to £24.0 million in the 12 months ended 31 December 2013 from £18.8 million in the 12 months ended 31 December 2012. The following table sets out the components of administrative expenses for the periods indicated:

	Year ended 31 December 2012	**Year ended 31 December 2013**
	£'000	**£'000**
Staff costs	8,522	13,421
Facilities costs	706	1,296
Marketing costs	462	661
Support costs	1,484	2,441
Professional fees	4,450	2,386
Other costs	2,848	3,781
	18,836	23,986

This £5.2 million increase is principally attributable to a £4.9 million increase in staff costs (to £13.4 million for the 12 months ended 31 December 2013 from £8.5 million for the 12 months ended 31 December 2012).

The increase in staff costs reflects a full year's impact of additional staff hired in 2012 to improve skill sets and enhance the control framework of the Group as well as a full year's impact of staff costs attributable to the Prestige Group and InterBay Group acquired in 2012. Additional staff have also been hired across the Group in 2013 to help support the growth in the business and meet the demands of new regulations. Average headcount for the Group in 2013 increased to 342 from 291 in 2012. Professional costs decreased from £4.5 million for the 12 months ended 31 December 2012 to £2.4 million for the 12 month period ended 31 December 2013. The prior year included the impact of transaction costs (legal, advisory and other due diligence costs) relating to the acquisitions of the Prestige Group and InterBay Group.

The Group's management expense ratio[42] was 0.72 per cent. for 2013, unchanged from 2012. Its cost-income ratio[43] improved to 38 per cent. for 2013 from 133 per cent. for 2012, reflecting the growth in the loan portfolio, primarily higher-margin new lending which resulted in income growing faster than expenses as the Group maintained its focus on cost discipline.

42 Management expense ratio is calculated as administrative expenses plus depreciation and amortisation, as a percentage of average total assets on an annual basis.

43 Cost/income ratio is calculated as administrative expenses, depreciation and amortisation, as a percentage of total income less coupons on PSBs classified as equity.

Depreciation and amortisation

Depreciation and amortisation increased slightly to just above £0.5 million in the 12 months ended 31 December 2013 as compared to just below £0.5 million in the 12 months ended 31 December 2012.

Operating profit/(loss)

Operating profit/(loss) increased to a profit of £40.9 million in the 12 months ended 31 December 2013 from a loss of £3.3 million in the 12 months ended 31 December 2012. This increase was due primarily to the improvement in net interest income described above and the Group's continued focus on cost control as the business grows.

Regulatory provisions

Regulatory provisions, which are primarily FSCS levies, increased to £2.2 million in the 12 months ended 31 December 2013 from £0.9 million in the 12 months ended 31 December 2012. The increase was primarily due to a new levy assessed against all retail deposit takers to recover the estimated shortfall on the FSCS's capital loans.

Impairment losses

Impairment losses increased 38.3 per cent. to £7.3 million in the 12 months ended 31 December 2013 from £5.3 million in the 12 months ended 31 December 2012, reflecting the accelerated work-out of the legacy problem loans inherited from KRBS and prudent collective provisions on the consumer loan pool purchased from UKAR as a performing book during 2013.

Negative goodwill

Negative goodwill was nil in the 12 months ended 31 December 2013 and £17.6 million in the 12 months ended 31 December 2012. In 2012, the Company acquired the InterBay Group and the Prestige Group, and in each case the fair value of net assets acquired exceeded the purchase consideration giving rise to negative goodwill. Accordingly, an aggregate one-off gain of £17.6 million was recognised in 2012, consisting of £4.4 million for the InterBay Group acquisition and £13.2 million for the Prestige Group acquisition. The fair value of the total consideration paid for the InterBay Group was lower than the fair value of net assets acquired primarily as a result of first loss protection provided by the seller on the acquired loan portfolio. The negative goodwill on the Prestige Group acquisition arose due to the distressed sale of the company owing to the non-extension of its funding line.

Profit/(loss) before taxation

Profit before taxation increased nearly fourfold to £31.4 million in the 12 months ended 31 December 2013 from £8.1 million in the 12 months ended 31 December 2012. In comparison to 2012, this did not include any exceptional negative goodwill (which equalled £17.6 million in 2012) or gains on sales of financial instruments (which equalled £2.9 million in 2012). The significant increase in the Group's underlying profitability was primarily due to the improvement in net interest income described above and the Group's continued focus on cost control as the business grew.

Taxation

Taxation was an expense of £4.6 million in the 12 months ended 31 December 2013 and a credit of £1.0 million in the 12 months ended 31 December 2012.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average taxation rate applicable to profits of the Group as follows:

	Year ended 31 December 2012	**Year ended 31 December 2013**
	£'000	**£'000**
Profit before taxation	8,069	31,417
Profit multiplied by the weighted average rate of corporation taxation in the UK during 2013 of 23.25%/2012 of 24.5%	(1,978)	(7,304)
Taxation effects of:		
Expenses not deductible for taxation purposes	(234)	(147)
Negative goodwill	4,313	–
Adjustments in respect of earlier years	24	(1,330)
Coupon on PSBs	355	337
Capital allowances	55	29
Recognition of deferred taxation – InterBay Group[1]	–	4,185
Re-measurement of deferred taxation – change in taxation rate	(1,539)	(416)
Total taxation (charge)/credit	996	(4,646)

Note:

(1) Deferred tax asset in respect of InterBay's accumulated losses, recognised due to profit in the year and forecast profit in future years.

A DTA of £4.2 million was recognised in the 2013 financial year in respect of trading losses in the InterBay Group, which recommenced lending in late 2012 after its acquisition by the Group, and which saw rapid growth in pipeline and completed loans during the year.

The effective tax rate in the two years was 14.8 per cent. for the 12 months ended 31 December 2013 and (12.3) per cent. for the 12 months ended 31 December 2012. The effective tax rate for 2013 is lower than the statutory tax rate, mainly due to the recognition of deferred tax losses in the InterBay Group, although this is partially offset by a prior year adjustment in respect of deferred tax. Taxable profits generated by the Group in 2013 have been offset by tax losses brought forward and therefore no current tax charge has arisen.

Profit for the year

Profit for the year increased nearly threefold to £26.8 million in the 12 months ended 31 December 2013 from £9.1 million in the 12 months ended 31 December 2012. This reflects the higher profit before taxation and the taxation charge/(credit) described above.

4.4 Results of operations for 2012 and 2011

Interest receivable and similar income

Interest receivable and similar income increased by £44.7 million, or 104.8 per cent., to £87.3 million for the 12 months ended 31 December 2012 from £42.6 million for the 11 months ended 31 December 2011. This increase was principally the result of increases in interest receivable on residential mortgages and Buy-to-Let/SME mortgages due to a 33.9 per cent. growth in loans and advances from £1,640 million at 31 December 2011 to £2,196 million at 31 December 2012 and an increase in the average yield. The increase in yield reflects the positive impact of higher-yielding organic origination and loan portfolio purchases in 2012 and the full year's impact of organic origination and portfolio purchases in the prior year, all of which further diluted the impact of the lower-yielding back book inherited from KRBS.

The following table sets out the components of interest receivable and other income for the periods indicated:

	11 months ended 31 December 2011	Year ended 31 December 2012
	£'000	**£'000**
On residential mortgages	46,845	73,494
On BTL/SME mortgages	16,771	23,262
On personal loans	–	–
On reverse repo transactions	–	–
On investment securities	3,985	4,291
On other liquid assets	647	2,787
Net expense on derivative financial instruments	(25,620)	(16,541)
	42,628	87,293

Residential mortgages. Interest receivable on residential mortgages increased by £26.6 million, or 56.9 per cent., from £46.8 million in the 11 months ended 31 December 2011 to £73.5 million in the 12 months ended 31 December 2012. This increase was primarily due to the impact of higher-margin new lending and portfolio acquisitions, which increased average interest yields and also increased the overall size of the portfolio.

Gross loans to customers increased over this period from £1,257 million to £1,614 million. The volume of organically-originated residential lending increased by 75 per cent. in 2012 to £175 million from approximately £99 million in 2011. This included completions under Group brands and two third-party Forward Flow Agreements.

The Group purchased residential mortgage portfolios with a gross value of £419 million for £338 million during the year, including a loan book acquired through the acquisition of the Prestige Group. In 2011, the Group purchased a residential portfolio for £140 million.

Buy-to-Let/SME mortgages. Interest receivable on Buy-to-Let/SME mortgages increased by £6.5 million, or 38.7 per cent., from £16.8 million in the 11 months ended 31 December 2011 to £23.3 million in the 12 months ended 31 December 2012. This increase was primarily due to increased lending with higher yields.

Gross loans to customers increased over this period from £415 million to £613 million. Organic mortgage origination in 2012 amounted to £185 million, up from approximately £47 million in 2011, driven by new lending under Group brands.

In 2012, the Group purchased an SME mortgage book through the acquisition of the InterBay Group, which is included in the Buy-to-Let/SME segment. This book had a fair value of £51 million at acquisition and a gross value of £53 million.

Interest payable and similar charges

Interest payable and similar charges increased 63.7 per cent. to £71.1 million in the 12 months ended 31 December 2012 from £43.5 million in the 11 months ended 31 December 2011. The following table sets out the components of interest payable and similar charges for the periods indicated:

	11 months ended 31 December 2011	Year ended 31 December 2012
	£'000	**£'000**
Retail deposits	40,163	70,033
Perpetual Subordinated Bonds	1,043	1,254
Subordinated liabilities	1,142	1,299
Wholesale borrowings	1,094	530
Net income/(expense) on derivative financial instruments	8	(1,984)
	43,450	71,132

The £27.7 million net increase in interest payable and similar charges in 2012 resulted almost entirely from a £29.9 million increase in interest payable on retail deposits (which comprised over 98 per cent. of total interest payable).

The increase in interest payable and similar charges on retail deposits was due to a 31.9 per cent. increase in retail deposit balances to £2,745 million as at 31 December 2012 from £2,082 million as at 31 December 2011 and a higher average cost of retail deposits. The cost of retail funds, which reflects the amount of interest that the Group is required to pay to attract retail deposits, started to fall in the autumn of 2012 as competition for retail savings declined. Competition declined due to increased availability of liquidity in the market including the impact of Government stimulus in the form of the FLS.

Net interest income

Net interest income increased to £16.2 million in the 12 months ended 31 December 2012 from a net interest expense of £0.8 million in the 11 months ended 31 December 2011, due to the movements in interest receivable and similar income and interest payable and similar expense explained above.

Net interest margin[44] was 57 basis points for 2012 and (11) basis points for 2011. The improvement in net interest margin reflects the positive impact of organic origination and loan portfolio purchases in 2012, which provided the Group with higher returns than the low yielding back book, partly offset by a higher average cost of retail funding.

Fair value gains/(losses) on financial instruments

Fair value gains/(losses) on financial instruments fell to a loss of £0.6 million in the 12 months ended 31 December 2012 from a gain of £0.7 million in the 11 months ended 31 December 2011.

The following table sets out the components of fair value gains/(losses) on financial instruments:

	11 months ended 31 December 2011	Year ended 31 December 2012
	£'000	**£'000**
Ineffective portion of hedges	(1,903)	1,340
Amortisation of cancelled swaps	–	(841)
Net gains/(losses) on unmatched swaps	2,572	(1,060)
	669	(561)

44 Net interest margin is calculated as net interest income, less coupons on perpetual subordinated bonds classified as equity, as a percentage of average interest-bearing assets (net loans and advances plus liquid assets) on an annual basis. The average interest-bearing assets in this section are calculated differently from Part VI (*Selected Statistical Data*) of this Prospectus, resulting in a different NIM value. NIM for the 11 months ended 31 December 2011 has been presented on an annualised basis.

The ineffective portion of hedges increased to a gain of £1.3 million in the 12 months to 31 December 2013 from a loss of £1.9 million in the 11 months ended 31 December 2011.

The Group cancelled certain long-dated swaps during the year leading to amortisation of cancelled swaps (representing the amortisation of the hedged adjustment) of £0.8 million in the 12 months to 31 December 2012. The swaps were effective hedges when cancelled and as such the cancellation costs are amortised over the original life of the swap.

Unmatched swaps include basis and inflation swaps, which are fair valued through profit and loss. The movement between the years is mainly due to unmatched interest rate swaps being subsequently matched or maturing.

Gain on sales of financial instruments

Gains/(losses) on sales of financial instruments decreased 68.0 per cent. to a gain of £2.9 million in the 12 months ended 31 December 2012 from a gain of £9.0 million in the 11 months ended 31 December 2011. During 2012 and 2011, the Group realised gains on the sale of treasury assets forming part of the Group's liquidity portfolio. The Group purchases and sells treasury assets from time to time to fulfil its regulatory and self-imposed liquid asset requirements and to hedge against interest rate exposures in its balance sheet.

Fees and commissions receivable

Fees and commissions receivable increased to £0.2 million in the 12 months ended 31 December 2012 from £0.1 million in the 11 months ended 31 December 2011.

Fees and commissions payable

Fees and commissions payable decreased to £1.1 million in the 12 months ended 31 December 2012 from £1.2 million in the 11 months ended 31 December 2011.

External servicing fees

External servicing fees increased to £1.6 million in the 12 months ended 31 December 2012 from nil in the 11 months ended 31 December 2011. This was due to portfolio purchases and mortgages originated under Forward Flow Agreements during 2012, all of which are serviced by specialist third party servicers.

Total income

Total income more than doubled to £16.0 million in the 12 months ended 31 December 2012 from £7.7 million in the 11 months ended 31 December 2011, due to the explanations provided above.

Administrative expenses

Administrative expenses increased 10.4 per cent. to £18.8 million in the 12 months ended 31 December 2012 from £17.1 million in the 11 months ended 31 December 2011. This £1.8 million increase was principally attributable to a £3.7 million increase in staff costs (to £8.5 million from £4.9 million) partly offset by reductions in other cost categories.

	11 months ended 31 December 2011	**Year ended 31 December 2012**
	£'000	**£'000**
Staff costs	4,859	8,522
Facilities costs	539	706
Marketing costs	773	462
Support costs	2,579	1,848
Professional fees	5,171	4,450
Other costs	3,140	2,848
	17,061	18,836

The increase in staff costs reflects additional staff hired in 2012 to improve skill sets and enhance the control framework of the Group as well as staff costs attributable to the Prestige Group and InterBay Group acquired in 2012. Average headcount for the Group increased to 291 at 31 December 2012 from 254 at 31 December 2011. The increase in professional fees includes the impact of transaction costs (legal, advisory and other due diligence costs) relating to the acquisitions of the InterBay Group and Prestige Group in August and September 2012, respectively.

The Group incurred additional costs during 2012 to improve skill sets in the business, enhance the control framework, pursue acquisition opportunities and operate the companies acquired. However, savings were also made as interims and consultants were replaced by permanent executives. Overall, the Group's management expense ratio[45] reduced to 0.72 per cent. for 2012, compared to 0.88 per cent. for 2011 (on an annualised basis). Its cost-income ratio[46] fell to 133 per cent. for 2012 from 276 per cent. for 2011, reflecting higher-margin new lending combined with a focus on cost discipline as the business grew, which resulted in income growing faster than expenses.

Depreciation and amortisation

Depreciation and amortisation increased 46.5 per cent. to £0.5 million in the 12 months ended 31 December 2012 from £0.3 million in the 11 months ended 31 December 2011.

Operating (profit/loss)

Operating loss was £3.3 million in the 12 months ended 31 December 2012 compared to a loss of £9.6 million in the 11 months ended 31 December 2011, a decrease of £6.3 million. This improvement was due to the movements explained above.

Regulatory provisions

Regulatory provisions, which are primarily FSCS levies, increased to £0.9 million in the 12 months ended 31 December 2012 from £0.7 million in the 11 months ended 31 December 2011, primarily due to changes in the total levies that financial services institutions in the United Kingdom were required to pay and increases in the Group's retail deposits which increased from £2,082 million to £2,745 million during the year, the measure against which the levy is determined.

Impairment losses

Impairment losses increased 82.0 per cent. to £5.3 million in the 12 months ended 31 December 2012 from £2.9 million in the 11 months ended 31 December 2011, reflecting the accelerated work-out of legacy problem loans inherited from KRBS.

Negative goodwill

Negative goodwill was £17.6 million in the 12 months ended 31 December 2012 and nil in the 11 months ended 31 December 2011. Negative goodwill is recognised directly in profit or loss in the year of acquisition and accordingly an aggregate one-off gain of £17.6 million was recognised in 2012 comprising £4.4 million for the InterBay Group acquisition and £13.2 million for the Prestige Group acquisition, as discussed earlier.

Profit/(loss) before taxation

Profit before taxation increased to 8.1 million in the 12 months ended 31 December 2012 from a loss of £13.3 million in the 11 months ended 31 December 2011. In 2012, this included exceptional negative goodwill of £17.6 million and gains on sales of financial instruments of £2.9 million,

45 Management expense ratio is calculated as administrative expenses plus depreciation and amortisation, as a percentage of average total assets on an annual basis. The management expense ratio for the 11 months ended 31 December 2011 has been presented on an annualised basis.

46 Cost/income ratio is calculated as administrative expenses, depreciation and amortisation, as a percentage of total income less coupons on PSBs classified as equity.

compared to nil negative goodwill and gains on sales of financial instruments of £9.0 million in 2011. The significant increase in the Group's underlying profitability was primarily due to the improvement in net interest income described above and the Group's continued focus on cost discipline as the business grew.

Taxation

Taxation was a credit of £1.0 million in the 12 months ended 31 December 2012 and a credit of £2.1 million in the 11 months ended 31 December 2011.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average taxation rate applicable to profits of the Group as follows:

	11 months ended 31 December 2011	**Year ended 31 December 2012**
	£'000	**£'000**
Profit before taxation	(13,288)	8,069
Profit multiplied by the weighted average rate of corporation taxation in the UK during 2012 of 24.25%/2011 of 26.4%	3,506	(1,978)
Taxation effects of:		
Expenses not deductible for taxation purposes	(18)	(234)
Negative goodwill	–	4,313
Adjustments in respect of earlier years	(224)	24
Coupon on PSBs	–	355
Capital allowances	–	55
Re-measurement of deferred taxation – change in taxation rate	(1,120)	(1,539)
Total taxation (charge)/credit	2,144	996

The re-measurement of deferred taxation reflects the impact of the substantial enactment of reduced corporation tax rates in each year.

The effective tax rate in the two periods was (12.3) per cent. for the 12 months ended 31 December 2012 and 16.1 per cent. for the 11 months ended 31 December 2011. The effective tax rate for 2012 was lower than the statutory tax rate, mainly due to negative goodwill not being taxable.

Profit/(loss) for the period

Profit/(loss) for the period increased to a profit of £9.1 million in the 12 months ended 31 December 2012 from a loss of £11.1 million in the 11 months ended 31 December 2011. This reflects the higher profit before taxation.

5. LIQUIDITY AND CAPITAL RESOURCES

5.1 Funding

The Group is funded primarily by retail deposits. As at 31 December 2013, the Group held retail deposits of £3,252 million with a loan to deposit ratio of 93.5 per cent. As at 31 December 2012, the Group held retail deposits of £2,745 million with a loan to deposit ratio of 80.0 per cent., and as at 31 December 2011, the Group held retail deposits of £2,082 million with a loan to deposit ratio of 78.8 per cent. Between 1 February 2011 and 31 December 2013, the number of deposit accounts at the Group grew from 132,556 to 142,088 and the average deposit balance grew from £12,580 to £22,609. This year-on-year growth in retail deposits is driven by the need to fund the increase in loans and advances as it remains the primary source of funding for the Group's loan portfolio.

The Group also held £3.8 million of wholesale deposits from credit institutions and other customers as at 31 December 2013, compared with wholesale deposits of £25.0 million and £39.2 million as at 31 December 2012 and 2011, respectively.

The Company completed its inaugural mortgage backed securitisation in October 2013, Rochester Financing No. 1 Plc ("**Rochester**"). The transaction provided funding diversification as well as funding at a comparable cost to its retail deposits and established the Group's capability in the securitisation market. The securitised mortgages were originated through portfolio purchases and a Forward Flow Agreement and are serviced by a third party. Rochester issued investment grade-rated notes corresponding to 86.5 per cent. (4.5 per cent. cash reserves) of the nominal value of the mortgages. Securities comprising AAA and AA+ rated notes with a nominal value of £273 million were sold, raising secured term funding for the Group. The remaining notes and residual certificate were retained by the Group.

5.2 Liquidity

The Group manages liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations.

As at 31 March 2014, the Group held £759.8 million in liquid assets. Under the Group's treasury policy, and in compliance with its Individual Liquidity Adequacy Assessment obligations, the individual liquidity guidance is met by maintaining a Liquid Asset Buffer ("**LAB**") of eligible high-quality sterling denominated UK Government and supranational securities (maximum 25 per cent. of LAB) and reserve deposits with the Bank of England. Such securities comprised 81 per cent. of the Group's liquid assets as at 31 March 2014.

Non-LAB liquid assets can also be held as call deposits with banks, term deposits with banks and building societies, covered bonds, senior bank debt and residential mortgage-backed securities. Such securities comprised 19 per cent. of the Group's liquid assets as at 31 March 2014.

The following tables provide an analysis of the Group's gross contractual cash flows payable under financial liabilities, as of the dates indicated:

As at 31 March 2014	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors	1,622,219	859,526	1,121,767	–	3,603,512
Amounts owed to credit institutions and other customers	5,629	1,072	–	–	6,701
Debt securities in issue(1)	–	–	266,740	–	266,740
Derivative financial instruments	304	(13)	14,019	9,175	23,485
Other liabilities	12,722	–	–	–	12,722
Subordinated liabilities	301	896	24,461	5,927	31,585
Perpetual subordinated bonds(2)(3)	298	887	4,728	15,000	20,913
Total	**1,641,473**	**862,368**	**1,431,715**	**30,102**	**3,965,658**

Notes:

(1) Debt securities in issue represent securities issued by Rochester, a mortgage securitisation vehicle established by the Group; the Group retained the remaining notes and residual certificates issued by Rochester and as such did not transfer substantially the power to govern and control the securitised mortgages. These mortgages therefore remain on the Group's balance sheet and the Group consolidates Rochester. The amount does not include future interest due which cannot be determined as principal repayments depend on, amongst other factors, the schedule of principal receipts on the securitised mortgages.

(2) Assumes that the Perpetual Subordinated Bonds will not mature at the first call date.

(3) Does not include £22.0 million of Perpetual Subordinated Bonds in equity.

As at 31 December 2013	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors	1,403,941	836,320	1,037,535	–	3,277,796
Amounts owed to credit institutions and other customers	1,991	1,004	518	–	3,514
Debt securities in issue[(1)]	–	–	273,759	–	273,759
Derivative financial instruments	(796)	138	15,227	7,996	22,565
Other liabilities	12,826	–	–	–	12,826
Subordinated liabilities	65	909	11,323	19,299	31,596
Perpetual subordinated bonds[(2)(3)]	595	1,184	4,736	15,000	21,515
Total	**1,418,622**	**839,555**	**1,343,098**	**42,295**	**3,643,570**

Notes:

(1) Debt securities in issue (securities issued by Rochester, a mortgage securitisation vehicle established by the Group; the Group retained the remaining notes and residual certificates issued by Rochester and as such did not transfer substantially all of the risks and rewards of the securitised mortgages. These mortgages therefore remain on the Group's balance sheet and the Group consolidates Rochester) do not include future interest due as this cannot be determined as principal repayments depend on, amongst other factors, the schedule of principal receipts on the securitised mortgages.

(2) Assumes that the Perpetual Subordinated Bonds will not mature at the first call date.

(3) Does not include £22.0 million of Perpetual Subordinated Bonds in equity.

As at 31 December 2012	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors	1,162,361	262,777	752,557	600,432	2,778,127
Amounts owed to credit institutions and other customers	10,185	14,005	537	–	24,727
Derivative financial instruments	(541)	1,219	20,555	43,398	64,631
Other liabilities	10,241	–	–	–	10,241
Subordinated liabilities	65	1,075	10,999	19,299	31,438
Perpetual subordinated bonds[(1)(2)]	595	1,181	1,184	15,000	17,960
Total	**1,182,906**	**280,257**	**785,832**	**678,129**	**2,927,124**

Note:

(1) Assumes that the Perpetual Subordinated Bonds will not mature at the first call date.

(2) Does not include £22.0 million of Perpetual Subordinated Bonds in equity.

As at 31 December 2011	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors	790,098	599,051	771,929	–	2,161,078
Amounts owed to credit institutions and other customers	18,965	18,963	1,090	–	39,018
Derivative financial instruments	431	2,838	17,252	81,019	101,540
Other liabilities	4,551	–	–	–	4,551
Subordinated liabilities	65	1,048	11,543	19,663	32,319
Perpetual subordinated bonds[(1)(2)]	599	1,188	2,366	15,000	19,153
Total	**814,709**	**623,088**	**804,180**	**115,682**	**2,357,659**

Note:

(1) Assumes that the Perpetual Subordinated Bonds will not mature at the first call date.

(2) Does not include £22.0 million of Perpetual Subordinated Bonds in equity.

The Company's Board has set a minimum liquidity requirement of the higher of its Individual Liquidity Guidance plus a margin and liquidity requirements under a 60 day stress scenario.

The Group operates within a target liquidity range in excess of the Board's minimum requirement, currently set at between 17 per cent. and 20 per cent. of liabilities. The Group's liquidity ratio[47] as at 31 March 2014 was 19.9 per cent. compared to 17.9 per cent. as at 31 December 2013, 25.4 per cent. as at 31 December 2012 and 28.3 per cent. as at 31 December 2011. The Group is now able to manage

47 Liquidity ratio is calculated as point in time liquid assets divided by the sum of point in time retail and non-retail funding balances including securitisation.

its liquidity more efficiently having successfully spread savings maturities more evenly throughout the year and demonstrated a strong retention track record. Average retention rates on 1 to 5 year products (including fixed rate ISAs, regular savers, trackers and bond movement) were 88 per cent. for the 12 months ended 31 December 2013.

5.3 Capital position

The Group's capital position is governed by its Capital Management Policy. The objectives of the Group's Capital Management Policy are to manage efficiently the capital base to optimise shareholder returns whilst maintaining capital adequacy and satisfying key stakeholders such as customers and regulators. In assessing the adequacy of its capital resources, the Group considers its risk appetite, the material risks to which the Group is exposed and appropriate management strategies required to manage those risks. The ultimate responsibility for capital adequacy rests with the Board. The Group's Asset and Liability Committee ("**ALCO**") is responsible for managing the capital process including approving policy, overseeing internal controls and setting internal limits over capital ratios. The Group actively manages its capital position and reports this on a regular basis to senior management via the ALCO and other governance committees. Capital requirements are included within budgets, reforecast and strategic plans with initiatives being executed against this plan.

The Basel Committee on Banking Supervision introduced the Basel II and III framework for determining minimum capital and liquidity requirements, the definition of capital resources and other matters related to improving the resilience of the global financial system and to ensure a level playing field across the industry. The Group has implemented Basel II requirements in measuring credit risks under the standardised approach and operational risk under the basic indicator approach. Under Pillar I of Basel II, the Group calculates its minimum capital requirements based on 8 per cent. of risk-weighted assets. The PRA then applies a multiplier to this amount to cover risks under Pillar II of Basel II and generate an Individual Capital Guidance ("**ICG**"). As instructed by the PRA, the Company manages and reports its capital on a solo consolidated basis and hence the Company's capital position is not disclosed separately.

Capital and Capital Ratios

In December 2013, the PRA issued Policy Statement PS7/13 containing the final rules and supervisory statements implementing the Capital Requirements Directive (2013/36/EU) and the Capital Requirements Regulation (575/2013) (together, "**CRD IV**"), effective from 1 January 2014. The primary impact of CRD IV as implemented by PS7/13 on the Group's current capital position is the requirement to deduct the Group's DTA in full from Common Equity Tier 1 capital. The DTA was previously 100 per cent. risk-weighted.

The Company has received legal advice that its PSBs should remain eligible as Tier 2 capital under CRD IV as there is no incentive to redeem them. This is because at the time of issue in 2011 the interest rate reset comprised in the conditions attaching to the PSBs implied a step-down on a call. A portion of the Company's other subordinated debt is not eligible as Tier 2 capital under CRD IV but is eligible for grandfathering and as such will be phased out at 10 per cent. per annum under the grandfathering rules. In addition, CRD IV transitions in a Capital Conservation Buffer ("**CCoB**") of 2.5 per cent. of risk-weighted assets ("**RWAs**") between 2016 and 2019. The PRA's Policy Statement PS3/14 containing the final rules implementing the capital buffers requirements of the Capital Requirements Directive confirms this transitional period and the ultimate transitioned CCoB of 2.5 per cent. of RWAs in 2019.

As at 31 December 2013, total regulatory capital stood at £192,561,000 (31 December 2012: £156,336,000 and 31 December 2011: £130,250,000) with the Group's total capital ratio[48] standing at 13.5 per cent. at 31 December 2013 (31 December 2012: 14.3 per cent. and 31 December 2011: 15.2 per cent.). The Group's Core Tier 1 capital ratio[49] increased, and stood at 9.3 per cent. at

48 Total capital ratio is calculated as total capital for regulatory purposes, as a percentage of risk-weighted assets at the reporting date.

49 Core Tier 1/Common Equity Tier 1 ratio is calculated as Core Tier 1 capital, as a percentage of risk-weighted assets at the reporting date.

31 December 2013 (an increase from 8.5 per cent. as at 31 December 2012 and 7.7 per cent. as at 31 December 2011).

The following table sets out a summary of the Group's regulatory capital calculation as at 31 December 2011, 31 December 2012 and 31 December 2013.

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
	£'000	£'000	£'000
Tier 1 Capital			
Permanent share capital	46	197	198
Transfer reserve	(12,818)	(12,818)	(12,818)
Retained earnings/(losses)	(12,562)	(545)	24,031
Share premium account/Capital contribution	90,639	106,421	121,157
Deductions from Tier 1 capital	(495)	(910)	(1,117)
Non-cumulative preference shares	315	804	1,067
Total Tier 1 capital after deductions	**65,125**	**93,149**	**132,518**
Tier 2 Capital			
Perpetual subordinated bonds	37,327	37,189	36,852
Available for sale reserve	1,822	1,285	(156)
Collective provisions	1,260	1,284	3,072
Subordinated liabilities	26,842	26,873	26,650
Bonds	–	703	703
Deductions from Tier 2 capital	(797)	(4,147)	(7,078)
Total Tier 2 capital after deductions	**66,454**	**63,187**	**60,043**
Excess of Tier 2 over Tier 1	(1,329)	–	–
Total Regulatory Capital	**130,250**	**156,336**	**192,561**

CRD IV

The Group does not have solo consolidation waivers in place for the Prestige Group, Heritable Finance Limited and Rochester No. 1 Plc, and as such they are not consolidated into capital. The Company's PSBs that are eligible as Tier 2 capital include:

- 7.875 per cent. PSBs with terms that allow no discretion over the payment of interest classified as debt; and
- 6.591 per cent. PSBs with terms that include discretion over the payment of interest classed as equity.

The primary impact of CRD IV on the Group's capital requirements is an increase in the risk-weighting for Buy-to-Let mortgages in the Channel Islands (which are not part of the EU) and a decrease in risk-weightings for SME exposures due to the SME support factor introduced by CRD IV to encourage SME lending.

5.4 **Financial Commitments**

There were no capital commitments for the Group contracted but not provided for as at 31 December 2013, 2012 or 2011.

Outstanding operating lease obligations as at 31 December of each period were as follows:

	31 December 2011	31 December 2012	31 December 2013
	£'000	£'000	£'000
Land and buildings: due within			
One year	68	274	507
Two to five years	8	299	967
More than five years	–	–	66
	76	573	1,540

Undrawn mortgage loan facilities as at 31 December of each year were as follows:

	31 December 2011	31 December 2012	31 December 2013
	£'000	£'000	£'000
Undrawn mortgage loan facilities	26,326	132,704	156,920

5.5 **Off-balance sheet and contingent liabilities**

The Group uses derivatives to manage interest rate, basis and inflation risk. These are fair valued through profit and loss. Please see note 5.7 in Part IX (*Historical Financial Information*) of this Prospectus. The Group did not have any material contingent liabilities not disclosed in the historical financial information.

6. ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGEMENT AND DISCRETION

In preparing its financial statements, the Group makes judgements, estimates and assumptions which affect the reported amounts within the current and future financial periods. Actual results may differ from these estimates.

Estimates and judgements are regularly reviewed based on past experience, expectations of future events and other factors. The key areas where estimates and judgements are made are as follows:

6.1 **Impairment of financial assets**

Financial assets held at amortised cost are assessed for impairment as described above in paragraph 4.1 (*Explanation of line items*) under the caption "Impairment losses". Specific provision assessment involves judgement in relation to future cash flows, including the cost of obtaining and selling the collateral, the likely sale proceeds and any rental income prior to sale. The most critical estimate is of the level of house prices.

Collective provisions are calculated using 12 month delinquency roll rates and one year probability of defaults on different segments of the loan book. These rates, along with forced sale discounts, are applied to calculate losses expected on an incurred basis. Judgement needs to be exercised in deciding how to apply historical experience to current market conditions. The most critical estimate is of the level of house prices.

Provisions on unsecured loans are calculated on the same principles as for mortgages using expected partial recovery of loss until and on default instead of underlying property proceeds.

6.2 Fair values

The fair values used in the financial statements, including those for financial instruments, are, where market values are not available, calculated using valuation techniques utilising discounted cash flow models using yield curves based on observable market data. The fair values of mortgage assets acquired through company acquisitions are calculated utilising techniques including discounted cash flow models, which include assumptions based on loan and portfolio level attributes as well as macroeconomic assumptions, including house price index, unemployment levels and interest rates, to derive prepayment rates, the probability and timing of defaults and amount of expected losses. The assumptions that the Group takes can have a material impact on the carrying values it assigns to its assets, with any changes going through to interest receivable and similar income.

6.3 Effective interest rate

To calculate the appropriate EIR the Group makes a number of assumptions relating to the expected lives of financial instruments, likely redemption profiles, probability and timing of defaults and the anticipated level of early repayment charges. For acquired mortgage and loan books, EIRs are calculated utilising cash flow models which include assumptions on the likely macroeconomic environment, including house price index, unemployment levels and interest rates, as well as loan level and portfolio attributes and history to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses. Estimates are reviewed in each reporting period to ensure they reflect current and expected future performance. Where estimates of future cash flows are revised following such reviews, the carrying amount of the financial investment is revised such that it equals the revised estimated future cash flows discounted at the original EIR. Such adjustments to the carrying value are taken through interest receivable and similar income. Purchase discounts/premiums on acquired books in excess of incurred credit losses at the purchase date are recognised over the expected life of the loans through the EIR. The EIR values that it records, and thus its interest receivable and similar income and interest payable and similar expense, can be materially affected by these assumptions.

6.4 Deferred taxation

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset. The recognition of deferred tax is mainly dependent on the projections of future taxable profits and future reversals of temporary differences.

Management's projections of future taxable income are based on business plans, future capital requirements and ongoing tax planning strategies. These assumptions include the impact of credit losses, capital requirements and assumptions about the UK macroeconomic environment. The assumptions surrounding future expected credit losses represent the most subjective areas of judgement in management's projections of future taxable income. Management's forecast supports the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax asset. Accordingly, the tax charge or gain that the Group records on its income statements can be materially affected by these judgements.

7. RECENT DEVELOPMENTS

Since 31 January 2014 the Group has continued to see a strong level of mortgage applications and completions in both its Buy-to-Let/SME and Residential Lending segments across its principal brands including Kent Reliance, InterBay and Prestige. The Group has not made any portfolio purchases so far in 2014. The Group is focused on organic origination as its core growth strategy, however it will continue to actively consider inorganic opportunities as they arise.

PART VI

SELECTED STATISTICAL DATA

The statistical data presented below is derived from the audited consolidated IFRS historical financial information of the Group set out in Part IX (*Historical Financial Information*) of this Prospectus and the Group's financial reporting and management information systems.

1. AVERAGE BALANCE SHEET AND INTEREST RATES

The following table sets forth the Group's average balances of assets and liabilities for the financial period ended 31 December 2011 and the financial years ended 31 December 2012 and 31 December 2013. For the purposes of the following tables, the average is calculated on the basis of the monthly closing balances throughout the relevant period.

	11 months ended 31 December 2011		
	Average Balance[1]	**Interest**[2]	**Annualised average yield/rate**[3]
	£'000	**£'000**	**%**
Interest-Earning Assets			
Total Liquid Assets	454,921	4,632	1.11%
Loans and Advances to Customers	1,573,577	37,996	2.63%
Total average interest-earning assets	2,028,498	42,628	2.29%
Non Interest-Earning Assets			
Derivative financial instruments	753		
Fair value adjustments for hedged risk	53,059		
Current taxation asset	904		
Deferred taxation asset	13,815		
Intangible fixed assets	207		
Property, plant and equipment	1,406		
Other assets	5,166		
Total average assets	2,103,808		
Interest-Bearing Liabilities			
Amounts owed to retail depositors	1,819,242	40,171[4]	2.41%[4]
Amounts owed to credit institutions and other customers	62,878	1,094	1.90%
Subordinated liabilities	26,650	1,142	4.67%
Perpetual subordinated bonds classified as debt	15,000	1,043	7.59%
Perpetual subordinated bonds classified as equity	22,000	1,450	6.59%
Total average interest-bearing liabilities	1,945,769	44,900	2.52%
Non Interest-Bearing Liabilities			
Derivative financial instruments	55,694		
Fair value adjustments for hedged risk	126		
Current taxation liability	–		
Deferred taxation liability	270		
Other liabilities	5,417		
FSCS and other provisions	932		
Total Average Liabilities	2,008,207		

Notes:

1. Average balances are based on the balance at the end of each month during the period. Monthly balances are based on management accounting reports which in 2011 were not in full compliance with IFRS.
2. The interest income and expense are stated after allocation of interest on financial instruments entered into for hedging purposes between interest on loans to customers and interest on retail deposits.
3. The yields and rates have been multiplied by 12/11 to adjust for the shorter accounting period, except for perpetual subordinated bonds classified as equity, as a full year's worth of coupons was paid in the period.
4. The reported interest in 2011 included an estimated allocation of swap expense of £4.7m which deflates the annualised rate. Excluding this swap expense, the rate is 2.70%.

	Year ended 31 December 2012		
	Average Balance[1]	**Interest[2]**	**Average yield/rate**
	£'000	**£'000**	**%**
Interest-Earning Assets			
Total Liquid Assets	584,100	7,078	1.21%
Loans and Advances to Customers	1,905,809	80,215	4.21%
Total average interest-earning assets	2,489,909	87,293	3.51%
Non Interest-Earning Assets			
Derivative financial instruments	245		
Fair value adjustments for hedged risk	82,482		
Current taxation asset	158		
Deferred taxation asset	14,144		
Intangible fixed assets	715		
Property, plant and equipment	2,719		
Other assets	4,113		
Total average assets	2,594,485		
Interest-Bearing Liabilities			
Amounts owed to retail depositors	2,299,722	68,049	2.96%
Amounts owed to credit institutions and other customers	29,427	530	1.80%
Subordinated liabilities	26,886	1,299	4.83%
Perpetual subordinated bonds classified as debt	15,000	1,254	8.36%
Perpetual subordinated bonds classified as equity	22,000	1,450	6.59%
Total average interest-bearing liabilities	2,393,035	72,582	3.03%
Non Interest-Bearing Liabilities			
Derivative financial instruments	76,730		
Fair value adjustments for hedged risk	2,623		
Current taxation liability	518		
Deferred taxation liability	513		
Other liabilities	6,750		
FSCS and other provisions	1,882		
Total Average Liabilities	2,482,049		

Notes:

1. Average balances are based on the balance at the end of each month during the period. Monthly balances are based on management accounting reports.
2. The interest income and expense are stated after allocation of interest on financial instruments entered into for hedging purposes between interest on loans to customers and interest on retail deposits.

	Year ended 31 December 2013		
	Average Balance[1]	**Interest[2]**	**Average yield/rate**
	£'000	**£'000**	**%**
Interest-Earning Assets:			
Total Liquid Assets	633,877	5,367	0.85%
Loans and Advances to Customers	2,603,791	145,240	5.58%
Total average interest-earning assets	3,237,668	150,607	4.65%
Non Interest-Earning Assets			
Derivative financial instruments	493		
Fair value adjustments for hedged risk	78,291		
Current taxation asset	4		
Deferred taxation asset	15,419		
Intangible fixed assets	878		
Property, plant and equipment	4,372		
Other assets	5,894		
Total average assets	3,343,018		
Interest-Bearing Liabilities			
Amounts owed to retail depositors	2,984,413	75,780	2.54%
Amounts owed to credit institutions and other customers	34,929	239	0.68%
Debt securities in issue	63,064	1,311	2.08%
Subordinated liabilities	27,353	1,256	4.59%
Perpetual subordinated bonds classified as debt	15,000	1,255	8.37%
Perpetual subordinated bonds classified as equity	22,000	1,450	6.59%
Total average interest-bearing liabilities	3,146,759	81,291	2.58%
Non Interest-Bearing Liabilities			
Derivative financial instruments	39,908		
Fair value adjustments for hedged risk	2,135		
Current taxation liability	219		
Deferred taxation liability	214		
Other liabilities	12,573		
FSCS and other provisions	1,951		
Total Average Liabilities	3,203,760		

Notes:

1. Average balances are based on the balance at the end of each month during the period. Monthly balances are based on management accounting reports.

2. The interest income and expense are stated after allocation of interest on financial instruments entered into for hedging purposes between interest on loans to customers and interest on retail deposits.

2. AVERAGE NET INTEREST MARGIN AND SPREAD

The following table sets forth the Group's average interest-earning assets, average interest-bearing liabilities and net interest income and illustrate the comparative net interest margin and net interest spread for the financial period ended 31 December 2011 and the financial years ended 31 December 2012 and 31 December 2013. For the purposes of the following table, the average is calculated on the basis of the monthly closing figures throughout the relevant period.

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Total average interest-earning assets (£'000)	2,028,498	2,489,909	3,237,668
Total average interest-bearing liabilities (£'000)	1,945,769	2,393,035	3,146,759
Net interest income[1] (£'000)	(2,272)	14,711	69,316
Average yield on interest-earning assets	2.29%	3.51%	4.65%
Average rate on interest-bearing liabilities	2.52%	3.03%	2.58%
Net interest spread[2]	(0.22%)	0.47%	2.07%
Net interest margin[3]	(0.12%)	0.59%	2.14%

Notes:

1. Defined as total interest income less total interest expense (including coupons on perpetual subordinated bonds classified as equity).
2. Defined as the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
3. Defined as net interest income divided by average interest-earning assets. The average interest-earning assets in this section are calculated on a monthly basis resulting in a different net interest margin than that in Part IV (*Selected Financial Information and Key Performance Indicators*) where it is calculated on average annual balances.

Average rates for individual line items should not be used to infer any conclusion about the development of margins or performance of separate categories of assets or liabilities as they are constantly being paid down or replaced with new assets and liabilities bearing different interest rates. For further information on the performance of the Group, see paragraphs 4.2, 4.3 and 4.4 of Part V (*Operating and Financial Review*) of this Prospectus.

3. MATURITY STRUCTURE OF ASSETS AND LIABILITIES

The following tables set forth a more detailed presentation of the remaining maturity of certain of the Group's assets and liabilities as at 31 December 2011, 31 December 2012 and 31 December 2013.

As at 31 December 2011

In £'000	*Payable on demand*	*Up to three months*	*Three months to one year*	*One year to five years*	*More than five years*	*Total*
Assets						
Cash and balances with the Bank of England	253	–	–	–	–	253
Loans and advances to credit institutions	194,517	44,460	476	208	–	239,661
Investment securities	–	–	228,987	71,225	61,125	361,337
Loans and advances to customers	–	19,235	19,592	91,808	1,541,603	1,672,238
Total	194,770	63,695	249,055	163,241	1,602,728	2,273,489
Liabilities						
Amounts owed to retail depositors	674,527	129,562	576,755	700,746	–	2,081,590
Amounts owed to credit institutions	–	831	–	–	–	831
Amounts owed to other customers	–	18,569	18,822	1,003	–	38,394
Subordinated liabilities	–	192	–	3,000	23,650	26,842
Perpetual Subordinated Bonds	–	327	–	–	15,000	15,327
Derivatives	–	1,641	899	14,251	77,749	94,539
Total	674,527	151,122	596,476	719,000	116,399	2,257,523

As at 31 December 2012

In £'000	*Payable on demand*	*Up to three months*	*Three months to one year*	*One year to five years*	*More than five years*	*Total*
Assets						
Cash and balances with the Bank of England	282	–	–	–	–	282
Loans and advances to credit institutions	204,676	87,024	–	–	–	291,700
Investment securities	–	120,410	114,754	69,606	105,569	410,339
Loans and advances to customers	–	42,883	14,257	136,476	2,033,406	2,227,022
Total	204,958	250,317	129,011	206,082	2,138,975	2,929,343
Liabilities						
Amounts owed to retail depositors	1,195,956	261,910	743,346	543,434	–	2,744,646
Amounts owed to credit institutions	–	3,190	–	–	–	3,190
Amounts owed to other customers	–	7,317	13,943	503	–	21,763
Subordinated liabilities	–	226	–	6,000	21,353	27,579
Perpetual Subordinated Bonds	–	189	–	–	15,000	15,189
Derivatives	–	(1,323)	1,219	20,555	43,498	63,949
Total	1,195,956	271,509	758,508	570,492	79,851	2,876,316

As at 31 December 2013

In £'000	*Payable on demand*	*Up to three months*	*Three months to one year*	*One year to five years*	*More than five years*	*Total*
Assets						
Cash and balances with the Bank of England	267	–	–	–	–	267
Loans and advances to credit institutions	102,185	166,916	–	–	–	269,101
Investment securities	–	144,935	122,602	72,066	21,442	361,045
Loans and advances to customers	–	48,854	36,434	361,562	2,621,931	3,068,781
Total	102,452	360,705	159,036	433,628	2,643,373	3,699,194
Liabilities						
Amounts owed to retail depositors	1,252,674	187,850	827,742	983,310	–	3,251,576
Amounts owed to credit institutions	–	1,438	–	–	–	1,438
Amounts owed to other customers	–	851	1,000	500	–	2,351
Debt securities in issue	–	–	–	–	273,759	273,759
Subordinated liabilities	–	226	–	11,650	15,703	27,579
Perpetual Subordinated Bonds	–	263	–	–	15,000	15,263
Derivatives	–	(796)	138	15,227	7,996	22,565
Total	1,252,674	189,832	828,880	1,010,687	312,458	3,594,531

4. CHANGES IN INTEREST INCOME AND EXPENSES – VOLUME AND RATE ANALYSIS

The following tables set forth the changes in the Group's interest receivable and similar income and interest payable and similar charges in the average rates for the financial year ended 31 December 2013 compared to the financial year ended 31 December 2012 and for the financial year ended 31 December 2012 and the financial period ended 31 December 2011, respectively. For the purposes of the following table, the average is calculated on the basis of the monthly closing figures throughout the relevant period.

	Financial year ended 31 December 2013 compared to financial year ended 31 December 2012		
	Increase/(decrease) due to changes in:		
	Volume	Yield/rate	Total net change
	£'000	£'000	£'000
Interest receivable and similar income:			
Total Liquid Assets	421	(2,132)	(1,711)
Loan and Advances to Customers	38,934	26,091	65,025
	39,355	**23,959**	**63,314**
Interest payable and similar charges:			
Amounts owed to retail depositors	17,386	(9,655)	7,731
Amounts owed to credit institutions and other customers	38	(329)	(291)
Debt securities in issue	1,311	–	1,311
Subordinated liabilities	21	(64)	(43)
Perpetual subordinated bonds classified as debt	–	1	1
Perpetual subordinated bonds classified as equity	–	–	–
	18,756	**(10,047)**	**8,709**
Net interest income	**20,599**	**34,006**	**54,605**

	Financial year ended 31 December 2012 compared to 11 months ended 31 December 2011		
	Increase/(decrease) due to changes in:		
	Volume	Yield/rate	Total net change
	£'000	£'000	£'000
Interest receivable and similar income:			
Total Liquid Assets	1,565	881	2,446
Loans and Advances to Customers	13,984	28,235	42,219
	15,549	**29,116**	**44,665**
Interest payable and similar charges:			
Amounts owed to retail depositors	14,217	13,661	27,878
Amounts owed to credit institutions and other customers	(602)	38	(564)
Debt securities in issue	–	–	–
Subordinated liabilities	11	146	157
Perpetual subordinated bonds classified as debt	–	211	211
Perpetual subordinated bonds classified as equity	–	–	–
	13,626	**14,056**	**27,682**
Net interest income	**1,923**	**15,060**	**16,983**

PART VII

RISK MANAGEMENT

1. RISK MANAGEMENT

1.1 Risk Management Framework

The Group must carry out effective management of risk in order to protect depositors, borrowers and shareholders, and to ensure that the Group at all times has adequate capital resources and liquidity. Given the nature of the activities undertaken, the key risks that the Group faces are credit risk, market risk (including interest rate risk), liquidity risk, operational risk and conduct risk. The Group has a Chief Risk Officer, who reports into the Chief Executive Officer and who is responsible for ensuring each risk is adequately identified, monitored, managed and/or mitigated, with the exception of conduct risk and legal risk. Conduct risk is the responsibility of the Group's Compliance function and legal risk is the responsibility of the legal function with both functions reporting into the Group General Counsel and Company Secretary.

The Board is responsible for ensuring that an effective risk management framework is in place. The risk management framework consists of five key components:

(a) Strategy and Risk Appetite: The Board's articulation of strategic intent and risk appetite, complemented by targets and risk limits set by the executive management;

(b) Organisation: Clear roles, responsibilities, reporting lines, committees and mandates;

(c) Policies and Procedures: A comprehensive set of risk policies, processes and control procedures;

(d) Reporting and Analytics: Comprehensive and timely management reporting of risk exposures; and

(e) IT Systems and Data: Robust IT systems and data quality.

1.2 Risk Governance and Control

The organisation of the Group is designed along the "three lines of protection" model (sometimes referred to as the "three lines of defence" model), which aims to ensure at least three stages of independent oversight to protect the customer and the Group from conflicts of interest and poor controls. The table set out below provides a summary of the organisational model.

Within the first line of protection there is a further segregation of duties to ensure that the elements of the business that generate potential profits cannot influence the elements that protect the business from potential loss, i.e. underwriting and sales are segregated.

There is also a segregation of duties in other areas which could pose a significant risk to the business or customer, such as treasury and finance, with no single person being able to carry out a transaction end-to-end without independent oversight or intervention.

Three lines of protection

First Line of Protection	Second Line of Protection	Third Line of Protection
Every Group employee is responsible for the risks that are part of their day-to-day jobs. The first line of protection ensures that all key risks in the operational areas are identified, reported, monitored and mitigated within the Board established risk appetite through appropriate internal controls.	Independent functions within the Risk Management Department and the Legal and Compliance department provide oversight and challenge to the first line of protection.	Group internal audit provides independent oversight and assurance to the Board on the first and second line of protection.

(a) ***First Line of Protection***

The first line of protection is provided by the operational business lines, which includes those that are customer facing through the branches and call centres, those that are responsible for product development and distribution, and those that manage the finances of the business.

Each business line is responsible for measuring, assessing and controlling risks through the day-to-day activities of the business, within the frameworks set by the second line of protection. As such each business line is responsible for ensuring that there is a comprehensive suite of procedures and manuals that guide the operations of the business in accordance with the second line of protection frameworks and Board approved risk appetite.

The Credit Committee, ALCO, Executive M&A Committee ("**EMAC**"), and Operations Committee are the primary governance bodies for the first line of protection. The Credit Committee and ALCO meet monthly, the Operations Committee meets fortnightly and the EMAC meets approximately once a month (or as required). These committees report to the Executive Committee.

(b) ***Second Line of Protection***

The second line of protection is provided by the risk, compliance and governance functions, through the risk management and compliance frameworks and governance arrangements including Board and Executive committee structures and the legal function. The table below illustrates the committee structure in place designed to ensure proper governance and oversight of the Group's key risks.

Risk oversight and committee structure

	Board				
	Risk Committee, Audit Committee, Nominations Committee and Remunerations Committee				
	Executive Committee				
Risk theme	Credit Risk	Market, Interest Rate, and Basis Risk	Liquidity Risk	Operational Risk	M&A
Governance	Credit Committee	ALCO	ALCO	Operational Risk Committee	EMAC
Key control documents	Lending, Arrears Handling, and Provisions Policies	Interest Rate Risk and Treasury Policies	Treasury Policy and ILAA document	Operational Risk Policy	M&A procedure
Management information	Credit MI Pack	ALCO MI Pack	ALCO MI Pack	Operational Risk Update	Deal Qualification Memos

The risk function has in place a framework to identify credit risk, interest rate risk, liquidity risk and operational risk and operates a suite of tools, including stress testing, to assess the impact of the various risks on the business. The risk function maintains a risk register which tracks identified risks and mitigants and reports to the Board on key risks identified through the framework.

The risk function leads the Group's Individual Capital Adequacy Assessment Process ("**ICAAP**") and Individual Liquidity Adequacy Assessment annually, and these documents inform the regulatory level of capital and liquidity the Group is required to hold, both in terms of minimum levels set by the regulator and Board sanctioned buffer levels.

The risk function provides advice and guidance to the Board in relation to the establishment of the Group's risk appetite, tracks the risk exposure of the business against the agreed risk appetite, and reports to the Risk Committee and Board.

The compliance function has in place a compliance framework to identify regulatory risk, conduct risk, compliance breaches and incidents and to track and report on actions to mitigate or remedy issues identified.

The compliance plan is set annually for the Group and agreed with the Audit Committee. The compliance plan sets levels and a risk-based focus for compliance monitoring activity, along with a risk-based thematic review schedule, which is constructed in conjunction with both internal and external auditors.

The compliance function is also responsible for establishing and implementing a conduct risk framework, and this is currently under development, tracking the publications and consultations issued by the FCA. The existing Treating Customers Fairly framework will be subsumed into the overall conduct risk framework when launched.

The compliance function also maintains the key controls framework which tracks and reports on key controls within the business to ensure compliance with the main provisions of the FCA and PRA Handbooks. Policy documents also contain the key controls that map back to the framework.

The governance function establishes and maintains the governance framework, including the control committees and the legal function controls legal risk within the business.

(c) ***Third Line of Protection***
The Group has an internal audit function, which has clear responsibilities and reporting lines to the Audit Committee. The internal audit function (which is outsourced, currently to Grant Thornton) is adequately resourced and staffed by competent individuals, is independent of the day-to-day activities of the Group and has appropriate access to the records of the Group.

The internal audit function provides independent assurance to the Audit Committee and Board in relation to adherence by the Group to internal systems and controls, procedures and policies and the activities of the first line risk control and second line risk oversight.

1.3 **Risk Appetite**

OneSavings Bank is predominantly a savings and mortgage lending entity, in line with its historical roots as a traditional building society. The majority of core lending is secured by first charges on residential property and as such is low-risk on the spectrum of consumer lending. Within the residential lending segment, the Group operates in prime niches not well served by major banks, where it can secure sound new customers without competing directly on rate, where it has special expertise, and where it offers the type of bespoke service required by brokers.

The Group also operates in the second charge mortgage market, having acquired several portfolios and an origination platform, Prestige. The Group has a moderate appetite for increasing its second charge exposure, though it is conscious of the higher risk of this segment and allocates additional capital accordingly.

The Group has also re-entered commercial lending, specifically lending to SMEs secured by non-residential real estate, through the acquisition of InterBay and its back book. This commercial business is security-based and focuses on the vacant possession value of the property more than the business occupier. The Group's risk appetite does not extend to large concentrations, highly specialised properties, or lending that is highly dependent on the performance of the current commercial occupant. The Group is managing down its legacy commercial back book so as to minimise risk to the Group, while also holding some properties where this strategy is expected to ensure best value.

During 2013, the Group also entered into the unsecured consumer lending market through a large portfolio acquisition. It is exploring options for partnering with a third party to offer further personal loans on an unbranded basis through a white-labelling agreement.

The Group has set up a subsidiary with the non-controlling interest held by a third party, to build a residential development lending operation. While this is a higher risk segment, the Group's financing is senior to that of the subsidiary partner, keeping the overall position consistent with the Group's moderate risk appetite.

The Group focuses on prime credit but may, from time to time, originate or acquire exposures to borrowers with a degree of impaired credit.

Within the savings arena the Group focuses on traditional savings products, aiming to ensure that products allow appropriate pricing flexibility to take account of market conditions and provide stable funding while also being clear and fair to its customers.

The Group does not currently have an appetite for extending activities into other business or geographic areas, but this may be reconsidered by the Board.

The Group does not seek to take a significant interest rate position. Unhedged gap and basis risk positions are accepted within limits to allow management flexibility as assets and liabilities come off and on the balance sheet and to allow for management of differences between economic, accounting, and regulatory views of exposure.

The Group's business strategy is reflective of a moderate appetite for operational risk. Where necessary to exploit commercial opportunities, operational risk taking may be permitted outside normal management parameters, subject to approval by the Risk Committee. Consequently the statement of operational risk appetite is summarised as follows:

- The Group has a moderate appetite for operational risk, but recognises that legacy issues and the current pace of growth mean that the current level of operational risk in the business is higher than that to which it aspires. Substantial improvements in operational risk management and reductions in operational risk exposure have been and are being made through increased operational risk awareness and the implementation of a systematic operational risk management framework.
- The Group calculates its operational risk capital requirement using the basic indicator approach but will develop its framework in accordance with the standards relevant to firms adopting the Standardised Approach (as described in BIPRU 6) and targets a move to the Standardised Approach in 2014.
- The Group will maintain levels of operational risk capital consistent with any Pillar 2 adjustment that might be identified through the ICAAP process.

The Group has an appetite for acquiring third party originated portfolios and complementary businesses, but has no appetite for this to adversely impact the operation of the business and achievement of the business plan. The Board and Executive Management Team have experience in this area and are conscious of the challenges that this activity can present. Accordingly, each situation is reviewed with this risk objective in mind and appropriate advice and management reinforcement sought for the business should weaknesses be identified. The EMAC has been established to ensure that acquisition activity is managed appropriately. The Board and Executive Management Team are also aware that acquisition activity can serve as an important mitigant to residual risks in the business plan, including capital constraints.

The Group has also begun lending through secured funding lines, where senior finance is provided to finance companies and secured with overcollateralisation on the underlying loans. The Group has an appetite to grow this business in line with the business plan, with individual deals being approved by the Board or delegated to the Risk Committee depending on size.

1.4 Stress Testing

Reverse stress testing is a tool to help the Group more fully consider its vulnerabilities and decide whether these are acceptable or if mitigation or contingency plans should be put in place. Stress testing informs capital and liquidity adequacy assessments, as well as feeding into general corporate planning and the setting of risk appetite.

Reverse stress-tests are stress tests that require a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities. Reverse stress-testing starts from an outcome of business failure and identifies circumstances where this might occur. This is different to general stress and scenario testing which tests for outcomes arising from specified changes in circumstances.

Management discusses possible threats to the Group as part of the normal course of business, but the Group formalises this thinking as part of the ICAAP. Input is solicited from members of the Executive Committee, the Risk Committee and the Board. The Risk Committee then formally discusses the scenarios, which are then modelled to understand the impact on the Group in terms of liquidity, capital, profitability and balance sheet, before mitigants are identified and assessed.

The scenarios, including impact assessments and mitigating actions, are then reviewed by members of the Executive Committee, Risk Committee, and Board, with their feedback incorporated before final approval of the ICAAP document.

The Group also identifies various operational risk stress test scenarios and maximum liabilities as part of its stress testing process.

1.5 **Credit Risk**

Credit risk is the risk that unexpected losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations. The Group's exposure to retail and commercial credit risk is managed by the Credit Committee which reports to the Executive Committee and the Risk Committee. The Group's exposure to wholesale and counterparty credit risk is managed by the Asset and Liability Committee which reports to the Executive Committee and the Risk Committee.

(a) ***Retail credit risk***

Retail credit risk is managed within the Group's underwriting process, driven by a prudent lending policy which considers both the affordability of a loan for the borrower and the quality of the security. Risk is managed through a system of mandates based on loan size and limits that allow mainstream lending to be carried out in volume with bespoke lending requiring approval from senior underwriters or the transactional credit committee.

On occasions, borrowers find themselves in financial difficulties which impact their ability to meet their mortgage or loan service obligations. The Group has established procedures to manage such situations to a satisfactory conclusion, which adhere to the principles of treating customers fairly. Usually this involves working with the borrower to clear arrears or making other arrangements commensurate with the borrower's circumstances. In rare cases where the situation deteriorates significantly and irreparably, the Group takes possession of the underlying security.

In situations where the Group determines that it is appropriate in order to meet borrower needs, it applies a policy of forbearance and may grant a concession. The Group considers forbearance on a case by case basis. This may arise where the Group considers that the financial stress of the customer is temporary and potentially recoverable. Such a concession, which will only be implemented after obtaining the borrower's consent, may involve capitalisation of arrears, temporary or permanent conversion to an interest only repayment basis, a reduced monthly payment or a mortgage term extension. By dealing with arrears at an early stage and monitoring continuously it is anticipated that a lower level of long-term arrears will be achieved, resulting in a more favourable outcome for both the customer and the business.

(b) ***Buy-to-Let and SME Credit Risk***

The Group lending policy has special considerations for buy-to-let mortgages, supported by practices and procedures to ensure credit quality is maintained. Interest cover, including a sufficient excess to allow for voids, and quality of security are assessed in all lending decisions.

The Group considers there to be advantages to buy-to-let lending. If the renter enters financial difficulty, the owner is available to cover loan payments and re-tenant. Many of the Group's borrowers are professional landlords with diverse income streams, so void periods on individual properties can be covered by rental surplus from others. Finally, should the case proceed to recovery, it is easier to get access to the collateral and to generate income. A receiver of rent can be appointed quickly, with no break in occupancy.

(c) ***Wholesale and counterparty Credit Risk***

Wholesale and counterparty credit risk arises from the risk that counterparties will be unable to repay loans and other financial instruments that the Group holds as part of its liquidity portfolio or for hedging purposes. This risk is managed by restrictions on the type of assets held, assessment of the creditworthiness of counterparties, maintenance of exposure limits with each counterparty, sector limits and collateral posting for derivatives. The Group has no direct exposure to the countries most affected by the Eurozone crisis (i.e. Greece, Ireland, Italy, Portugal and Spain). The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt, including investments with other building societies.

The Group's exposure to wholesale and counterparty credit risk is managed by the ALCO, which reports to the Executive Committee and the Risk Committee.

1.6 Financial Risk

(a) ***Liquidity and Funding Risk***

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and control of the growth of the business.

Liquidity management is governed by the treasury policy, which is developed, implemented and monitored by the ALCO, which also sets limits over the level and maturity profile of wholesale funding and monitors the composition of the Group balance sheet. A series of liquidity stress tests are performed daily to confirm that the limits are not at risk of being breached. Day-to-day management is delegated to the treasury function.

The following tables provide an analysis of the Group's gross contractual cash flows payable under financial liabilities, as of the dates indicated:

As at 31 December 2013	**Up to 3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**More than 5 years £'000**	**Total £'000**
Amounts owed to retail depositors	1,403,941	836,320	1,037,535	–	3,277,796
Amounts owed to credit institutions and other customers	1,991	1,004	518	–	3,514
Debt securities in issue[1]	–	–	273,759	–	273,759
Derivative financial instruments	(796)	138	15,227	7,996	22,565
Other liabilities	12,826	–	–	–	12,826
Subordinated liabilities	65	909	11,323	19,299	31,596
Perpetual subordinated bonds[2]	595	1,184	4,736	15,000	21,515
Total	**1,418,622**	**839,555**	**1,343,098**	**42,295**	**3,643,570**

Notes:

(1) Debt securities in issue (securities issued by Rochester Finance No.1 plc, a mortgage securitisation vehicle established by the Group) do not include future interest due as this cannot be determined as principal repayments depend on, amongst other factors, the schedule of principal receipts on the securitised mortgages.

(2) Assumes that the Perpetual Subordinated Bonds will not mature at the first call date.

As at 31 December 2012	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors	1,162,361	262,777	752,557	600,432	2,778,127
Amounts owed to credit institutions and other customers	10,185	14,005	537	–	24,727
Derivative financial instruments	(541)	1,219	20,555	43,398	64,631
Other liabilities	10,241	–	–	–	10,241
Subordinated liabilities	65	1,075	10,999	19,299	31,438
Perpetual subordinated bonds[(1)]	595	1,181	1,184	15,000	17,960
Total	**1,182,906**	**280,257**	**785,832**	**678,129**	**2,927,124**

Note:

(1) Assumes that the Perpetual Subordinated Bonds will not mature at the first call date.

As at 31 December 2011	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors	790,098	599,051	771,929	–	2,161,078
Amounts owed to credit institutions and other customers	18,965	18,963	1,090	–	39,018
Derivative financial instruments	431	2,838	17,252	81,019	101,540
Other liabilities	4,551	–	–	–	4,551
Subordinated liabilities	65	1,048	11,543	19,663	32,319
Perpetual subordinated bonds[(1)]	599	1,188	2,366	15,000	19,153
Total	**814,709**	**623,088**	**804,180**	**115,682**	**2,357,659**

Note:

(1) Assumes that the Perpetual Subordinated Bonds will not mature at the first call date.

(b) ***Solvency Risk***

Solvency risk is the risk that the Group fails to maintain sufficient resources to absorb losses through a full economic cycle, or sufficient resources to maintain the confidence of current and prospective investors, the Board and regulators.

The Group adopts the provisions of the Capital Requirements Directive ("**CRD**") relating to the calculation of minimum capital requirements and has calculated its Pillar 1 minimum credit risk capital requirement on a standardised basis and operational risk capital requirement using the basic indicator approach.

The Group conducts an assessment of its capital and financial resources, known as its ICAAP, and this determines the levels of capital required going forwards to support the current and future risks of the business.

(c) ***Market Risk***

Market risk is the risk of an adverse change in the Group's income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all of the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of customer value.

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is most prevalent in mortgage lending where fixed rate mortgages are not funded by fixed rate deposits of the same duration, or where the fixed rate risk is not hedged by a fully matching interest rate derivative.

The Group is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Group manages its interest risk exposure on a continuous basis through the use of derivatives within limits set by the ALCO and the Board.

The secondary market risk faced by the Group is basis risk. Basis risk arises when the Group finances an asset with a liability which re-prices from a different interest rate index. The Group manages this exposure on a continuous basis within limits set by the ALCO.

(d) ***Tax Risk***

Taxation risk is the risk associated with changes in taxation law or in the interpretation of taxation law. It also includes the risk of changes in taxation rates and the risk of failure to comply with procedures required by taxation authorities. Failure to manage taxation risks could lead to an additional taxation charge.

1.7 **Operational Risk**

Operational risk, which is inherent in all business activities, is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. It can occur in any of the Group's businesses and includes errors, omissions, natural disasters and deliberate acts such as fraud. The Group manages this risk within an overall governance and control strategy. Within this structure, potential risk exposures are assessed to determine the appropriate type of controls to be applied. It is recognised that such risks can never be entirely eliminated and that the cost of controls in minimising these risks may outweigh the potential benefits. However, where required, the Group continues to invest in risk management and mitigation such as business continuity management and incident management. Each business area or function has appointed an operational risk champion who is responsible for the day-to-day identification and reporting of operational risk incidents, recording of operational loss data, and performing operational risk assessments.

1.8 **Conduct Risk**

Conduct risk arises from the way the Group interacts with its customers and manages customer relationships. Conduct risk can arise through the design of products that do not meet customers' needs, barriers to sale of a product or exit, mishandling of complaints where the Group has behaved inappropriately towards its customers and inappropriate sales processes. Conduct risk is at the centre of the FCA's approach to regulation.

One of the Group's key strategic drivers is to put the customer at the heart of everything it does, and indeed this is one of the key metrics by which the Group measures its success. The Group has developed and is implementing a framework to enable it to deliver the right outcomes for its customers which is supported by policies and standards in key areas, including product governance, customer treatment, responsible lending, customers in financial difficulties, claims and complaints handling.

1.9 **Regulatory Risk**

Regulatory risk is the risk of regulatory changes and enforcement, with the potential for fines and/or restrictions in business activities. Over recent years the financial services industry has seen increased regulatory scrutiny and supervision around governance, capital, liquidity and remuneration. There has also been focus on conduct and treating customers fairly. Regulatory risk is monitored and reported on by the compliance function through a monthly regulatory horizon scan and a regulatory framework dashboard, which tracks compliance of the Group monthly with the key sections of the PRA and FCA Handbooks, data protection and anti-money laundering requirements.

1.10 Strategic Risk

Strategic risk is the risk of loss arising from a poor strategic business decision, improper implementation of a business decision, or lack of responsiveness to industry changes. While all business areas are responsible for managing their own risks, management of strategic risk is primarily the responsibility of senior management and committees whose remit encompasses all the risk categories on a Group-wide basis. The management of strategic risk is intrinsically linked to the corporate planning and stress testing processes and is further supported by the regular provision of consolidated business performance and risk reporting data to the Board and the Risk Committee.

PART VIII

CAPITALISATION AND INDEBTEDNESS

The following tables show the capitalisation of the Group as at 31 January 2014 and the indebtedness of the Group as at 31 March 2014.

1. Capitalisation

The following table sets out the Group's capitalisation as at 31 January 2014. The capitalisation of the Group has been extracted without material adjustment from the historical financial information in Part IX (*Historical Financial Information*) of this Prospectus.

	As at 31 January 2014
	£'000
Shareholders' equity	
Share capital	1,265
Other reserves[1]	132,816
Retained earnings	27,383
Total capitalisation	161,464

Note:

1. Other reserves include £22 million of 6.591% perpetual subordinated bonds classified as equity.

There has been no material change to the Group's capitalisation since 31 January 2014.

2. Indebtedness

The following tables set out the Group's indebtedness as at 31 March 2014, which has been extracted from the Group's accounting records and is unaudited.

Indebtedness

	As at 31 March 2014
	£'000
Issued debt securities	266,740
Bank debt[1]	950
Subordinated liabilities	
– Perpetual Subordinated Bonds	15,107
– Other subordinated liabilities	27,504
Total subordinated liabilities	42,610
Total indebtedness	**310,300**

Note:

1 Represents cash collateral posted by swap counterparties

The Group has an additional £22 million of perpetual subordinated bonds classified as equity.

Indirect and contingent indebtedness

	As at 31 March 2014
	£'000
Acceptances and endorsements	–
Guarantees and assets pledged as collateral security:	
– Securities pledged in the FLS	100,538
– Securitised mortgages	361,714
Other contingent liabilities	–
Total indirect and contingent indebtedness	**462,252**

PART IX

HISTORICAL FINANCIAL INFORMATION

Section A: Accountants' report on consolidated historical financial information of the Group

The Directors
OneSavings Bank plc
Reliance House
Sun Pier
Chatham
Kent
ME4 4ET

5 June 2014

Dear Sirs

OneSavings Bank plc

We report on the consolidated financial information of OneSavings Bank plc and its subsidiary undertakings set out on pages 128 to 185 for the 11 months ended 31 December 2011, the 12 months ended 31 December 2012 and 31 December 2013 and the one month ended 31 January 2014. This financial information has been prepared for inclusion in the prospectus dated 5 June 2014 of OneSavings Bank plc on the basis of the accounting policies set out in note 1 to the financial information. 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 one month ended 31 January 2013 which has been included for comparative purposes only, and accordingly do not express an opinion thereon.

Responsibilities

The Directors of OneSavings Bank plc are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the prospectus dated 5 June 2014, a true and fair view of the state of affairs of OneSavings Bank plc and its subsidiary undertakings as at 31 December 2011, 31 December 2012, 31 December 2013 and 31 January 2014 and of its consolidated income statement, consolidated statement of comprehensive income, consolidates statement of changes in equity and consolidated statement of cash flows for the 11 months ended 31 December 2011, the 12 months ended 31 December 2012 and 31 December 2013 and the one month ended 31 January 2014 in accordance with the basis of preparation set out in note 1(a) to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

Section B: Consolidated historical financial information of the Group

Consolidated Income Statement

	Notes	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013 (unaudited)	1 month ended 31 January 2014
		£'000	£'000	£'000	£'000	£'000
Interest receivable and similar income	2.1	42,628	87,293	150,607	9,585	15,866
Interest payable and similar charges	2.2	(43,450)	(71,132)	(79,841)	(6,973)	(6,729)
Net interest income		(822)	16,161	70,766	2,612	9,137
Fair value gains/(losses) on financial instruments	2.3	669	(561)	(840)	660	53
Gains/(losses) on sales of financial instruments	2.4	9,035	2,893	(24)	–	2,258
Fees and commissions receivable		109	241	728	65	25
Fees and commissions payable		(1,247)	(1,140)	(1,696)	(112)	(19)
External servicing fees		–	(1,601)	(3,503)	–	(388)
Total income		7,744	15,993	65,431	3,225	11,066
Administrative expenses	2.5	(17,061)	(18,836)	(23,986)	(1,812)	(2,527)
Depreciation and amortisation	3.7/3.8	(314)	(460)	(547)	(46)	(45)
Operating profit/(loss)		(9,631)	(3,303)	40,898	1,367	8,494
Regulatory provisions	5.5	(744)	(930)	(2,152)	–	–
Operating profit (loss) before impairment losses		(10,375)	(4,233)	38,746	1,367	8,494
Impairment losses	3.5	(2,913)	(5,301)	(7,329)	(334)	(698)
Profit/(Loss) before negative goodwill		(13,288)	(9,534)	31,417	1,033	7,796
Negative goodwill	4.1	–	17,603	–	–	–
Profit/(Loss) before taxation		(13,288)	8,069	31,417	1,033	7,796
Taxation	2.7	2,144	996	(4,646)	(256)	(1,686)
Profit/(Loss) for the year		(11,144)	9,065	26,771	777	6,110

Consolidated Statement of Comprehensive Income

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013 (unaudited)	1 month ended 31 January 2014
	£'000	£'000	£'000	£'000	£'000
Other comprehensive income:					
Fair value changes on available-for-sale securities	2,141	(467)	(1,836)	(288)	224
Exchange differences on revaluation of assets and liabilities of foreign subsidiaries(1)	–	31	372	–	–
Deferred tax taken to other comprehensive income	(319)	(70)	395	69	(48)
Other comprehensive income for the year	1,822	(506)	(1,069)	(219)	176
Profit/(Loss) for the year	(11,144)	9,065	26,771	777	6,110
Total comprehensive income for the year	(9,322)	8,559	25,702	558	6,286

(1) Further disclosed in accounting policies, note 1(d)

All items within other comprehensive income may potentially be reclassified to profit or loss in subsequent periods.

Consolidated Statement of Financial Position

	Notes	31 December 2011	31 December 2012	31 December 2013	31 January 2014
		£'000	£'000	£'000	£'000
Liquid assets					
Cash in hand and balances with the Bank of England		253	282	267	248
Loans and advances to credit institutions	3.1	239,661	291,700	269,101	252,793
Investment securities	3.2	361,337	410,339	361,045	336,692
		601,251	**702,321**	**630,413**	**589,733**
Loans and advances to customers	3.3	1,639,946	2,196,050	3,041,248	3,096,352
Derivative assets	5.10	683	–	757	810
Fair value hedges – assets		93,498	86,501	67,863	69,390
Current taxation asset		818	–	–	–
Deferred taxation asset	3.9	14,672	15,472	10,901	9,167
Intangible assets	3.7	495	910	1,117	1,099
Property, plant and equipment	3.8	1,858	4,231	4,955	5,236
Other assets	3.10	2,925	3,175	6,632	6,933
Total assets		**2,356,146**	**3,008,660**	**3,763,886**	**3,778,720**
Liabilities					
Amounts owed to retail depositors	3.11	2,081,590	2,744,646	3,251,576	3,263,720
Amounts owed to credit institutions	3.12	831	3,190	1,438	849
Amounts owed to other customers	3.13	38,394	21,763	2,351	7,357
Debt securities in issue	3.14	–	–	273,759	265,874
Derivative liabilities	5.10	95,222	63,949	22,566	24,420
Fair value hedges – liabilities		1,094	3,475	–	–
Current taxation liability		–	–	69	–
Deferred taxation liability	3.9	562	389	–	–
Other liabilities	3.15	4,551	10,241	12,826	10,700
FSCS other provisions	5.5	1,392	2,316	1,281	1,281
Subordinated liabilities	3.16	26,842	27,576	27,579	27,685
Perpetual subordinated bonds	3.17	15,327	15,189	15,263	15,370
Equity					
Equity		90,341	115,926	155,178	161,464
Total equity and liabilities		**2,356,146**	**3,008,660**	**3,763,886**	**3,778,720**

Consolidated Statement of Changes in Equity

	Share capital	Capital contri- bution	Share premium	Foreign exchange reserve	Transfer reserve	Available for sale reserve	Retained earnings	Equity bonds[1]	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at date of incorporation	–	–	–	–	–	–	–	–	–
Balance as at 1 February 2011	–	–	26,000	–	(12,818)	–	931	22,000	36,113
Loss for the year	–	–	–	–	–	–	(11,144)	–	(11,144)
Coupon paid on equity bonds	–	–	–	–	–	–	(1,450)	–	(1,450)
Other comprehensive income	–	–	–	–	–	1,822	–	–	1,822
Capital injections	361	–	64,639	–	–	–	–	–	65,000
Balance as at 1 January 2012	**361**	**–**	**90,639**	**–**	**(12,818)**	**1,822**	**(11,663)**	**22,000**	**90,341**
Profit for the year	–	–	–	–	–	–	9,065	–	9,065
Coupon paid on equity bonds	–	–	–	–	–	–	(1,450)	–	(1,450)
Other comprehensive income	–	–	–	31	–	(537)	–	–	(506)
Capital injections	490	–	14,510	–	–	–	–	–	15,000
Capital contribution[2]	–	2,054	–	–	–	–	–	–	2,054
Ordinary B shares issued[2]	–	1,272	–	–	–	–	–	–	1,272
Ordinary E shares issued[2]	150	–	–	–	–	–	–	–	150
Balance as at 31 December 2012	**1,001**	**3,326**	**105,149**	**31**	**(12,818)**	**1,285**	**(4,048)**	**22,000**	**115,926**
Profit for the year	–	–	–	–	–	–	26,771	–	26,771
Coupon paid on equity bonds	–	–	–	–	–	–	(1,450)	–	(1,450)
Other comprehensive income	–	–	–	372	–	(1,441)	–	–	(1,069)
Capital injections	264	–	14,736	–	–	–	–	–	15,000
Balance as at 31 December 2013	**1,265**	**3,326**	**119,885**	**403**	**(12,818)**	**(156)**	**21,273**	**22,000**	**155,178**
Profit for the year	–	–	–	–	–	–	6,110	–	6,110
Coupon paid on equity bonds	–	–	–	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	176	–	–	176
Capital injections	–	–	–	–	–	–	–	–	–
Balance as at 31 January 2014	**1,265**	**3,326**	**119,885**	**403**	**(12,818)**	**20**	**27,383**	**22,000**	**161,464**

(1) Equity bonds comprise £22 million of 6.591% perpetual subordinated bonds.

(2) Part of purchase consideration in acquisitions. See note 4.1 for more details.

Consolidated Statement of Cash Flows

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2014
	£'000	**£'000**	**£'000**	**£'000**
Cash flows from operating activities				
Profit before tax	(13,288)	8,069	31,417	7,796
Adjustments for:				
Depreciation and amortisation	314	460	547	45
Negative goodwill	–	(17,603)	–	–
Interest on subordinated liabilities	1,142	1,299	1,256	106
Interest on perpetual subordinated bonds	1,043	1,254	1,255	106
Net impairment charge on loans and advances	2,913	5,301	7,329	698
(Gain)/loss on sale of financial instruments	(9,035)	(2,893)	24	(2,258)
FSCS and other provisions	744	930	2,152	–
Fair value losses on financial instruments	(669)	561	840	(53)
Exchange differences on foreign operations	–	–	453	–
FSCS provision paid	–	–	(3,187)	–
Tax paid	2,144	996	(489)	(163)
	(14,692)	**(1,626)**	**41,597**	**6,277**
Changes in operating assets and liabilities				
(Decrease)/increase in loans and advances to credit institutions	(17,654)	(41,880)	87,024	–
(Increase) in loans to customers	(108,271)	(452,215)	(852,527)	(55,802)
Increase in retail deposits	376,193	663,056	506,930	12,143
(Increase) in other assets	(3,781)	(1,529)	(3,966)	(307)
(Decrease) in derivatives and hedged items	–	(21,773)	(27,817)	329
(Decrease) in bank and other deposits	(88,466)	(14,272)	(21,164)	4,417
Net increase in other liabilities	1,665	5,511	3,586	(2,026)
Cash (used in)/generated from operating activities	**144,994**	**135,272**	**(266,337)**	**(34,969)**
Cash flows from investing activities				
(Purchases) of investment securities	(172,392)	(755,891)	(1,013,170)	–
Sales of investment securities	161,721	708,563	1,060,604	26,835
Purchases of equipment and intangible assets	(738)	(3,248)	(1,559)	(308)
Acquisition of subsidiaries, net of cash acquired	–	(1,209)	–	–
Cash (used in)/generated from investing activities	**(11,409)**	**(51,785)**	**45,875**	**26,527**

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2014
	£'000	**£'000**	**£'000**	**£'000**
Cash flows from financing activities				
Coupon paid on equity bonds	(1,450)	(1,450)	(1,450)	–
Interest paid on bonds and subordinated debt	(2,365)	(2,453)	(2,437)	–
Share issued	65,000	15,000	15,000	–
Net issue of debt	–	–	273,759	(7,885)
Repayment of InterBay and Prestige funding on acquisition	–	(84,396)	–	–
Cash generated from/(used in) financing activities	61,185	(73,299)	284,872	(7,885)
Net increase in cash and cash equivalents	**194,770**	**10,188**	**64,410**	**(16,327)**
Cash and cash balances at beginning of the period				
Cash in hand and balances with Bank of England	–	253	282	267
Loans and advances to credit institutions repayable on demand	–	194,517	204,676	269,101
	–	194,770	204,958	269,368
Cash and cash equivalents at the end of the period				
Cash in hand and balances with the Bank of England	253	282	267	248
Loans and advances to credit institutions repayable on demand	194,517	204,676	269,101	252,793
	194,770	204,958	269,368	253,041
Movement in cash and cash equivalents	**194,770**	**10,188**	**64,410**	**(16,327)**

Note 1 Accounting Policies

The principal accounting policies applied in the preparation of the accounts for the Group are set out below.

(a) *Basis of preparation*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") as adopted by the European Union ("**EU**"); and interpretations issued by the International Financial Reporting Interpretations Committee ("**IFRIC**").

The financial statements have been prepared on an historical cost basis, as modified by the revaluation of available for sale financial assets, derivative contracts and financial assets held at fair value through profit or loss.

(b) *Going concern*

The Board undertakes regular rigorous assessments of whether the Group is a going concern in the light of current economic conditions and all available information about future risks and uncertainties.

Projections for OneSavings Bank have been prepared, covering its future performance, capital and liquidity, for a period in excess of 12 months from the date of approval of these financial statements including stress scenarios. These projections show that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the Prudential Regulatory Authority.

The Board has therefore concluded that the Group has sufficient resources to continue in operational existence for the foreseeable future and as a result it is appropriate to prepare these financial statements on a going concern basis.

(c) *Basis of consolidation*

The Group accounts include the results of the Company and its subsidiary undertakings. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Upon consolidation inter-company transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) *Foreign currency translation*

The consolidated financial statements are presented in pounds sterling which is the presentation currency of the Group. The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "**functional currency**"). Foreign currency transactions are translated into the functional currencies using the exchange rates prevailing at the date of the transactions. Monetary items denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the re-translation and settlement of these items are recognised in profit or loss.

The assets and liabilities of foreign operations with functional currencies other than sterling, including goodwill and consolidation fair value adjustments, are translated into the presentation currency at the exchange rate on the reporting date. The income and expenses of foreign operations are translated at the rates on the dates of transactions. Exchange differences on foreign operations are recognised in other comprehensive income and accumulated in the foreign exchange reserve within equity. When a foreign operation is wholly or partly disposed of with loss of control, the relevant accumulated exchange differences are reclassified to profit or loss as part of gain or loss on disposal. In a partial disposal without loss of control, the proportionate share of cumulative exchange differences is reattributed to non-controlling interest.

(e) *Segmental reporting*

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance. For this purpose, the chief operating decision maker of the Group is the Board of Directors.

The Group operates solely within the UK and the Channel Islands and as such no geographical analysis is required.

The Group segments its lending by product, focusing on the customer's need and reason for a loan. It operates under three segments; Residential Mortgages, Buy-to-Let/SME and Personal Loans.

(f) *Taxation*

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is correspondingly recognised in other comprehensive income.

Current tax is the expected tax charge or credit on the taxable income or loss in the period and any adjustments in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amounts of assets or liabilities for accounting purposes and carrying amounts for tax purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that future taxable profits will be available to utilise them. Deferred tax assets are reviewed at each reporting date and reduced where it is no longer probable that the tax benefit will be realised.

Deferred tax is determined using the taxation rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related temporary differences reverse.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual Group company or on Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

(g) *Interest income and expense*

Interest income and interest expense for all interest-bearing financial instruments measured at amortised cost are recognised in profit or loss using the effective interest rate ("**EIR**") method. The EIR is the rate which exactly discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability.

In calculating the EIR the Group estimates the cash flows considering all contractual terms but not future credit losses. Potential early repayment charges, origination fees received and paid on loans to customers, together with premium/discount paid on/received on acquired loan books and acquisition costs on loan books are included within loans and advances to customers and are amortised over the expected life of those assets using the EIR method.

Interest income on available for sale investments is included in interest receivable and similar income. Interest on derivatives is included in interest receivable and similar income or interest expense and similar charges following the underlying instrument it is hedging.

(h) *Fees and commissions*

Fees and commissions which are an integral part of the EIR of a financial instrument are recognised as an adjustment to the EIR and recorded in interest income. Other fees and commissions are recognised on the accruals basis as services are provided or on the performance of a significant act, net of VAT and similar taxes.

(i) *Cash and cash equivalents*

Cash and cash equivalents comprise cash, non-restricted balances with central banks and highly liquid financial assets with original maturities of less than three months from the date of acquisition subject to an insignificant risk of changes in their fair value.

(j) *Intangible assets*

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a unique and identifiable asset controlled by the Group and will generate future economic benefits.

Costs to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, which is generally five years. Intangible assets are reviewed for impairment on an annual basis.

(k) *Property, plant and equipment*

Property, plant and equipment comprise freehold land and buildings, major alterations to office premises, computer equipment, motor vehicles and fixtures measured at cost less accumulated depreciation. These assets are reviewed for impairment annually and if they are considered to be impaired are written down immediately to their recoverable amounts.

Gains and losses on disposals calculated as the difference between the net disposal proceeds with the carrying amount of the asset are included in profit or loss.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives as follows:

Buildings	50 years
Equipment, fixtures and Vehicles	5 years

Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The cost of repairs and renewals is charged to profit or loss in the period in which the expenditure is incurred.

(l) *Financial assets and liabilities*

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they originated. All other financial instruments are accounted for on trade date which is when the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets and liabilities in accordance with IAS 39 into the following categories:

(i) Loans and receivables: which are predominantly mortgage loans, advances to customers and money market advances with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near term. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the EIR method, less impairment losses. Where exposures are hedged by derivatives, designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

(ii) Financial assets at fair value through profit or loss: are instruments:

- which upon initial recognition are designated at fair value through profit or loss to eliminate or significantly reduce a measurement recognition inconsistency or;
- which are acquired principally for the purpose of selling in the near term or forming part of the portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

Financial assets in this category are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net income in profit or loss. The fair values are quoted market prices (where there is an active market) or are based on valuation techniques (where there is no active market or the securities are unlisted). Valuation techniques include the use of recent arm's length transactions, discounted cash flow analysis and other commonly used valuation methods. During the current and prior year no financial assets were designated at fair value through profit or loss.

(iii) Available-for-sale financial assets: comprise securities held for liquidity purposes (certificates of deposit, treasury bills and money market instruments in the nature of loans and advances to credit institutions). These assets are non-derivatives that are designated as available-for-sale and not categorised in any other financial asset categories. These are held at fair value with movements being taken to other comprehensive income and subsequently the AFS reserve within equity, except for impairment losses which are taken to profit or loss. When the instrument is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(iv) Held-to-maturity investments: are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Group intends to hold to maturity. These assets are held at amortised cost using the EIR method less any impairment.

(v) Financial liabilities: comprise deposits, debt securities and subordinated liabilities used as sources of funding. They include the 7.875 per cent. Perpetual Subordinated Bond where the terms allow no discretion over the payment of interest. The Group has no financial liabilities held for trading or designated at fair value through profit or loss.

Financial liabilities are initially measured at fair value less direct transaction costs, and subsequently held at amortised cost using the EIR method.

The 6.591 per cent. Perpetual Subordinated Bond is classified as equity as it was issued with terms that include discretion over the payment of interest.

(vi) Derecognition of financial assets and liabilities: financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred.

Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

(vii) Sale and repurchase agreements: securities sold subject to repurchase agreements are retained in the financial statements when required under the de-recognition criteria of IAS 39. The securities that are retained in the financial statements are reflected as loans or investment securities and the counterparty liability is included in amounts owed to depositors, credit institutions or other customers. Securities purchased under agreements to resell at a pre-determined price are accounted for as loans and receivables. The difference between the sale and repurchase price is treated as interest and accrued over the lives of agreements using the EIR method.

(m) *Derivative financial instruments and hedge accounting*

The Group uses derivative financial instruments (interest rate swaps) for the purpose of reducing fair value interest rate risk to hedge its exposure to the interest rate risk arising from financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading.

Derivative financial instruments are recognised at their fair value with changes in their fair value going through profit or loss. Fair values are calculated by discounting cash flows at the prevailing interest rates.

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value. These embedded derivatives are separately measured at fair value with changes in fair value recognised in profit or loss.

The Group designates certain derivatives as a hedge of fair value of a portfolio of recognised assets or liabilities (macro fair value hedge). Hedge accounting is used for derivatives designated in this way provided the criteria specified in IAS 39 are met.

Where there is an effective hedge relationship for fair value hedges, the changes in fair value of the hedged item arising from the hedged risk are taken to profit or loss. The fair value changes of both the hedged item and the derivative substantially offset each other to reduce profit volatility. To qualify for hedge accounting at inception, the hedge relationship must be clearly documented and the derivative must be expected to be highly effective in offsetting the hedged risk.

In addition, effectiveness must be tested throughout the life of the hedge relationship.

The Group discontinues hedge accounting when testing demonstrates that a derivative is not or has ceased to be highly effective as a hedge, the derivative ceases through expiry or sale or the underlying hedged item matures, is sold or is repaid.

If a derivative no longer meets the criteria for hedge accounting the cumulative fair value hedging adjustment is amortised over a period up to the maturity of the previously designated hedge relationship. If the underlying item is sold or repaid the unamortised fair value adjustment is immediately reflected in profit or loss.

(n) *Impairment of financial assets*

The Group regularly assesses whether there is evidence that a financial asset or a portfolio of financial assets not carried at fair value through profit or loss is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date ("**a loss event**"), and that loss event or events has/or have had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Any provision is based on a management assessment of the propensity for the account to realise a loss taking account of the amount recoverable on mortgage indemnity cover and additional security.

In situations where the Group determines that it is appropriate in order to meet borrower needs, it applies a policy of forbearance and may grant a concession. The Group considers forbearance on a case by case basis. This may arise where the Group considers that the financial stress of the customer is temporary and potentially recoverable. Such a concession, which will only be implemented after obtaining the borrower's consent, may involve capitalisation of arrears, temporary or permanent conversion to an interest only repayment basis, a reduced monthly payment or a mortgage term extension. Accounts that are subject to forbearance are tested for impairment on an individual basis.

For financial assets carried at amortised cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original EIR.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised directly in equity to the Income Statement. The cumulative loss that is removed from equity and recognised in the Income Statement is measured as the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss on that asset previously recognised in the Income Statement.

If, in a subsequent period, the fair value of the debt security classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure and any costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. This incorporates amounts calculated to overcome model deficiencies and systemic risks where appropriate and supported by historical loss experience data. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

Impairment losses and any subsequent reversals are recognised in profit or loss. Following impairment, interest income is recognised using the original EIR which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectible, it is written off against the related provision. 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 are taken through profit or loss.

The Group's objective in restructuring a loan will primarily be to maximise the potential recovery of its outstanding debt. A loan restructuring is the modification or elimination of a loan prior to or at its maturity date by means other than those prescribed under the contractual terms of the loan agreement.

This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms of the loan have been re-negotiated, the loan is no longer considered past due. The Group continually reviews re-negotiated loans to ensure that all criteria are met and future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(o) *Debt valuation adjustment*

The DVA is based on the expected loss a counterparty faces due to the risk of the Group's default. The methodology is based on a standard calculation, taking into account the one-year probability of default, the expected exposure at default, the expected loss given default, and the average maturity of the swaps.

(p) *Provisions and contingent liabilities*

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events which are either not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but disclosed unless their probability is remote.

The Group's accounting policy for FSCS levies is to recognise its liability at the relevant trigger date, taking guidance from IFRIC 21's classification regarding the treatment of government levies and trigger points.

(q) *Employee benefits – defined contribution scheme*

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in profit or loss as incurred.

(r) *Business combinations and goodwill*

Business combinations are accounted for using the purchase method of accounting. On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated accounts at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets, the difference is treated as negative goodwill which is recognised directly in profit or loss in the year of acquisition.

Changes in ownership that do not result in loss of control are accounted for as equity transactions.

(s) *Securitisation*

Special purpose entities ("**SPEs**") used to raise funds through securitisation transactions are consolidated into the Group's operations under IFRS 10 as if they were wholly owned subsidiaries. Loans transferred to SPEs under securitisation agreements are not derecognised by the Company because it retains the power to govern and control.

While the securitisation entity has been consolidated as a 100 per cent. subsidiary, the mortgage loans included within the securitisation structure are ringfenced, with the cashflows being used to repay its liabilities in line with the priority of payments set out in the securitisation prospectus.

(t) *Share based payments*

Share-based payment arrangements in which the Bank receives goods or services as consideration for equity instruments in one of the Bank's shareholders, OSB Holdco Limited, are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(u) *Judgements in applying accounting policies and critical accounting estimates*

In preparing these financial statements, the Group has made judgements, estimates and assumptions which affect the reported amounts within the current and next financial year. Actual results may differ from these estimates.

Estimates and judgements are regularly reviewed based on past experience, expectations of future events and other factors. The key areas where estimates and judgements are made are as follows:

(i) *Impairment of financial assets*: Financial assets held at amortised cost are assessed for impairment as described above. Specific provision assessment involves judgement in relation to future cash flows including the cost of obtaining and selling the collateral, the likely sale proceeds and any rental income prior to sale. The most critical estimate is of the level of house prices where a variance of 10% equates to a change of £4.2 million (2012: £5.4 million; 2011: £4.2 million) in the provision.

Collective provisions are calculated using 12 month delinquency roll rates and one year probability of defaults on different segments of the loan book. These rates, along with forced sale discounts, are applied to calculate the expected losses. Judgement needs to be exercised in deciding how to apply historical experience to current market conditions. The most critical estimate is of the level of house prices where a variance of 10% equates to a change of £1.9 million (2012: £2.3 million; 2011: £2.4 million) in the provision.

Provisions on unsecured loans are calculated on the same principles as for mortgages using expected partial recovery of loss until and on default instead of underlying property proceeds.

(ii) *Fair values:* The fair values used in the financial statements, including those for financial instruments, are, where market values are not available, calculated using valuation techniques utilising discounted cash flow models using yield curves based on observable market data. The fair values of mortgage assets acquired through company acquisitions are calculated utilising techniques including discounted cash flow models, which include assumptions based on loan and portfolio level attributes as well as macroeconomic assumptions, including HPI, unemployment levels and interest rates, to derive prepayment rates, the probability and timing of defaults and amount of expected losses.

(iii) *Effective interest rate:* To calculate the appropriate EIR, the Group makes a number of assumptions relating to the expected lives of financial instruments, likely redemption profiles, probability and timing of defaults and the anticipated level of early repayment charges. For acquired mortgage and loan books EIRs are calculated utilising cash flow models which include assumptions on the likely macroeconomic environment, including HPI, unemployment levels and interest rates, as well as loan level and portfolio attributes and history to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses. Estimates are reviewed in each reporting period to ensure they reflect current and expected future performance. Where estimates of future cash flows are revised following such reviews, the carrying amount of the financial instrument is revised such that it equals the revised estimated future cash flows discounted at the original EIR. Such adjustments to the carrying value are taken through interest receivable and similar income. Purchase discounts/premiums on acquired books in excess of incurred credit losses at the purchase date are recognised over the expected life of the loans through the EIR.

(iv) *Deferred taxation:* Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset. The recognition of deferred tax is mainly dependent on the projections of future taxable profits and future reversals of temporary differences.

The Board's projections of future taxable income are based on business plans, future capital requirements and ongoing tax planning strategies. These assumptions include the impact of credit losses, capital requirements and assumptions about the UK macroeconomic environment. The assumptions surrounding future expected credit losses represent the most subjective areas of judgement in the Board's projections of future taxable income. The Board's forecast supports the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax asset. The current estimates assume that the Group will utilise its deferred tax asset within the next five years.

Note 2 Results for the Year

2.1 **Interest receivable and similar income**

	11 months ended 31 December 2011	**Year ended 31 December 2012**	**Year ended 31 December 2013**	**1 month ended 31 January 2013 (unaudited)**	**1 month ended 31 January 2014**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
On residential mortgages	46,845	73,494	100,135	7,716	8,880
On BTL/SME mortgages	16,771	23,262	42,729	2,665	5,084
On personal loans	–	–	14,488	–	2,420
On reverse repo transactions	–	–	39	–	71
On investment securities	3,985	4,291	3,386	296	155
On other liquid assets	647	2,787	1,942	263	57
Net expense on derivative financial instruments	(25,620)	(16,541)	(12,112)	(1,355)	(801)
	42,628	**87,293**	**150,607**	**9,585**	**15,866**

Net expense on derivative financial instruments represents the effective portion of hedging.

Included within interest receivable in 2013 is £1,888 (2012: £1,817 and 2011: £2,737) in respect of interest accrued on accounts with a specific provision.

2.2 **Interest payable and similar charges**

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013 (unaudited)	1 month ended 31 January 2014
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
On retail deposits	40,163	70,033	77,987	6,969	6,114
On Perpetual Subordinated Bonds	1,043	1,254	1,255	109	106
On subordinated liabilities	1,142	1,299	1,256	106	106
On wholesale borrowings	1,094	530	1,550	34	572
Net income on derivative financial instruments	8	(1,984)	(2,207)	(245)	(169)
	43,450	**71,132**	**79,841**	**6,973**	**6,729**

Net income on derivative financial instruments represents the effective portion of hedging.

2.3 **Fair value gains and losses on financial instruments**

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013 (unaudited)	1 month ended 31 January 2014
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Ineffective portion of hedges	(1,903)	1,340	673	487	(392)
Amortisation of cancelled swaps	–	(841)	(2,755)	(117)	2,475
Net gains/(losses) on unmatched swaps	2,572	(1,060)	1,135	290	(2,030)
Debt valuation adjustment	–	–	107	–	–
	669	**(561)**	**(840)**	**660**	**53**

Amortisation of cancelled swaps represents amortisation of the hedged adjustment on cancelled swaps which were effective hedges at the point of cancellation.

Unmatched swaps are derivatives that do not form part of a hedging relationship.

The debt valuation adjustment ("**DVA**") is calculated on the Group's derivative liabilities and represents exposure of their holders to the risk of the Group's default. The DVA is required by IFRS 13.

Credit valuation adjustment ("**CVA**"), the Group's exposure to the risk of derivative counterparty default also required by IFRS 13, was immaterial in all periods concerned due to derivatives being collateralised and the high credit ratings of counterparties.

2.4 **Gains on sales of financial instruments**

The Group routinely buys and sells liquidity assets in order to confirm the ease with which cash can be released and the robustness of the valuations assigned to such assets. During 2013, transactions in liquidity assets led to the realisation of a net loss of nil (2012: gain of £2.9 million and 2011: gain of £9.0 million).

2.5 **Administrative expenses**

	11 months ended 31 December 2011[1]	Year ended 31 December 2012[1]	Year ended 31 December 2013	1 month ended 31 January 2013 (unaudited)	1 month ended 31 January 2014
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Staff costs	4,859	8,522	13,421	964	1,259
Facilities costs	539	706	1,296	84	173
Marketing costs	773	462	661	57	40
Support costs	2,579	1,848	2,441	182	309
Professional costs	5,171	4,450	2,386	182	437
Other costs	3,140	2,848	3,781	343	309
	17,061	**18,836**	**23,986**	**1,812**	**2,527**

Included in professional fees are amounts paid to the auditors of the Group, as per below:

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013* (unaudited)	1 month ended 31 January 2014*
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Audit of the Company and Group accounts	126	132	180	10	52
Audit of the Group's subsidiary undertakings pursuant to legislation	30	68	60	3	17
Tax advisory services	6	137	34	2	10
Tax compliance services	–	–	27	2	8
Audit related assurance services	–	23	36	2	10
All other non-audit services	290	238	46	3	13
	452	**598**	**383**	**22**	**110**

* Audit fees in January 2013 and January 2014 for the month have been apportioned on the same basis as fees for the full year 2013.

Staff costs comprise the following categories:

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013 (unaudited)	1 month ended 31 January 2014
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Salaries, incentive pay and other benefits	4,146	7,481	11,644	838	1,111
Social security costs	345	562	1,132	81	95
Other pension costs	368	479	645	45	53
	4,859	**8,522**	**13,421**	**964**	**1,259**

The average number of persons employed by the Group (including executive Directors) was 342 during 2013, 291 during 2012, and 254 during 2011.

2.6 **Directors' emoluments and transactions**

1 month ended 31 January 2014 Executive Directors' emoluments

	Salary & fees	Incentive pay	Other benefits	Contribution to personal pension policy	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
A Golding	26	–	1	3	30
A Talintyre	18	–	1	3	22
	44	**–**	**2**	**6**	**52**

2013 Executive Directors' emoluments

	Salary & fees	Incentive pay	Other benefits	Contribution to personal pension policy	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
A Golding	306	142	30	40	518
A Talintyre	230	86	8	30	354
	536	**228**	**38**	**70**	**872**

2012 Executive Directors' emoluments

	Salary & fees	Incentive pay	Other benefits	Contribution to personal pension policy	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
A Golding	300	115	22	29	466
A Talintyre	145	50	5	20	220
J Wood	14	–	–	–	14
	459	**165**	**27**	**49**	**700**

2011 Executive Directors' emoluments

	Salary & fees	Incentive pay	Other benefits	Contribution to personal pension policy	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
J Wood	280	–	–	–	280
M J Lazenby	32	–	511	6	549
R Scruton	100	–	181	20	301
	412	**–**	**692**	**26**	**1,130**

Non-Executive Directors' emoluments

	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2014
	£'000	**£'000**	**£'000**	**£'000**
R Duke	–	25	50	4
T Hanford	32	38	40	–
M McCaig	48	47	50	4
Sir C McCarthy	32	38	40	3
D Mills	40	47	50	4
Dr D Morgan	32	38	40	–
A Newell	40	21	–	–
S Wilcke(1)	87	346	364	23
P Williams	32	38	40	–
	343	**638**	**674**	**38**

(1) S Wilcke's remuneration is in respect of both his role as Chairman and as executive lead for M&A activity and comprises salary of £225,000 (2012: £261,000 and 2011: nil), performance incentive pay of £110,000 (2012: £65,000 and 2011: nil) and pension contributions of £29,000 (2012: £20,000 and 2011: nil). During 2012 S Wilcke devoted the majority of his time to the Group, reducing it to 3 days per week in 2013.

Long term incentives

During 2013, S Wilcke, A Golding and A Talintyre subscribed for Growth Shares in Major Shareholder, one of the Company's shareholders, under a long term incentive plan at nominal value. The purpose of the scheme is to reward executive management for execution of the company's strategy and growth in shareholder value over a multi-year period, and is linked to the exit value attained by the Major Shareholder on exit.

The difference between the unrestricted market value and nominal value of the Growth Shares, grossed up for income tax and national insurance covered by the Company, was £23,000 for A Golding, £9,000 for A Talintyre and £18,000 for S Wilcke in 2013. The shares are subject to a vesting schedule and leaver provisions. A portion of the shares vested during 2013.

The figures above include nil (2012: nil and 2011: £692,000) compensation for loss of office during the period.

As at 31 December 2013, there were no outstanding loans granted in the ordinary course of business to Directors and their connected persons during the 2013 financial year. There were also no such loans granted during the 2012 financial year or the 2011 financial period.

2.7 **Taxation**

	Notes	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013 (unaudited)	1 month ended 31 January 2014
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Prior year adjustments in subsidiaries		192	23	–	–	–
Corporation tax		–	–	(69)	–	–
Total current taxation		192	23	(69)	–	–
Deferred taxation	3.9	1,952	973	(4,577)	(256)	(1,686)
Total Taxation		**2,144**	**996**	**(4,646)**	**(256)**	**(1,686)**

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the weighted average taxation rate applicable to profits/(losses) of the Group as follows:

	Notes	11 months ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013 (unaudited)	1 month ended 31 January 2014
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Profit before taxation		(13,288)	8,069	31,417	1,033	7,796
Profit multiplied by the weighted average rate of corporation taxation in the UK during 2013 of 23.25%/2012 – 24.5%, 2011 – 26.4%		3,506	(1,978)	(7,304)	(253)	(1,676)
Taxation effects of:						
Expenses not deductible for taxation purposes		(18)	(234)	(147)	(3)	(10)
Negative goodwill		–	4,313	–	–	–
Adjustments in respect of earlier years		(224)	24	(1,330)	–	–
Coupon on PSBs		–	355	337	–	–
Capital allowances		–	55	29	–	–
Recognition of deferred taxation – InterBay Group[1]		–	–	4,185	–	–
Re-measurement of deferred taxation – change in taxation rate		(1,120)	(1,539)	(416)	–	–
Total taxation (charge)/credit		**2,144**	**996**	**(4,646)**	**(256)**	**(1,686)**

(1) Deferred tax asset in respect of InterBay's accumulated losses, recognised due to profit in the year and forecast profit in future years.

Note 3 – Operating Assets and Liabilities

3.1 Loans and advances to credit institutions

	31 December 2011	31 December 2012	31 December 2013	31 January 2014
	£'000	£'000	£'000	£'000
Loans and advances to credit institutions have remaining maturities as follows:				
Repayable on demand	194,517	204,676	102,185	85,878
Less than three months	44,460	87,024	166,916	166,916
Three months to one year	476	–	–	–
One to five years	208	–	–	–
	239,661	**291,700**	**269,101**	**252,794**

Of the above balance in 2013 £166.9 million (2012: nil and 2011: nil) are short-term investments in securities purchased under agreements to resell (reverse repos). These securities have been included within cash equivalents in the statement of cash flows as they satisfy relevant recognition criteria.

3.2 Investment securities

	31 December 2011	31 December 2012	31 December 2013	31 January 2014
	£'000	£'000	£'000	£'000
Government investment securities	231,744	367,870	339,171	336,324
Other investment securities:				
Listed	9,422	21,941	21,442	–
Unlisted	120,171	20,528	432	368
	361,337	**410,339**	**361,045**	**336,692**
Investment securities have remaining maturities as follows:				
Less than three months	–	120,410	144,935	178,682
Three months to one year	228,987	114,754	122,602	86,072
One to five years	71,225	69,606	72,066	71,938
More than five years	61,125	105,569	21,442	–
	361,337	**410,339**	**361,045**	**336,692**

The Directors consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and hence are classified as financial assets available-for-sale, loans and receivables or held-to-maturity as appropriate.

Movements during the period of investment securities classified as available-for-sale are analysed as follows:

	31 December 2011	31 December 2012	31 December 2013	31 January 2014
	£'000	**£'000**	**£'000**	**£'000**
At 1 January/Transfer of business date	250,038	350,571	320,158	339,603
Additions	172,392	671,245	846,170	–
Disposals and maturities	(74,000)	(703,332)	(830,327)	(3,135)
Reclassifications	–	–	5,438	–
Changes in fair value	2,141	1,674	(1,836)	224
At 31 December/January	**350,571**	**320,158**	**339,603**	**336,692**

Movements during the period of investment securities classified as held-to-maturity are analysed as follows:

	31 December 2011	31 December 2012	31 December 2013	31 January 2014
	£'000	**£'000**	**£'000**	**£'000**
At 1 January/Transfer of business date	18,769	10,766	68,240	–
Additions	–	62,705	167,000	–
Disposals and maturities	(8,003)	(5,231)	(229,802)	–
Reclassifications	–	–	(5,438)	–
At 31 December/January	**10,766**	**68,240**	**–**	**–**

During 2013, the Group sold more than an insignificant part of securities held-to-maturity. Under IAS 39, this triggered reclassification of the remaining securities to assets available-for-sale.

Movements during the period of investment securities classified as loans and receivables are analysed as follows:

	31 December 2011	31 December 2012	31 December 2013	31 January 2014
	£'000	**£'000**	**£'000**	**£'000**
At 1 January/Transfer of business date	–	–	21,941	21,442
Additions	–	21,941	–	–
Disposals and maturities	–	–	(499)	(21,442)
At 31 December/January	–	**21,941**	**21,442**	–

3.3 **Loans and advances to customers**

	31 December 2011	31 December 2012	31 December 2013	31 January 2014
	£'000	**£'000**	**£'000**	**£'000**
Residential mortgages	1,253,846	1,611,927	1,761,564	1,774,334
BTL/SME mortgages	386,100	584,123	1,076,474	1,127,801
Personal loans	–	–	203,210	194,217
	1,639,946	**2,196,050**	**3,041,248**	**3,096,352**

Loans and advances to customers are repayable from the reporting date as follows:

	31 December 2011	31 December 2012	31 December 2013	31 January 2014
	£'000	**£'000**	**£'000**	**£'000**
Less than three months	19,235	42,883	48,854	51,017
Three months to one year	19,592	14,257	36,434	40,593
One to five years	91,808	136,476	361,562	353,623
More than five years	1,541,603	2,033,406	2,621,931	2,679,350
	1,672,238	2,227,022	3,068,781	3,124,583
Less: provision for impairment losses on loans and advances (see note 3.4)	(32,292)	(30,972)	(27,533)	(28,231)
	1,639,946	**2,196,050**	**3,041,248**	**3,096,352**

The above analysis may not reflect actual experience of repayments, since many mortgage loans are repaid early.

During 2013, the Group purchased a number of loan books from other financial institutions with a gross value of £182 million for a total of £133 million (2012: gross value £472 million, purchase price £389 million and 2011: gross value £196 million, purchase price £140 million), and a portfolio of personal loans for £258 million (2012: nil and 2011: nil).

3.4 **Provision for impairment losses on loans and advances**

Movement in provision for impairment losses on loans and advances to customers is as follows:

Individual	**Residential mortgages**	**BTL/SME**	**Personal loans**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 February 2011	**625**	**33,569**		**34,194**
Write-offs in period	**–**	**(6,115)**	**–**	**(6,115)**
Charge/(credit) for the year net of recoveries	**1,715**	**1,238**	**–**	**2,953**
At 31 December 2011	**2,340**	**28,692**	**–**	**31,032**
Write-offs in period	**(1,415)**	**(5,206)**	**–**	**(6,621)**
Charge/(credit) for the year net of recoveries	**254**	**3,763**	**–**	**4,017**
At 31 December 2012	**1,179**	**27,249**	**–**	**28,428**
Write-offs in period	**(3)**	**(10,765)**	**–**	**(10,768)**
Charge/(credit) for the year net of recoveries	**1,041**	**5,761**	**–**	**6,802**
At 31 December 2013	**2,217**	**22,245**	**–**	**24,462**
Write-offs in month	**–**	**–**	**–**	**–**
Charge/(credit for the month net of recoveries)	**(648)**	**862**	**–**	**214**
At 31 January 2014	**1,569**	**23,107**	**–**	**24,676**

Collective	Residential mortgages	BTL/SME	Personal loans	Total
	£'000	£'000	£'000	£'000
At 1 February 2011	**345**	**955**	**–**	**1,300**
Write-offs in period	–	–	–	–
Charge/(credit) for the year net of recoveries	(345)	305	–	(40)
At 31 December 2011	**–**	**1,260**	**–**	**1,260**
Write-offs in period	–	–	–	–
Charge/(credit) for the year net of recoveries	1,356	(72)	–	1,284
At 31 December 2012	**1,356**	**1,188**	**–**	**2,544**
Write-offs in period	–	–	–	–
Charge/(credit) for the year net of recoveries	(498)	(1,073)	2,098	527
At 31 December 2013	**858**	**115**	**2,098**	**3,071**
Write-offs in month	–	–	–	–
Charge/(credit for the month net of recoveries)	101	16	367	484
At 31 January 2014	**959**	**131**	**2,465**	**3,555**

Total	Residential mortgages	BTL/SME	Personal loans	Total
	£'000	£'000	£'000	£'000
At 1 February 2011	**970**	**34,524**	**–**	**35,494**
Write-offs in period	–	(6,115)	–	(6,115)
Charge/(credit) for the year net of recoveries	1,370	1,543	–	2,913
At 31 December 2011	**2,340**	**29,952**	**–**	**32,292**
Write-offs in period	(1,415)	(5,206)	–	(6,621)
Charge/(credit) for the year net of recoveries	1,610	3,691	–	5,301
At 31 December 2012	**2,535**	**28,437**	**–**	**30,972**
Write-offs in period	(3)	(10,765)	–	(10,768)
Charge/(credit) for the year net of recoveries	543	4,688	2,098	7,329
At 31 December 2013	**3,075**	**22,360**	**2,098**	**27,533**
Write-offs in month	–	–	–	–
Charge/(credit for the month net of recoveries)	(547)	878	367	698
At 31 January 2014	**2,528**	**23,238**	**2,465**	**28,231**

3.5 Impairment losses

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
Impairment losses on loans and advances to customers (see note 3.4)	2,913	5,301	7,329	698
	2,913	5,301	7,329	698

3.6 Related parties and investments in group undertakings

Related Party Transactions

The Company has the following subsidiary undertakings:

31 January 2014	Class of shares	Activity	Country of registration	Ownership	Inter company interest	Balance due to (by) the Company
					£000	£000
EasiOption BPO Services Ltd	Ordinary	Back office processing	India	100%	–	–
EasiOption Limited	Ordinary	Holding company	England	100%	–	–
Easiprocess Private Ltd	Ordinary	Back office processing	India	100%	–	(614)
Guernsey Homes Loans Ltd	Ordinary	Mortgage provider	England	100%	97	34,367
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	Guernsey	100%	296	108,484
Heritable Development Finance Limited[1]	Ordinary	Mortgage originator and servicer	England	85%	–	–
InterBay Group Holdings Limited[2]	Ordinary	Mortgage provider	England	100%	–	130,192
Jersey Home Loans Limited	Ordinary	Mortgage provider	England	100%	32	7,292
Jersey Home Loans Ltd	Ordinary	Mortgage provider	Jersey	100%	1,170	431,947
Prestige Finance Limited	Ordinary	Mortgage originator and servicer	England	100%	333	1,701
Reliance Property Loans Limited	Ordinary	Mortgage provider	England	100%	14	4,881
Rochester Financing No.1 Plc[3]	Ordinary	Securitisation entity	England	0%	(1,834)	(255,395)
Swingcastle Limited	Ordinary	Dormant entity	England	100%	–	–

2013	Class of shares	Activity	Country of registration	Ownership	Inter company interest	Balance due to (by) the Company
					£000	£000
EasiOption BPO Services Ltd	Ordinary	Back office processing	India	100%	–	–
EasiOption Limited	Ordinary	Holding company	England	100%	–	–
Easiprocess Private Ltd	Ordinary	Back office processing	India	100%	–	(575)
Guernsey Homes Loans Ltd	Ordinary	Mortgage provider	England	100%	1,292	34,920
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	Guernsey	100%	3,427	109,324
Heritable Development Finance Limited[1]	Ordinary	Mortgage originator and servicer	England	85%	–	–
InterBay Group Holdings Limited[2]	Ordinary	Mortgage provider	England	99%	–	120,047
Jersey Home Loans Limited	Ordinary	Mortgage provider	England	100%	416	7,072
Jersey Home Loans Ltd	Ordinary	Mortgage provider	Jersey	100%	14,838	434,897
Prestige Finance Limited	Ordinary	Mortgage originator and servicer	England	100%	2,273	1,785
Reliance Property Loans Limited	Ordinary	Mortgage provider	England	100%	163	4,882
Rochester Financing No.1 Plc[3]	Ordinary	Securitisation entity	England	0%	(1,309)	(254,875)
Swingcastle Limited	Ordinary	Dormant entity	England	100%	–	–

1 Heritable Development Finance Ltd was set up in December 2013 with Heritable Capital Ltd as a business development partnership. The entity is majority owned and controlled by the Company.

2 InterBay Group Holdings Ltd (OSB IGH Ltd) is the InterBay Group holding company.

3 Rochester Financing No. 1 Plc is a securitisation entity established by the Group in October 2013, with the purpose being to raise diversified funds for the Group. Although not legally owned by the Group, the power to manage and direct the activities of the mortgage assets within the structure sits with the Company, which was involved in the creation of this entity. In addition, due to the set up of the structure and credit enhancement provided by the Company, the Group remains exposed to the returns of the entity. Consequently Rochester is consolidated as a 100% subsidiary in line with IFRS 10 guidance. Whilst this entity has been consolidated as a 100% subsidiary, the mortgage loans included within the securitisation structure are ringfenced, with the cashflows being used to repay Rochester's liabilities in line with the priority of payments set out in the Rochester Financing No. 1 Plc Prospectus.

2012	Class of shares	Activity	Country of registration	Ownership	Inter company interest	Balance due to (by) the Company
					£000	£000
EasiOption BPO Services Private Ltd	Ordinary	Back office processing	India	100%	–	–
EasiOption Limited	Ordinary	Holding company	England	100%	–	–
Easiprocess Private Ltd	Ordinary	Back office processing	India	100%	–	–
Guernsey Homes Loans Ltd	Ordinary	Mortgage provider	England	100%	1,546	43,420
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	Guernsey	100%	2,657	102,128
Jersey Home Loans Limited	Ordinary	Mortgage provider	England	100%	503	12,966
Jersey Home Loans Ltd	Ordinary	Mortgage provider	Jersey	100%	15,423	483,721
OSB IGH Ltd		Holding company	England	99%	1,651	50,677
Prestige Finance Limited	Ordinary	Mortgage provider	England	100%	2,427	2,296
Reliance Property Loans Limited	Ordinary	Mortgage provider	England	100%	108	4,999
Swingcastle Limited	Ordinary	Mortgage provider	England	100%	–	–

2011	Class of shares	Activity	Country of registration	Ownership	Inter company interest	Balance due to (by) the Company
					£000	£000
EasiOption BPO Services Private Ltd	Ordinary	Back office processing	India	100%	–	1,435
EasiOption Limited	Ordinary	Holding company	England	100%	–	–
Easiprocess Private Ltd	Ordinary	Back office processing	India	100%	–	1,595
Guernsey Homes Loans Ltd	Ordinary	Mortgage provider	England	100%	1,666	52,564
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	Guernsey	100%	1,460	67,275
Jersey Home Loans Limited	Ordinary	Mortgage provider	England	100%	558	16,557
Jersey Home Loans Ltd	Ordinary	Mortgage provider	Jersey	100%	13,910	496,027
Reliance Property Loans Limited	Ordinary	Mortgage provider	England	100%	126	5,467

All the above investments in this note 3.6 are reviewed annually for impairment. All the subsidiaries are actively trading (with the exception of Swingcastle Limited) or fully funded by the Company; based on management's assessment of the future cash flows of each entity, no impairment has been recognised.

In addition to the above subsidiaries the Company has transactions with KRPS, the majority shareholder. KRPS provides branch agency services to the Group, while the Group provides ancillary services including IT, finance and other support functions to KRPS. The net amount charged to and payable by the Group as at 31 December 2013 was £1.0 million (2012 £1.04 million and 2011: £0.7 million). Effective from October 2013, the Group agreed to pay a consideration of £0.7 million to buy out the agency agreement from KRPS. The Group now manages the branches directly.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Transactions with Key Management Personnel

The Board considers the key management personnel to comprise Executive and Non-Executive Directors. During 2013 there were no related party transactions between the key management personnel and the Group.

Key management personnel held deposits and shares with the Group of £2,000 (2012: £2,000 and 2011: £25,676).

3.7 **Intangible assets**

	31 December 2011	31 December 2012	31 December 2013	31 January 2014
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 1 January/Transfer of business date	2,219	2,678	3,272	3,727
Additions	459	594	455	8
At 31 December/January	2,678	3,272	3,727	3,735
Amortisation				
At 1 January/Transfer of business date	2,090	2,183	2,362	2,610
Charged in period	93	179	248	26
At 31 December/January	2,183	2,362	2,610	2,636
Net book value				
At 31 December/January	**495**	**910**	**1,117**	**1,099**

Intangible assets consist of computer software. There were no capitalised costs related to the internal development of software during the period.

3.8 **Property, plant and equipment**

Period to 31 January 2014	**Freehold land and buildings**	**Equipment, fixtures and vehicles**	**Total**
Cost	**£'000**	**£'000**	**£'000**
At 1st January 2014	1,419	9,451	10,870
Additions	–	300	300
Disposals		–	–
Translation difference	–	–	–
At 31 January 2014	**1,419**	**9,751**	**11,170**
Depreciation			
At 1st January 2014	241	5,674	5,915
Charged in period	3	16	19
Disposals	–	–	–
Translation difference	–	–	–
At 31 January 2014	**244**	**5,690**	**5,934**
Net book value			
At 31 January 2014	**1,175**	**4,061**	**5,236**

2013	Freehold land and buildings	Equipment, fixtures and vehicles	Total
Cost	**£'000**	**£'000**	**£'000**
At 1st January 2013	1,419	8,540	9,959
Additions	–	1,150	1,150
Disposals	–	(63)	(63)
Translation difference	–	(176)	(176)
At 31 December 2013	**1,419**	**9,451**	**10,870**
Depreciation			
At 1st January 2013	219	5,509	5,728
Charged in year	22	277	299
Disposals	–	(17)	(17)
Translation difference	–	(95)	(95)
At 31 December 2013	**241**	**5,674**	**5,915**
Net book value			
At 31 December 2013	**1,178**	**3,777**	**4,955**

2012	Freehold land and buildings	Equipment, fixtures and vehicles	Total
Cost	**£'000**	**£'000**	**£'000**
At 1st January 2012	1,259	6,046	7,305
Additions	–	2,367	2,367
Disposals	160	127	287
At 31 December 2012	**1,419**	**8,540**	**9,959**
Depreciation			
At 1st January 2012	200	5,247	5,447
Charged in period	19	262	281
At 31 December 2012	**219**	**5,509**	**5,728**
Net book value			
At 31 December 2012	**1,200**	**3,031**	**4,231**

2011	Freehold land and buildings	Equipment, fixtures and vehicles	Total
Cost	**£'000**	**£'000**	**£'000**
At 1st February 2011	1,259	5,767	7,026
Additions	–	279	279
Disposals	–	–	–
At 31 December 2011	**1,259**	**6,046**	**7,305**
Depreciation			
At 1st February 2011	182	5,044	5,226
Charged in period	18	203	221
At 31 December 2011	**200**	**5,247**	**5,447**
Net book value			
At 31 December 2011	**1,059**	**799**	**1,858**

3.9 **Deferred taxation**

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 (audited) £'000
Deferred taxation asset				
At 1 January/Transfer of business date	11,534	14,672	15,472	10,901
Tax on acquisition of Prestige	–	–	–	–
Reclassified from current taxation	1,186	–	–	–
Tax taken directly to equity	–	–	–	(48)
Profit or loss (charge)/credit	1,952	800	(4,577)	(1,686)
Reclassification from liabilities	–	–	6	–
At 31 December/January	**14,672**	**15,472**	**10,901**	**9,167**
Analysed as:				
Losses carried forward	14,340	15,291	10,805	9,081
Accelerated depreciation	332	181	96	86
	14,672	**15,472**	**10,901**	**9,167**
Deferred taxation liability				
At 1 January/Transfer of business date	243	562	389	–
Tax taken directly to equity	319	(173)	(395)	–
Reclassification to assets	–	–	6	–
At 31 December/January	**562**	**389**	**–**	**–**

The UK Government announced that the main rate of corporation tax for the year beginning 1 April 2013 would reduce from 24% to 23% to be followed by a further 2% reduction to 21% for the year beginning 1 April 2014 and a further 1% reduction to 20% for the year beginning 1 April 2015. The reduction in the corporation tax rate to 23% was substantially enacted through the 2012 Finance Act and this results in a weighted average rate of 23.25% for 2013 (2012: 24.5% and 2011: 26.4%). The reductions to 21% and 20% that were announced in the 2012 Autumn Statement and 2013 Budget respectively became substantially enacted through the 2013 Finance Act on 17 July 2013.

The deferred tax asset at each reporting date has been calculated using the rates substantially enacted for the expected periods of utilisation with due consideration given to deductible temporary differences. There are £4.0 million of losses within the group with no deferred tax asset value as these are not eligible to be deducted from the Group's trading profits.

3.10 **Other assets**

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
Prepayments	1,330	1,416	4,237	4,174
VAT receivable	419	6	13	56
Other assets	1,176	1,753	2,382	2,703
	2,925	**3,175**	**6,632**	**6,933**

3.11 **Amounts owed to retail depositors**

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
Amounts owed to retail depositors	**2,081,590**	**2,744,646**	**3,251,576**	**3,263,720**

Repayable in the ordinary course of business as follows:

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
On demand	674,527	1,195,956	1,252,674	1,241,956
Less than three months	129,562	261,910	187,850	150,583
Three months to one year	576,755	743,346	827,742	828,184
One to five years	700,746	543,434	983,310	1,042,997
	2,081,590	**2,744,646**	**3,251,576**	**3,263,720**

3.12 **Amounts owed to credit institutions**

Repayable in the ordinary course of business as follows:

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
Less than three months	831	3,190	1,438	849
	831	**3,190**	**1,438**	**849**

3.13 **Amounts owed to other customers**

Repayable in the ordinary course of business as follows:

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
Less than three months	18,569	7,317	851	6,297
Three months to one year	18,822	13,943	1,000	1,060
One to five years	1,003	503	500	–
	38,394	**21,763**	**2,351**	**7,357**

3.14 **Debt securities in issue**

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
One to five years	–	–	273,759	265,874
	–	**–**	**273,759**	**265,874**

Debt securities in issue comprise AAA and AA+ rated notes issued by Rochester Financing No. 1 Plc ("**Rochester**") and sold to third-party investors during 2013. Rochester is a mortgage securitisation entity established by the Group in 2013. The Company retained the remaining notes and residual certificates issued by Rochester and as such did not transfer substantially the power to govern and control the securitised mortgages. These mortgages therefore remain on the Group's balance sheet and the Group consolidates Rochester.

The notes sold have a nominal value of £273 million and a final maturity date of July 2046, however the interest payable on the notes steps up from January 2018, with the holder of the majority of the residual certificates (currently the Company) having the right to redeem the outstanding notes from this date. The Company has an incentive to call at the step up date and the debt securities have accordingly been classified as having an expected maturity at that date in the table above. The actual repayment profile of the notes cannot be determined as quarterly repayments depend on, among other factors, the schedule of principal receipts on the securitised mortgages.

3.15 **Other liabilities**

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
Tax deducted at source from interest paid	1,434	2,480	1,822	270
Accruals and deferred income	3,108	5,852	7,869	7,678
Other creditors	9	1,909	3,135	2,752
	4,551	**10,241**	**12,826**	**10,700**

3.16 **Subordinated liabilities**

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
Linked to LIBOR (London Interbank Offered Rate)				
Floating rate Subordinated Liabilities 2015	3,002	3,002	3,002	3,008
Floating rate Subordinated Liabilities 2016	2,996	3,003	3,003	3,008
Floating rate Subordinated Liabilities 2017	5,642	5,656	5,656	5,665
Floating rate Subordinated Liabilities 2022	–	703	706	709
Linked to the average standard mortgage rate of the five largest building societies:				
Floating rate Subordinated Liabilities 2017	5,039	5,049	5,049	5,077
Fixed Rate:				
6.45% Subordinated Liabilities 2024	10,163	10,163	10,163	10,218
	26,842	**27,576**	**27,579**	**27,685**

Subordinated liabilities are repayable at the dates stated or earlier at the option of the Group with the prior consent of the Prudential Regulation Authority. All Subordinated Liabilities are denominated in sterling.

The rights of repayment of the holders of these issues are subordinated to the claims of all depositors and all creditors.

3.17 **Perpetual Subordinated Bonds**

	31 December 2011 £'000	31 December 2012 £'000	31 December 2013 £'000	31 January 2014 £'000
7.875% sterling perpetual subordinated bonds	**15,327**	**15,189**	**15,263**	**15,370**

The bonds were issued with no discretion over the payment of interest and therefore classified as financial liabilities.

Note 4 – Business combinations

4.1 *Business combinations*

2012 financial year

Interbay Group acquisition
On 29 August 2012 the Company purchased the InterBay Group, a specialist SME mortgage lender. A new subsidiary was set up by the Company for the purchase called OSB IGH Limited, which then purchased 100% of the shares and voting rights in InterBay Financial I Limited and InterBay Financial II Limited. The seller received 1% of the shares in OSB IGH Limited, leaving the Company as the majority shareholder with a 99% shareholding.

The impact of the InterBay purchase on the Group's assets and liabilities was as follows:

	Fair values on acquisition £'000
Acquiree's net assets	
Loans and advances to customers	**50,955**
Borrowings and loan notes	**(46,254)**
Other net assets	**1,807**
Net identifiable assets and liabilities	**6,508**
Consideration transferred	
Cash	**869**
B Shares in OSB IGH Limited[(1)]	**1,272**
Total consideration	**2,141**
Negative goodwill on acquisition	**4,367**

(1) See Statement of Changes in Equity.

None of the goodwill on acquisition recognised was or is expected to be taxable.

The B shares carry the rights to a dividend however payment is subject to the Company's consent. The Major Shareholder, one of the Company's shareholders controlled by funds advised by J.C. Flowers & Co. LLC, provided certain dividend protection on the B shares and additionally enhanced the value of the shares above their nominal value via a bilateral put/call agreement with the seller, which also included first loss protection from the seller. The resulting net enhancement is reflected in the value of the B shares shown above. The fair value of the total consideration paid was lower than the fair value of net assets acquired, primarily as a result of the first loss protection provided by the seller.

Prestige and Swingcastle acquisition
On 14 September 2012, the Company purchased 100% of the shares and voting rights of Prestige Finance Limited and its sister company Swingcastle Limited (the Prestige Group), both of whom are specialist second charge lenders.

The impact of the Prestige Group purchase on the Group's assets and liabilities was as follows:

	Fair values on acquisition £'000
Acquiree's net assets	
Loans and advances to customers	**55,000**
Borrowings and loan notes	**(38,142)**
Other net assets	**(1,078)**
Net identifiable assets and liabilities	**15,780**
Consideration transferred	
Cash	**340**
B Shares in the Company(1)	**2,054**
E Shares in the Company(1)	**150**
Total consideration	**2,544**
Negative goodwill on acquisition	**13,236**

(1) See Statement of Changes in Equity.

None of the goodwill on acquisition recognised was or is expected to be taxable.

The ordinary E shares are non-voting and have no entitlement to a dividend. The E shares issued have had their value enhanced over and above their nominal value by a bilateral put/call agreement between the holders and Major Shareholder, one of the Company's shareholders. This enhancement is reflected in the value of the E shares shown above.

The negative goodwill on the purchase arose due to the distressed sale of the company owing to the non-extension of its funding line.

Note 5 – Capital Structure and Financing

5.1 Share Capital

	Number of Shares			
31 January 2014	**Ordinary A Shares**	**Ordinary B Shares**	**Ordinary E Shares**	**Convertible Preference Shares**
At 1 January 2014	26,000	21,662	1,000	1,067,140
Capital injections	–	–	–	–
At 31 January 2014	**26,000**	**21,662**	**1,000**	**1,067,140**

		£000's	
31 January 2014	**Value**	**Premium**	**Total**
Ordinary A Shares	26	25,974	26,000
Ordinary B Shares	22	93,241	93,263
Ordinary E Shares	150	–	150
Convertible Preference Shares	1,067	670	1,737
At 31 January 2014	**1,265**	**119,885**	**121,150**

2013	Number of Shares Ordinary A Shares	Ordinary B Shares	Ordinary E Shares	Convertible Preference Shares
At 1 January 2013	26,000	20,897	1,000	804,154
Capital injections	–	765	–	262,986
At 31 December 2013	**26,000**	**21,662**	**1,000**	**1,067,140**

2013	Value	£000's Premium	Total
Ordinary A Shares	26	25,974	26,000
Ordinary B Shares	22	93,241	93,263
Ordinary E Shares	150	–	150
Convertible Preference Shares	1,067	670	1,737
At 31 December 2013	**1,265**	**119,885**	**121,150**

2012	Number of Shares Ordinary A Shares	Ordinary B Shares	Ordinary E Shares	Convertible Preference Shares
At 1 January 2012	26,000	19,997	–	314,814
Capital injections	–	900	1,000	489,340
At 31 December 2012	**26,000**	**20,897**	**1,000**	**804,154**

2012	Value	£000's Premium	Total
Ordinary A Shares	26	25,974	26,000
Ordinary B Shares	21	78,393	78,414
Ordinary E Shares	150	–	150
Convertible Preference Shares	804	782	1,586
At 31 December 2012	**1,001**	**105,149**	**106,150**

2011	Number of Shares Ordinary A Shares	Ordinary B Shares	Ordinary E Shares	Convertible Preference Shares
At 1 February 2011	26,000	–	–	–
Capital injections	–	19,997	–	314,814
At 31 December 2011	**26,000**	**19,997**	**–**	**314,814**

2011	Value	£000's Premium	Total
Ordinary A Shares	26	25,974	26,000
Ordinary B Shares	20	63,883	63,903
Ordinary E Shares	–	–	–
Convertible Preference Shares	315	782	1,097
At 31 December 2011	**361**	**90,639**	**91,000**

At 31 December 2013, the share capital comprised 48,662 fully allotted and paid up ordinary shares and 1,067,140 convertible preference shares. The ordinary A, B and preference shares have a par value of £1. The ordinary E shares have a par value of £150. The preference shares can be fully converted to an equal number of ordinary shares when certain conditions are met.

Both A & B ordinary shares have veto rights appropriate for a participant in a joint venture arrangement providing they retain a certain percentage of the ordinary shares of the Company. The convertible preference shareholders have preferential rights in relation to any dividends that may be declared by the board of the Company. The ordinary E shares are non-voting and have no entitlement to a dividend.

The 1,000 E shares issued on 14 September 2012 as consideration for the acquisition of the Prestige Group (see note 4.1 for more details) have had their value enhanced over and above their nominal value by a bilateral put/call agreement between the holders and the Major Shareholder.

Earnings/(loss) per share, £ per share

	11 months ended 31 December 2011(3)	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013(3) (unaudited)	1 month ended 31 January 2014(3)
Profit for the year, £'000	(11,144)	9,065	26,771	777	6,110
Basic weighted average number of shares(1)	44,288	46,454	47,230	46,897	47,662
Diluted weighted average number of shares(2)	171,459	609,949	965,945	851,051	1,114,802
Basic earnings per share, £ per share(1)	(274.49)	195.14	566.82	195.17	1,509.39
Diluted earnings per share, £ per share(2)	(70.90)	14.86	27.71	10.75	64.53

(1) Basic earnings per share are based on A and B shares only.

(2) Diluted earnings per share are based on A and B shares plus convertible shares on a one-for-one basis.

(3) Earnings per share were annualised for 2011 on a monthly basis at 12/11, and January 2013 and 2014 on a daily basis at 365/31.

In May and June 2014 the Group undertook a reorganisation of its corporate structure, further disclosed in note 5.15. As a result of reorganisation there are 218,638,200 Ordinary Shares of £0.01 in issue. As required by IAS 33, the Group has retrospectively restated its earnings per share in note 5.1 for all presented periods based on the number of shares after reorganisation, presented in the table below.

Post restructuring earnings/(loss) per share, £ per share

	11 months ended 31 December 2011(1)	Year ended 31 December 2012	Year ended 31 December 2013	1 month ended 31 January 2013(1) (unaudited)	1 month ended 31 January 2014(1)
Weighted average number of shares	29,769,526	117,569,311	188,866,854	165,888,000	218,638,200
Basic and diluted earnings per share, £ per share	(0.41)	0.08	0.14	0.06	0.33

(1) Earnings per share were annualised for 2011 on a monthly basis at 12/11, and January 2013 and 2014 on a daily basis at 365/31.

5.2 **Perpetual Subordinated Bonds**

In addition to the PSBs in note 3.17, the Company has issued £22 million 6.591% PSBs which are classified as equity, as full discretion can be exercised by the Directors over the payment of the coupon. The classification of these PSBs means that any coupon payments on them are treated within equity rather than through profit or loss.

5.3 **Transfer reserve**

The transfer reserve of £12.8 million represents the difference between the true value of net assets transferred as at the date of transfer and the value of shares issued to the A ordinary shareholders.

5.4 **AFS reserve**

The AFS reserve of £(0.2) million (2012: £1.3 million and 2011: £1.8 million) represents the cumulative net change in the fair value of investment securities measured at fair value through other comprehensive income net of deferred tax.

5.5 **FSCS and other provisions**

The Financial Services Compensation Scheme ("**FSCS**") has provided compensation to consumers following the collapse of a number of deposit takers. The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury which at 31 December 2013 stood at approximately £17 billion.

In order to repay the loan principal which is not expected to be recovered, the FSCS confirmed in February 2013 that it would levy approximately £363 million in scheme year 2013/2014 and in the following two scheme years on participating financial institutions. In January 2014, the FSCS announced that the expected levy on participating financial institutions for scheme year 2014/2015 would be £399 million.

The ultimate FSCS levy to the industry as a result of the collapses cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the level of protected deposits and the population of FSCS members at the time.

Group £'000	**FSCS 31 January 2014**	**Other Provisions 31 January 2014**	**Total 31 January 2014**	**FSCS 31 December 2013**	**Other Provisions 31 December 2013**	**Total 31 December 2013**
As at 1 January	1,151	130	1,281	2,166	150	2,316
Paid during the year	–	–	–	(3,163)	(24)	(3,187)
Charge/(credit)	–	–	–	2,148	4	2,152
At 31 December	**1,151**	**130**	**1,281**	**1,151**	**130**	**1,281**

Group £'000	**FSCS 31 December 2012**	**Other Provisions 31 December 2012**	**Total 31 December 2012**	**FSCS 31 December 2011**	**Other Provisions 31 December 2011**	**Total 31 December 2011**
As at 1 January/ Transfer of business date	1,242	150	1,392	–	648	648
Paid during the year	–	(6)	(6)	–	–	–
Charge/(credit)	924	6	930	1,242	(498)	744
At 31 December	**2,166**	**150**	**2,316**	**1,242**	**150**	**1,392**

5.6 **Financial commitments**

(a) There were no capital commitments for the Group contracted but not provided for as at 31 December 2013 (2012: nil; 2011: nil).

(b) *Operating leases:*

	31 December 2011 £'000	**31 December 2012 £'000**	**31 December 2013 £'000**	**31 January 2014 £'000**
Land and buildings:				
due within one year	68	274	507	484
Two to five years	8	299	967	940
More than five years	–	–	66	31
	76	**573**	**1,540**	**1,455**

(c) *Undrawn mortgage loan facilities*

	31 December 2011 £'000	**31 December 2012 £'000**	**31 December 2013 £'000**	**31 January 2014 £'000**
Undrawn mortgage loan facilities	**26,326**	**132,704**	**156,920**	**172,882**

5.7 **Risk management and financial instruments**

Overview

Financial instruments form the vast majority of the Group's and Company's assets and liabilities. The Group manages risk on a consolidated basis, and risk disclosures are provided on this basis.

Types of financial instrument

A financial instrument is one which gives rise to a financial asset or a financial liability. The Group is a retailer of financial instruments, mainly in the form of mortgages and savings products. The Group also uses wholesale financial instruments to invest liquid asset balances, to raise wholesale funding and to manage the risks arising from its operations. The Group does not operate a trading book.

The Group uses derivative instruments to manage various aspects of market risk. Instruments used for risk management purposes include derivative financial instruments ("**Derivatives**"), which are contracts whose value is derived from one or more underlying prices, rates or indices defined in the contract or agreement, such as interest rates. Derivatives are solely used by the Group to reduce the risk of loss arising from changes in market factors. Derivatives are not used for speculative purposes.

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are interest rate swaps. These are used to protect the Group from exposures arising principally from fixed-rate mortgage lending, deposit funding and subscribed capital. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead, interest payments are based on notional principal amounts agreed at the inception of the swap.

The following table describes the significant activities undertaken by the Group and the risks associated with such activities: derivatives in the form of interest rate swaps are used by the Group in managing such risks. Such risks may alternatively be managed using existing instruments as part of the Group's integrated approach to risk management.

Activity	***Risk***
Fixed rate savings products and fixed rate funding	Decrease in interest rates
Fixed rate mortgage lending and fixed rate asset investments	Increase in interest rates

Financial risks

The principal risks to which the Group is exposed are operational, credit, liquidity and market risk. Each of these is considered below.

Credit risk

Credit risk is the risk that unexpected losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the standardised approach for assessment of credit risk capital requirements. This approach considers risk-weightings as defined under Basel II principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions and investment securities. The maximum exposure to credit risk is generally represented by the carrying amount of each financial asset plus any off-balance sheet credit commitments.

Credit risk – loans and advances to customers

Credit risk associated with mortgage lending is largely driven by the housing market and level of unemployment. A recession and/or high interest rates could cause pressure within the market, resulting in rising levels of arrears and repossessions.

All loan applications are assessed with reference to the Group's lending policy. Changes to policy are approved by the Board, with mandates set for the approval of loan applications.

Credit Committee and the ALCO regularly monitor lending activity, taking appropriate actions to re-price products and adjust lending criteria in order to control risk and manage exposure. Where necessary and appropriate, changes to lending policy are recommended to the Risk Committee and the Board.

The following table shows an analysis of the Group lending portfolio by borrower type at the reporting date:

	31 December 2011		**31 December 2012**		**31 December 2013**		**31 January 2014**	
	£'000	**%**	**£'000**	**%**	**£'000**	**%**	**£'000**	**%**
Residential mortgages	1,257,452	75%	1,614,462	72%	1,764,639	58%	1,776,862	57%
BTL/SME mortgages	414,786	25%	612,560	28%	1,098,834	36%	1,151,039	37%
Personal loans	–	0%	–	0%	205,308	6%	196,682	6%
Gross loans	**1,672,238**	**100%**	**2,227,022**	**100%**	**3,068,781**	**100%**	**3,124,583**	**100%**

Property values are updated to reflect changes in the house price index. A breakdown of the table above by indexed loan to value is as follows:

Loan to value analysis by band:

Group	Residential	BTL/SME	Total	
		31 January 2014		
	£'000	£'000	£'000	%
0-50%	639,290	82,167	721,457	25
50%-60%	289,040	95,352	384,392	13
60%-70%	299,351	200,091	499,442	17
70%-80%	278,620	457,719	736,339	25
80%-90%	194,733	256,610	451,343	15
>90%	75,828	59,100	134,928	5
Gross mortgages	**1,776,862**	**1,151,039**	**2,927,901**	**100**
Personal Loans			**196,682**	
Gross loans			**3,124,583**	

Group	Residential	BTL/SME	Total	
		31 December 2013		
	£'000	£'000	£'000	%
0-50%	638,991	82,482	721,473	25%
50%-60%	288,537	85,115	373,652	13%
60%-70%	301,181	188,264	489,445	17%
70%-80%	275,245	443,220	718,465	25%
80%-90%	203,137	240,205	443,342	16%
>90%	57,548	59,548	117,096	4%
Gross mortgages	**1,764,639**	**1,098,834**	**2,863,473**	**100%**
Personal Loans			**205,308**	
Gross loans			**3,068,781**	

Group	Residential	BTL/SME	Total	
		31 December 2012		
	£'000	£'000	£'000	%
0-50%	807,057	82,724	889,781	40%
50%-60%	235,402	64,258	299,760	13%
60%-70%	241,151	117,294	358,445	16%
70%-80%	165,841	183,706	349,547	16%
80%-90%	117,221	74,218	191,439	9%
>90%	47,790	90,260	138,050	6%
Gross mortgages	**1,614,462**	**612,460**	**2,227,022**	**100%**
Personal Loans			–	
Gross loans			**2,227,022**	

Group	Residential £'000	31 December 2011 BTL/SME £'000	Total £'000	%
0-50%	632,602	68,654	701,256	42%
50%-60%	183,100	52,752	235,852	14%
60%-70%	210,321	94,582	304,903	18%
70%-80%	130,692	82,175	212,867	13%
80%-90%	68,724	32,649	101,373	6%
>90%	32,013	83,974	115,987	7%
Gross mortgages	1,257,452	414,786	1,672,238	100%
Personal Loans			–	
Gross loans			**1,672,238**	

Analysis of mortgage portfolio by arrears and collateral held

The tables below provide further information on collateral in the mortgage portfolio of the Group by payment due status. Capped collateral only recognises collateral to the value of each individual mortgage and does not recognise over-collateralisation. The full collateral position is captured in the loan-to-value analysis above.

	31 December 2011		**31 December 2012**		**31 December 2013**		**31 January 2014**	
	Loan balance £'000	**Capped collateral £'000**	**Loan balance £'000**	**Capped collateral £'000**	**Loan balance £'000**	**Capped collateral £'000**	**Loan balance £'000**	**Capped collateral £'000**
Not Impaired								
Not past due	1,353,366	1,353,032	1,823,147	1,819,576	2,485,653	2,484,326	2,556,108	2,552,898
Past due up to 3 months	188,132	188,132	250,543	250,543	256,369	256,088	255,403	254,891
Past due 3 to 6 months	21,640	21,546	33,055	33,055	24,572	23,945	24,517	23,923
Past due 6 to 12 months	20,985	20,969	26,769	26,570	18,550	18,380	18,743	18,732
Past due over 12 months	11,074	11,074	19,862	18,515	7,670	7,616	7,434	7,434
Possessions	1,414	1,410	7,560	7,543	2,366	2,365	1,721	1,721
	1,596,611	**1,596,163**	**2,160,936**	**2,155,802**	**2,795,180**	**2,792,720**	**2,863,926**	**2,859,599**
Impaired(1)								
Not past due	3,705	2,934	2,184	663	20,930	18,432	19,292	17,490
Past due up to 3 months	6,041	5,821	94	94	2,010	2,010	61	61
Past due 3 to 6 months	10,100	10,100	–	–	629	617	419	419
Past due 6 to 12 months	10,790	6,900	1,776	1,410	2,815	1,805	2,583	1,594
Past due over 12 months	27,512	12,543	50,083	32,191	20,159	15,300	20,537	15,537
Possessions	17,479	15,680	11,949	10,241	21,750	19,064	21,083	18,463
Gross Mortgages	**75,627**	**53,978**	**66,086**	**44,599**	**68,293**	**57,228**	**63,975**	**53,564**
Personal Loans	**–**		**–**		**205,308**		**196,682**	
Gross loans	**1,672,238**	**1,650,141**	**2,227,022**	**2,200,401**	**3,068,781**	**2,849,948**	**3,124,583**	**2,913,163**

(1) Impaired is defined as loans that have a specific provision held against the loan at the reporting date.

Below is a summary of the Group's capped collateral:

	31 December 2011		31 December 2012		31 December 2013		31 January 2014	
	Loan balance £'000	**Capped collateral £'000**	**Loan balance £'000**	**Capped collateral £'000**	**Loan balance £'000**	**Capped collateral £'000**	**Loan balance £'000**	**Capped collateral £'000**
Not past due and not impaired	1,353,366	1,353,032	1,823,147	1,819,576	2,485,653	2,484,326	2,556,108	2,552,898
Past due but not impaired	243,245	243,131	337,789	336,226	309,527	308,394	307,818	306,700
Impaired	75,627	53,978	66,086	44,599	68,293	57,228	63,975	53,564
Gross Mortgages	**1,672,238**	**1,650,141**	**2,227,022**	**2,200,401**	**2,863,473**	**2,849,948**	**2,927,901**	**2,913,162**
Personal Loans	**–**		**–**		**205,308**		**196,682**	
Gross loans	**1,672,238**	**1,650,141**	**2,227,022**	**2,200,401**	**3,068,781**	**2,849,948**	**3,124,583**	**2,913,162**

5.8 Geographical analysis by region

Region	**31 January 2014**		**31 December 2013**		**31 December 2012**		**31 December 2011**	
	£'000	**%**	**£'000**	**£'000**	**£'000**	**%**	**£'000**	**%**
East Anglia	75,345	2.6%	72,349	2.5%	48,092	2.2%	27,962	1.7%
East Midlands	112,722	3.8%	110,231	3.8%	79,239	3.6%	48,202	2.9%
Greater London	816,591	27.9%	777,121	27.2%	451,851	20.3%	328,965	19.7%
Guernsey	147,049	5.0%	147,790	5.2%	146,959	6.6%	119,507	7.1%
Isle of Man	–	–	–	–	–	–	11,154	0.7%
Jersey	450,099	15.4%	452,059	15.8%	501,259	22.5%	512,072	30.6%
North	8,074	0.3%	8,101	0.3%	7,515	0.3%	16,092	1.0%
North East	41,020	1.4%	39,825	1.4%	29,158	1.3%	–	–
North West	152,315	5.2%	151,001	5.3%	113,275	5.1%	59,594	3.6%
Northern Ireland	12,837	0.4%	12,946	0.5%	7,442	0.3%	4,002	0.2%
Scotland	51,961	1.8%	52,150	1.8%	39,749	1.8%	7,410	0.4%
South East	589,419	20.1%	578,873	20.2%	493,492	22.2%	376,805	22.5%
South West	183,644	6.3%	177,713	6.2%	113,638	5.1%	72,488	4.3%
Wales	70,985	2.4%	70,009	2.4%	50,450	2.4%	16,732	1.0%
West Midlands	135,158	4.6%	132,758	4.6%	91,364	4.1%	48,297	2.9%
Yorks & Humberside	80,682	2.8%	80,547	2.8%	53,539	2.3%	22,956	1.4%
Gross Mortgage	**2,927,901**	**100.0%**	**2,863,473**	**100.0%**	**2,227,022**	**100.0%**	**1,672,238**	**100.0%**
Personal Loans	**196,682**		**205,308**		**–**		**–**	
Gross loans	**3,124,583**		**3,068,781**		**2,227,022**		**1,672,238**	

5.9 Other risks

Credit risk – investment securities and loans and advances to credit institutions

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's Treasury department within the guidelines laid down in the treasury policy approved by the Board and reported to the ALCO monthly.

As at 31 December 2013, one of the Group's treasury portfolio exposures – Glitnir: £1.6 million against which impairment provision has been made of £1.2 million – was both past due and impaired (2012: £1.6 million, provision £1.1 million and 2011: £1.6 million, provision £1.1 million). There are no assets held as treasury instruments whose terms have been renegotiated.

The Group has limited exposure to emerging markets (Indian operations) and non-investment-grade debt. The ALCO is responsible for approving Treasury counterparties.

	31 January 2014				
Ratings	**AAA £'000**	**AA £'000**	**A £'000**	**Less than A rating £'000**	**Total £'000**
Call accounts	–	26,215	59,663	–	85,878
Floating rate notes	5,000	–	–	–	5,000
Gilts	–	36,666	–	–	36,666
Reverse repos	–	166,916	–	–	166,916
RMBS	–	–	–	–	–
Treasury bills	96,752	197,905	–	–	294,657
Other securities	–	–	–	368	368
Total	**101,752**	**427,702**	**59,663**	**368**	**589,485**
Percentages	**17.3%**	**72.5%**	**10.1%**	**0.1%**	**100.0%**

	31 December 2013				
Ratings	**AAA £'000**	**AA £'000**	**A £'000**	**Less than A rating £'000**	**Total £'000**
Call accounts	–	28,282	73,903	–	102,185
Floating rate notes	4,986	–	–	–	4,986
Gilts	–	36,660	–	–	36,660
Reverse repos	–	166,916	–	–	166,916
RMBS	15,420	–	6,022	–	21,442
Treasury bills	96,663	200,862	–	–	297,525
Other securities	–	–	–	432	432
Total	**117,069**	**432,720**	**79,925**	**432**	**630,146**
Percentages	**18.5%**	**68.7%**	**12.7%**	**0.1%**	**100.0%**

	31 December 2012				
Ratings	**AAA £'000**	**AA £'000**	**A £'000**	**Less than A rating £'000**	**Total £'000**
Certificates of deposits	–	15,004	–	–	15,004
Call accounts	1,804	–	202,871	524	205,199
Time deposits	–	–	65,020	22,003	87,023
Floating rate notes	5,011	–	–	–	5,011
Gilts	106,396	–	–	–	106,396
RMBS	16,117	–	5,825	–	21,942
Treasury bills	261,464	–	–	–	261,464
Total	**390,792**	**15,004**	**273,716**	**22,527**	**702,039**
Percentages	**55.7%**	**2.1%**	**39.0%**	**3.2%**	**100.0%**

Ratings	31 December 2011 AAA £'000	AA £'000	A £'000	Less than A rating £'000	Total £'000
Certificate of deposit	–	47,238	91,516	14,588	153,342
Call accounts	1,213	–	194,511	–	195,724
Time deposits	8,146	1,276	–	–	9,422
Floating rate notes	5,011	2,509	3,246	–	10,766
Treasury bills	147,507	–	–	–	147,507
Gilts	84,237	–	–	–	84,237
Total	**246,114**	**51,023**	**289,273**	**14,588**	**600,998**
Percentages	**41.0%**	**8.5%**	**48.1%**	**2.4%**	**100.0%**

Industry sector/asset class

	31 December 2011		31 December 2012		31 December 2013		31 January 2014	
	£'000	%	£'000	%	£'000	%	£'000	%
Banks	536,156	89.2%	640,024	91.2%	630,146	100.0%	589,485	100.0%
Building societies	64,842	10.8%	62,015	8.8%	–	–	–	–
Total	**600,998**	**100.0%**	**702,039**	**100.0%**	**630,146**	**100.0%**	**589,485**	**100.0%**

Geographical Exposure

	31 December 2011		31 December 2012		31 December 2013		31 January 2014	
	£'000	%	£'000	%	£'000	%	£'000	%
United Kingdom	545,922	90.9%	628,054	89.6%	497,411	78.9%	468,435	79.5%
Rest of Europe	47,587	7.9%	56,754	8.1%	101,649	16.1%	102,121	17.3%
Australia	2,509	0.4%	15,005	2.1%	28,886	4.6%	16,729	2.8%
America	3,247	0.5%	–	–	–	–	–	–
India	1,733	0.3%	2,226	0.2%	2,200	0.4%	2,200	0.4%
Total	**600,998**	**100.0%**	**702,039**	**100.0%**	**630,146**	**100.0%**	**589,485**	**100.0%**

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits. These are contained in the treasury policy.

Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through control of the growth of the business.

Liquidity management is the responsibility of the ALCO, with day-to-day management delegated to Treasury as detailed in the Treasury Policy. The ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group financial position.

The following tables provide an analysis of the Group's gross contractual cash flows payable under financial liabilities:

Group As at 31 January 2014	**Up to 3 months £'000**	**3-12 £'000**	**1-5 £'000**	**More than 5 years £'000**	**Total £'000**
Amounts owed to retail depositors	1,393,444	835,226	1,096,692	–	3,325,362
Amounts owed to credit institutions and other customers	6,831	1,082	–	–	7,913
Debt securities in issue*	–	–	265,874	–	265,874
Derivative financial instruments	3	(5)	15,014	9,515	24,527
Other liabilities	10,700	–	–	–	10,700
Subordinated liabilities	294	902	24,599	5,982	31,777
Perpetual subordinated bonds	291	893	4,728	15,000	20,912
Total	**1,411,563**	**838,098**	**1,406,907**	**30,497**	**3,687,065**

* Debt securities in issue do not include future interest due as this cannot be determined as principal repayments depend on, amongst other factors, the schedule of principal receipts on the securitised mortgages. See note 3.14 of Part IX (*Historical Financial Information*) for more details.

Group As at 31 December 2013	**Up to 3 months £'000**	**3-12 £'000**	**1-5 £'000**	**More than 5 years £'000**	**Total £'000**
Amounts owed to retail depositors	1,403,941	836,320	1,037,535	–	3,277,796
Amounts owed to credit institutions and other customers	1,991	1,004	518	–	3,513
Debt securities in issue*	–	–	273,759	–	273,759
Derivative financial instruments	(796)	138	15,227	7,996	22,565
Other liabilities	12,826	–	–	–	12,826
Subordinated liabilities	65	909	11,323	19,299	31,596
Perpetual subordinated bonds	595	1,184	4,736	15,000	21,515
Total	**1,418,622**	**839,555**	**1,343,098**	**42,295**	**3,643,570**

* Debt securities in issue do not include future interest due as this cannot be determined as principal repayments depend on, amongst other factors, the schedule of principal receipts on the securitised mortgages. See note 3.14 of Part IX (*Historical Financial Information*) for more details.

Group As at 31 December 2012	Up to 3 months £'000	3-12 £'000	1-5 £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors	1,162,361	262,777	752,557	600,432	2,778,127
Amounts owed to credit institutions and other customers	10,185	14,005	537	–	24,727
Derivative financial instruments	(541)	1,219	20,555	43,398	64,631
Other liabilities	10,241	–	–	–	10,241
Subordinated liabilities	65	1,075	10,999	19,299	31,438
Perpetual subordinated bonds	595	1,181	1,184	15,000	17,960
Total	**1,182,906**	**280,257**	**785,832**	**678,229**	**2,927,124**

Group As at 31 December 2011	Up to 3 months £'000	3-12 £'000	1-5 £'000	More than 5 years £'000	Total £'000
Amounts owed to retail depositors	790,098	599,051	771,929	–	2,161,078
Amounts owed to credit institutions and other customers	18,965	18,963	1,090	–	39,018
Derivative financial instruments	431	2,838	17,252	81,019	101,540
Other liabilities	4,551	–	–	–	4,551
Subordinated liabilities	65	1,048	11,543	19,663	32,319
Perpetual subordinated bonds	599	1,188	2,366	15,000	19,153
Total	**814,709**	**623,088**	**804,180**	**115,682**	**2,357,659**

It has been assumed that Perpetual Subordinated Bonds will not mature at the first call date.

Market risk

Market risk is the risk of an adverse change in Group income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of shareholder value.

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is most prevalent in mortgage lending where fixed rate mortgages are not funded by fixed rate deposits of the same duration, or where the fixed rate risk is not hedged by a fully matching interest rate derivative.

The Group is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Group measures interest rate risk using multiple interest rate curve shift scenarios designed to emulate a full range of market movements. Exposure is mitigated on a continuous basis through the use of derivatives within limits set by the

ALCO and the Board. After taking into account the derivatives entered into by the Group, the interest rate sensitivity at period end 31 December 2013 following a parallel increase of 2% in interest rates was £1.5 million (31 December 2012: £0.6 million and 31 December 2011: £3.2 million).

There is no material difference between the interest rate risk profile for the Group and that for the Company.

Fair value adjustments for hedged risk

This represents the fair value adjustments to the carrying value of mortgage assets, amounts owed to credit institutions and other customers, subordinated debt, and subscribed capital as a result of portfolio hedging.

5.10 Fair values of financial assets and financial liabilities

The following tables give a comparison of book and fair values of the Group's financial assets and liabilities at the period end. The Group does not undertake transactions for trading or speculative purposes. Market values have been used to determine fair values but where these are not available the financial instruments have been valued by discounting cash flows at prevailing interest rates.

	31 January 2014				
	Positive book value	**Positive fair value**	**Negative book value**	**Negative fair value**	**Principal/ Notional**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances with the Bank of England	248	248	–	–	248
Loans and advances to credit institutions	252,793	252,793	–	–	252,693
Investment securities	336,692	335,669	–	–	331,200
Loans and advances to customers	3,096,352	3,617,330	–	–	3,284,996
Amounts owed to retail depositors	–	–	(3,263,720)	(3,326,333)	(3,221,984)
Amounts owed to credit institutions	–	–	(849)	(849)	(827)
Amounts owed to other customers	–	–	(7,357)	(7,383)	(7,340)
Debt securities in issue	–	–	(265,874)	(265,874)	(264,596)
Subordinated liabilities	–	–	(27,685)	(29,198)	(27,353)
Perpetual subordinated bonds	–	–	(15,370)	(15,673)	(15,000)
Derivatives	810	810	(24,420)	(24,420)	1,574,750
Total	**3,686,815**	**4,206,850**	**(3,605,275)**	**(3,669,730)**	

	31 December 2013				
	Positive book value	**Positive fair value**	**Negative book value**	**Negative fair value**	**Principal/ Notional**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances with the Bank of England	267	267	–	–	267
Loans and advances to credit institutions	269,101	269,101	–	–	269,003
Investment securities	361,045	357,905	–	–	359,547
Loans and advances to customers	3,041,248	3,439,255	–	–	3,231,050
Amounts owed to retail depositors	–	–	(3,251,576)	(3,296,988)	(3,213,635)
Amounts owed to credit institutions	–	–	(1,438)	(1,438)	(274,002)
Amounts owed to other customers	–	–	(2,351)	(2,369)	(2,324)
Debt securities in issue	–	–	(273,759)	(273,759)	(273,000)
Subordinated liabilities	–	–	(27,579)	(28,918)	(27,353)
Perpetual subordinated bonds	–	–	(15,263)	(15,710)	(15,000)
Derivatives	757	757	(22,566)	(22,566)	1,597,250
Total	**3,672,418**	**4,067,285**	**(3,594,532)**	**(3,641,748)**	

	31 December 2012				
	Positive book value	**Positive fair value**	**Negative book value**	**Negative fair value**	**Principal/ Notional**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances with the Bank of England	282	282	–	–	282
Loans and advances to credit institutions	291,700	291,700	–	–	293,847
Investment securities	410,339	388,398	–	–	390,696
Loans and advances to customers	2,196,050	2,504,861	–	–	2,314,589
Amounts owed to retail depositors	–	–	(2,744,646)	(2,801,332)	(2,778,537)
Amounts owed to credit institutions	–	–	(3,190)	(3,190)	(3,180)
Amounts owed to other customers	–	–	(21,763)	(24,783)	(21,651)
Subordinated liabilities	–	–	(27,576)	(29,599)	(27,353)
Perpetual subordinated bonds	–	–	(15,189)	(16,799)	(15,000)
Derivatives	–	–	(63,949)	(63,948)	1,553,700
Total	**2,898,371**	**3,185,241**	**(2,876,313)**	**(2,939,651)**	

	31 December 2011				
	Positive book value	**Positive fair value**	**Negative book value**	**Negative fair value**	**Principal/ Notional**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances with the Bank of England	253	253	–	–	253
Loans and advances to credit institutions	239,661	239,661	–	–	241,358
Investment securities	361,337	361,341	–	–	343,651
Loans and advances to customers	1,639,946	1,758,635	–	–	1,699,946
Amounts owed to retail depositors	–	–	(2,081,590)	(2,107,399)	(2,057,974)
Amounts owed to credit institutions	–	–	(831)	(832)	830
Amounts owed to other customers	–	–	(38,394)	(39,092)	38,115
Subordinated liabilities	–	–	(26,842)	(29,011)	26,650
Perpetual subordinated bonds	–	–	(15,327)	(17,547)	15,000
Derivatives	683	683	(95,222)	(95,222)	1,677,050
Total	**2,241,880**	**2,360,573**	**(2,258,206)**	**(2,289,103)**	

The tables below indicate the sources of inputs used to derive the carrying value of the Group's assets and liabilities that are held at fair value:

Group	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
31 January 2014				
Financial assets				
Available for sale				
Government investment securities	336,324	–	–	336,324
Transferrable investment securities – unlisted	–	368	–	368
Derivative financial instruments				
Interest rate swaps	–	810	–	810
	336,324	**1,178**	**–**	**337,502**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(24,420)	–	(24,420)
	–	**(24,420)**	**–**	**(24,420)**

Group	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31 December 2013				
Financial assets				
Available for sale				
Government investment securities	339,171	–	–	339,171
Transferrable investment securities – unlisted	–	432	–	432
Derivative financial instruments				
Interest rate swaps	–	757	–	757
	339,171	**1,189**		**340,360**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(22,566)	–	(22,566)
	–	**(22,566)**	**–**	**(22,566)**

Group	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31 December 2012				
Financial assets				
Available for sale				
Government investment securities	367,870	–	–	367,870
Transferrable investment securities – unlisted	–	20,528	–	20,528
Transferrable investment securities – listed	–	21,941	–	21,941
Derivative financial instruments				
Interest rate swaps	–	–	–	–
	367,870	**42,469**	**–**	**410,339**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(63,949)	–	(63,949)
	–	**(63,949)**	**–**	**(63,949)**

Group	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31 December 2011				
Financial assets				
Available for sale				
Government investment securities	231,744	–	–	231,744
Transferrable investment securities – unlisted	–	108,881	–	108,881
Transferrable investment securities – listed	–	9,422	–	9,422
Derivative financial instruments				
Interest rate swaps	–	683	–	683
	231,744	**118,986**	**–**	**350,730**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(95,222)	–	(95,222)
	–	**(95,222)**	**–**	**(95,222)**

The tables below indicate the sources of inputs used to derive the carrying value of the Group's assets and liabilities that are held at amortised cost:

	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31 January 2014				
Financial assets				
Cash and balances with the Bank of England	–	267	–	267
Loans and advances to credit institutions	–	252,793	–	252,793
Investment securities	–	–	–	–
Loans and advances to customers	–	3,617,330	–	3,617,330
	–	–	–	–
	–	**3,870,390**	**–**	**3,870,390**
Financial liabilities				
Amounts owed to retail depositors	–	(3,326,333)	–	(3,326,333)
Amounts owed to credit institutions	–	(849)	–	(849)
Amounts owed to other customers	–	(7,383)	–	(7,383)
Debt securities in issue	–	(265,874)	–	(265,874)
Subordinated liabilities	–	(29,198)	–	(29,198)
Perpetual subordinated bonds	–	(15,673)	–	(15,673)
	–	–	–	–
	–	**(3,645,310)**	**–**	**(3,645,310)**

	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31 December 2013				
Financial assets				
Cash and balances with the Bank of England	–	267	–	267
Loans and advances to credit institutions	–	269,101	–	269,101
Investment securities	–	18,302	–	18,302
Loans and advances to customers	–	3,439,255	–	3,439,255
	–	–	–	–
	–	**3,726,925**	**–**	**3,726,925**
Financial liabilities				
Amounts owed to retail depositors	–	(3,296,988)	–	(3,296,988)
Amounts owed to credit institutions	–	(1,438)	–	(1,438)
Amounts owed to other customers	–	(2,369)	–	(2,369)
Debt securities in issue	–	(273,759)	–	(273,759)
Subordinated liabilities	–	(29,918)	–	(29,918)
Perpetual subordinated bonds	–	(15,710)	–	(15,710)
	–	–	–	–
	–	**(3,619,182)**	**–**	**(3,619,182)**

	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31 December 2012				
Financial assets				
Cash and balances with the Bank of England	–	282	–	282
Loans and advances to credit institutions		291,700	–	291,700
Investment securities	–	–	–	–
Loans and advances to customers	–	2,504,861	–	2,504,861
	–	–	–	–
	–	**2,796,843**	**–**	**2,796,843**
Financial liabilities				
Amounts owed to retail depositors	–	(2,801,332)	–	(2,801,332)
Amounts owed to credit institutions	–	(3,190)	–	(3,190)
Amounts owed to other customers	–	(24,783)	–	(24,783)
Subordinated liabilities	–	(29,599)	–	(29,599)
Perpetual subordinated bonds	–	(16,799)	–	(16,799)
	–	–	–	–
	–	**(2,875,703)**	**–**	**(2,875,703)**

	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31 December 2011				
Financial assets				
Cash and balances with the Bank of England	–	253	–	253
Loans and advances to credit institutions		239,661	–	239,661
Investment securities	–	11,294	–	11,294
Loans and advances to customers	–	1,758,635	–	1,758,635
	–	–	–	–
	–	**2,009,843**	**–**	**2,009,843**
Financial liabilities				
Amounts owed to retail depositors	–	(2,107,399)	–	(2,107,399)
Amounts owed to credit institutions	–	(832)	–	(832)
Amounts owed to other customers	–	(39,092)	–	(39,092)
Subordinated liabilities	–	(29,011)	–	(29,011)
Perpetual subordinated bonds	–	(17,547)	–	(17,547)
	–	–	–	–
	–	**(2,193,881)**	**–**	**(2,193,881)**

Fair values are determined using the following value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1

These are valuation techniques that are based entirely on quoted market prices in an actively traded market and are the most reliable.

Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets.

Where discounting techniques are used in respect of derivatives, management have chosen to use LIBOR rather than the Overnight Index Swap ("**OIS**") rate. This will be reviewed when derivative clearing is introduced. The fair value of the Group's derivative financial instruments includes a Debt Valuation Adjustment (DVA) as disclosed in note 2.3.

In considering which similar instruments to use, management take into account the sensitivity of the instrument to changes in market rates and the credit quality of the instrument.

Basic risk derivatives are valued using discounted cash flow models and observable market data and will be sensitive to benchmark interest rate curves.

Level 3

These are valuation techniques for which any one or more significant input is not based on observable market data. None of the Group's financial assets or liabilities are valued using this technique.

Valuation techniques include net present value and discounted cashflow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and other valuation models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates, equity index prices and expected price volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Observable prices are those that have been seen either from counterparties or from market pricing sources including Bloomberg. The use of these depends upon the liquidity of the relevant market.

5.11 **Pension scheme**

Defined contribution scheme:

The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in 2013 amounted to £645,000 (2012: £499,000 and 2011: £368,000).

Defined benefit scheme:

KRBS operated a defined benefit pension scheme (the "**Scheme**") funded by the payment of contributions to a separately administered fund for nine retired members. The Society's Board decided to close the Scheme with effect from 31 December 2001 and introduced a new defined contribution scheme to cover service of Scheme members from 1 January 2002.

The Scheme Trustees, having taken actuarial advice, decided to wind up the Scheme rather than continue to operate it on a "paid up" basis. The winding up is largely complete. As at 31 December 2013 the liability to remaining members is £1,600 (31 December 2012: £1,600 and 31 December 2011: £1,600) matched by Scheme assets.

5.12 **Capital Management**

The Group is governed by its capital management policy. The objectives of the Group's capital management policy are to efficiently manage the capital base to optimise shareholder returns whilst maintaining capital adequacy and satisfying key stakeholders such as customers and regulators.

The Group's prime objectives in relation to the management of capital are to comply with the requirements set out by the Prudential Regulation Authority ("**PRA**"), the Group's primary prudential supervisor, to provide a sufficient capital base to cover business risks and support future business development.

The Group has implemented Basel II requirements in measuring credit risks under the standardised approach and operational risk under the basic indicator approach. Under Pillar I of Basel II, the Group calculates its minimum capital requirements based on 8% of risk-weighted assets. The Prudential Regulation Authority then applies a multiplier to this amount to cover risks under Pillar II of Basel II and generate an Individual Capital Guidance ("**ICG**"). As instructed by the PRA, the Group manages and reports its capital on a solo consolidated basis and hence the Group's capital position is not disclosed separately.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The Group's ALCO, which consists of the Chief Executive Officer, Finance Director and other senior executives, is responsible for the management of the capital process including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The Group actively manages its capital position and reports this on a regular basis to senior management via the ALCO and other governance committees. Capital requirements are included within budgets, reforecast and strategic plans with initiatives being executed against this plan.

During the period the Group complied with the capital requirements set out by the PRA.

	31 December 2011	**31 December 2012**	**31 December 2013**	**31 January 2013**
	£'000	**£'000**	**£'000**	**£'000**
Tier 1: Capital				
Permanent share capital	46	197	198	198
Transfer reserve	(12,818)	(12,818)	(12,818)	(12,818)
Retained earnings/(losses)	(12,562)	(545)	24,031	17,998
Share premium account/ Capital contribution	90,639	106,421	121,157	121,157
Deductions from tier 1 capital	(495)	(910)	(1,117)	(1,117)
Non-cumulative preference shares	315	804	1,067	1,067
Total tier 1 capital after deductions	**65,125**	**93,149**	**132,518**	**126,485**
Tier 2: Capital				
Permanent subordinated bonds	37,327	37,189	36,852	36,852
Available for sale reserve	1,822	1,285	(156)	20
Collective provisions	1,260	1,284	3,072	1,196
Subordinated liabilities	26,842	26,873	26,650	26,650
Bonds	–	703	703	703
Deductions from tier 2 capital	(797)	(4,147)	(7,078)	(7,078)
Total tier 2 capital after deductions	**66,454**	**63,187**	**60,043**	**58,343**
Excess of Tier 2 over Tier 1	**(1,329)**	**–**	**–**	**–**
Total regulatory capital	**130,250**	**156,336**	**192,561**	**184,828**

The Group has solo consolidation waivers for most of its subsidiaries. The impact of this has been included in the above table.

5.13 **Operating segments**

The Group has historically assessed the performance of the Group as a whole. During the year the Group segmented its lending by product, focusing on the customer need and reason for a loan. It now operates under three segments:

(a) **Residential Mortgages:** lending to customers who live in their own homes, secured either via first or second charges against the residential home;

(b) **Buy-to-Let/SME:** secured lending on property for investment and commercial purposes, and

(c) **Personal Loans:** unsecured lending, which currently comprises solely the acquisition of the former Northern Rock performing consumer finance portfolio of c.70,000 customers from UK Asset Resolution in 2013.

The financial position and results of operations of the above segments are summarised below:

	Residential mortgages	BTL/SME	Personal loans	Central	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
31 January 2014					
Balances at the reporting date					
Gross loans and advances to customers	**1,776,862**	**1,151,039**	**196,682**	–	**3,124,583**
Provision for impairment losses on loans and advances	**(2,528)**	**(23,238)**	**(2,465)**	–	**(28,231)**
Loans and advances to customers	**1,774,334**	**1,127,801**	**194,217**	–	**3,096,352**
Capital expenditure	**175**	**133**	–	–	**308**
Risk-weighted assets	**777,969**	**568,035**	**156,327**	–	**1,502,331**
Profit or loss for the year					
Net interest income	**4,515**	**2,637**	**1,985**	–	**9,137**
Other income/(expense)	**(201)**	**10**	**(138)**	**2,258**	**1,929**
Total income	**4,314**	**2,647**	**1,847**	**2,258**	**11,066**
Impairment losses	**(118)**	**(213)**	**(367)**	–	**(698)**
Contribution to profit	**4,196**	**2,434**	**1,480**	**2,258**	**10,368**
Operating expenses					**(2,572)**
Regulatory provisions					–
Negative goodwill					–
Profit before taxation					**7,796**
Taxation					**(1,686)**
Profit for the year					**6,110**

Group 2013	Residential mortgages	BTL/SME	Personal loans	Central	Total
	£'000	£'000	£'000	£'000	£'000
Balances at the reporting date					
Gross loans and advances to customers	**1,764,639**	**1,098,834**	**205,308**	**–**	**3,068,781**
Provision for impairment losses on loans and advances	**(3,075)**	**(22,360)**	**(2,098)**	**–**	**(27,533)**
Loans and advances to customers	**1,761,564**	**1,076,474**	**203,210**	**–**	**3,041,248**
Capital expenditure	**1,081**	**452**	**72**	**–**	**1,605**
Risk-weighted assets	**722,760**	**513,202**	**162,578**	**23,993**	**1,422,533**
Profit or loss for the year					
Net interest income	**42,334**	**17,199**	**11,233**	**–**	**70,766**
Other income/(expense)	**(3,999)**	**(531)**	**(805)**	**–**	**(5,335)**
Total income	**38,335**	**16,668**	**10,428**	**–**	**65,431**
Impairment losses	**(543)**	**(4,688)**	**(2,098)**	**–**	**(7,329)**
Contribution to profit	**37,792**	**11,980**	**8,330**	**–**	**58,102**
Operating expenses					**(24,533)**
Regulatory provisions					**(2,152)**
Negative goodwill					**–**
Profit before taxation					**31,417**
Taxation					**(4,646)**
Profit for the year					**26,771**

Group 2012	Residential mortgages	BTL/SME	Personal loans	Central	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balances at the reporting date					
Gross loans and advances to customers	**1,614,462**	**612,560**	**–**	**–**	**2,227,022**
Provision for impairment losses on loans and advances	**(2,535)**	**(28,437)**	**–**	**–**	**(30,972)**
Loans and advances to customers	**1,611,927**	**584,123**	**–**	**–**	**2,196,050**
Capital expenditure	**2,408**	**840**	**–**	**–**	**3,248**
Risk-weighted assets	**715,110**	**337,656**	**–**	**39,600**	**1,092,366**
Profit or loss for the year					
Net interest income	**12,960**	**3,201**	**–**	**–**	**16,161**
Other income/(expense)	**(2,714)**	**(347)**	**–**	**2,893**	**(168)**
Total income	**10,246**	**2,854**	**–**	**2,893**	**15,993**
Impairment losses	**(1,610)**	**(3,691)**	**–**	**–**	**(5,301)**
Contribution to profit	**8,636**	**(837)**	**–**	**2,893**	**10,692**
Operating expenses					**(19,296)**
Regulatory provisions					**(930)**
Negative goodwill					**17,603**
Profit before taxation					**8,069**
Taxation					**996**
Profit for the year					**9,065**

Group 2011	Residential mortgages	BTL/SME	Personal loans	Central	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balances at the reporting date					
Gross loans and advances to customers	**1,257,452**	**414,786**	**–**	**–**	**1,672,238**
Provision for impairment losses on loans and advances	**(3,606)**	**(28,686)**	**–**	**–**	**(32,292)**
Loans and advances to customers	**1,253,846**	**386,100**	**–**	**–**	**1,639,946**
Capital expenditure	**554**	**184**	**–**	**–**	**738**
Risk-weighted assets	**590,231**	**259,515**	**–**	**5,327**	**855,073**
Profit or loss for the period					
Net interest income	**(3,141)**	**2,319**	**–**	**–**	**(822)**
Other income/(expense)	**(849)**	**380**	**–**	**9,035**	**8,566**
Total income	**(3,990)**	**2,699**	**–**	**9,035**	**7,744**
Impairment losses	**(325)**	**(2,588)**	**–**	**–**	**(2,913)**
Contribution to profit	**(4,315)**	**111**	**–**	**9,035**	**4,831**
Operating expenses					**(17,375)**
Regulatory provisions					**(744)**
Negative goodwill					–
Profit before taxation					**(13,288)**
Taxation					**2,144**
Profit for the period					**(11,144)**

5.14 **Changes in accounting policies and adoption of new standards**

The following new standards and amendments became effective from 1 January 2014:

- IFRS 10, Consolidated Financial Statements: This new standard partly replaces IAS 27, Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities. The new standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The IFRSs also set out the accounting requirements for the preparation of consolidated financial statements. With the exception of additional disclosure requirements, the new standard has not had a significant impact for the Group.

- IFRS 11, Joint Arrangements: This new standard replaces IAS 31, Interests in Joint Ventures and SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The new standard removes the choice to apply the proportionate consolidation method, requiring all joint arrangements to be accounted for under the equity method. The new standard has had no impact on the financial statements of the Group.

- IFRS 12, Disclosure of Interests in Other Entities: This standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. With the exception of additional disclosure requirements, the new standard has not had a significant impact for the Group.

- Amendments to IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures triggered by publication of IFRS 10-12 have not had a material effect on the financial statements.

The new standards and amendments below have not been yet endorsed by the EU and therefore have not been applied in preparing these financial statements:

- IFRS 9, Financial Instruments is a new standard which may have a significant impact on classification, recognition and measurement of financial instruments of the Group. It has been under development for several years and is still undergoing changes. The Group is monitoring development of IFRS 9 and considering the associated impact on the Group's financial statements.

5.15 **Events after the reporting date.**

In May and June 2014 the Group undertook a reorganisation of its corporate structure to prepare for flotation of its shares. The restructuring can be summarised as follows:

- The B preference shares were converted into B ordinary shares on a one for one basis and redesignated as ordinary shares;
- The A shares were converted into 3,389 ordinary shares and 22,611 deferred shares;
- All E shares were transferred to the B shareholder and converted into 1,000 ordinary shares and 149,000 deferred shares;
- A new deferred share was issued and the proceeds of such issue used to repurchase all of the deferred shares (including the one newly issued), resulting in the total number of shares in issue being 1,093,191 ordinary shares.
- The number of ordinary shares was doubled in a one-for-one bonus issue to 2,186,382, and then split from £1 to 1p shares, to create 218,638,200 ordinary shares in total.

As a result of reorganisation there are 218,638,200 Ordinary Shares of £0.01 in issue.

PART X

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

Section A: Accountants' report on unaudited pro forma financial information

The Directors
OneSavings Bank plc
Reliance House
Sun Pier
Chatham
ME4 4ET

Dear Sirs

OneSavings Bank plc

We report on the pro forma financial information (the 'Pro forma financial information') set out in Part X of the prospectus dated 5 June 2014, which has been prepared on the basis described in Part X – Section B, for illustrative purposes only, to provide information about how the proposed Offering of Securities of OneSavings Bank plc might have affected the financial information presented on the basis of the accounting policies adopted by OneSavings Bank plc in preparing the financial statements for the period ended 31 January 2014. This report is required by Annex II of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

It is the responsibility of the directors of OneSavings Bank plc to prepare the Pro forma financial information in accordance with Annex II of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of OneSavings Bank plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of OneSavings Bank plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of OneSavings Bank plc.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

Section B: Pro forma statement of net assets

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effects of the Global Offer on the net assets of the Group, had the Global Offer taken place on 31 January 2014. The pro forma net assets statement is based on the audited historical financial information of the Company for the one month period ended 31 January 2014 contained in Part IX (*Historical Financial Information*) of this Prospectus and has been prepared in a manner consistent with the accounting policies adopted by the Group in preparing its financial statements for the year ended 31 December 2013.

The unaudited combined pro forma statement of net assets has been prepared for illustrative purposes only, and by its nature addresses a hypothetical situation and, therefore, does not reflect the Group's actual financial position or results. The unaudited consolidated pro forma statement of net assets is compiled on the basis set out in the notes below and in accordance with the requirements of items 1 to 6 of Annex II to the Prospectus Rules. This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act. No account has been taken of any results or other activity since 31 January 2014.

Unaudited pro forma statement of net assets as at 31 January 2014

£ million	**As at 31 January 2014**	**Adjustment – Net proceeds from the Global Offer[(1)]**	**Unaudited pro forma as at 31 January 2014**
	(£'000)	**(£'000)**	**(£'000)**
Cash and balances at central banks	248	–	248
Other assets	3,778,472	36,000	3,814,472
Total assets	**3,778,720**	**36,000**	**3,814,720**
Liabilities			
Deposits	3,263,720	–	3,263,720
Other liabilities	353,536	–	353,536
Total liabilities	**3,617,256**	**–**	**3,617,256**
Total equity	161,464	36,000	197,464
Total liabilities and equity	**3,778,720**	**36,000**	**3,814,720**

Note:

(1) This adjustment reflects the receipt of the net proceeds from the Global Offer by the Company. The Company intends to use the proceeds it receives from the Global Offer to increase its Common Equity Tier 1 ratio, support future growth and for general corporate purposes as well as to pay for expenses associated with the Global Offer. The expenses in relation to the Global Offer to be borne by the Company are estimated at approximately £5.7 million (inclusive of VAT), of which approximately £0.2 million was recorded in the one month ended 31 January 2014. The remaining balance of approximately £5.5 million will be paid by the Company out of cash resources.

PART XI

DETAILS OF THE GLOBAL OFFER

1. THE GLOBAL OFFER

The Global Offer comprises an offer of (i) 24,411,765 New Ordinary Shares to be issued by the Company, raising primary proceeds of approximately £36.0 million (net of underwriting commissions, fees and expenses) and (ii) 54,579,474 Existing Ordinary Shares to be sold by the Major Shareholder, raising aggregate proceeds of approximately £88.6 million (net of underwriting commissions, fees and expenses and assuming no exercise of the Over-allotment Option). In addition, up to a further 11,848,686 Over-allotment Shares (representing up to a maximum of 15 per cent. of the total number of Offer Shares) are being made available by the Major Shareholder pursuant to the Over-allotment Option described below. The Company will not receive any proceeds from the sale of Existing Ordinary Shares (all of which will be paid to the Major Shareholder), or the proceeds from the sale of the Over-allotment Shares pursuant to the Over-allotment Option (all of which will be paid to the Major Shareholder).

The existing Ordinary Shares will be diluted by the issue of 24,411,765 New Ordinary Shares pursuant to the Global Offer. The New Ordinary Shares to be issued pursuant to the Global Offer will represent approximately 11.2 per cent. of the existing Ordinary Share capital of the Company, and approximately 10.0 per cent. of the enlarged Ordinary Share capital of the Company immediately following Admission.

The Global Offer is being made by way of an offer of the Offer Shares to: (i) certain institutional and professional investors in the United Kingdom and elsewhere outside the United States in reliance on Regulation S; and (ii) in the United States to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Certain restrictions that apply to the distribution of this Prospectus and the offer, issue and sale of the Offer Shares in jurisdictions outside the United Kingdom are described in paragraph 12 below of this Part XI (*Details of the Global Offer*).

The Global Offer is subject to satisfaction of conditions which are customary for transactions of this type as set out in the Underwriting Agreement, including, amongst others, Admission occurring and becoming effective by no later than 8.00 a.m. on 10 June 2014 or such later time and/or date as the Company, the Major Shareholder and the Joint Bookrunners may agree, and the Underwriting Agreement not having been terminated in accordance with its terms.

When admitted to trading, the Ordinary Shares will be registered with ISIN GB00BM7S7K96 and SEDOL number BM7S7K9 and it is expected that the Ordinary Shares will be traded under the ticker symbol OSB.

Immediately following Admission, it is expected that approximately 32.5 per cent. of the Company's issued Ordinary Share capital will be held in public hands (within the meaning of paragraph 6.1.19R of the Listing Rules) assuming no Over-allotment Shares are acquired pursuant to the Over-allotment Option (increasing to approximately 37.4 per cent. if the maximum number of Over-allotment Shares are acquired pursuant to the Over-allotment Option).

The Offer Shares being issued or sold pursuant to the Global Offer will, on Admission, rank equally in all respects with the Ordinary Shares in issue, including for all dividends and other distributions thereafter declared, made or paid on the share capital of the Company. The Offer Shares will, immediately on and from Admission, be freely transferable, subject to the Articles. The rights attaching to the Offer Shares, and any Over-allotment Shares sold pursuant to the Over-allotment Option, will be uniform in all respects and they will form a single class for all purposes.

The Company, the Directors, the Major Shareholder and the Joint Bookrunners (on behalf of the Banks) expressly reserve the right to determine, at any time prior to Admission, not to proceed with the Global Offer. If such right is exercised, the Global Offer will lapse and any monies received in respect of the Global Offer will be returned to investors without interest.

2. REASONS FOR THE GLOBAL OFFER AND ADMISSION AND USE OF PROCEEDS

The Directors believe that the Global Offer and Admission will:

(a) increase its Common Equity Tier 1 ratio;

(b) provide access to the capital markets to aid future growth if required;

(c) create a liquid market in the Ordinary Shares for Existing Shareholders;

(d) potentially assist in the incentivisation and retention of key management and employees; and

(e) provide J.C. Flowers III, and certain of the Directors and Senior Managers through their respective shareholdings in the Major Shareholder, with a partial realisation of their investment in the Company.

The total net proceeds receivable by the Company from the Global Offer are estimated to be approximately £36.0 million, after bearing underwriting commissions and estimated fees and expenses incurred by the Group in connection with the Global Offer (assuming the maximum amount of the Underwriters' discretionary commission will be paid and including VAT) of £5.7 million.

The Company intends to use the net proceeds it receives from the Global Offer to increase its Common Equity Tier 1 ratio, support future growth and for general corporate purposes.

3. FINANCIAL IMPACT OF THE GLOBAL OFFER

A pro forma statement illustrating the hypothetical effect of the Global Offer on the net assets of the Group as at 31 January 2014 as if the net proceeds of £36.0 million had been received by the Company at that date is set out in Part X (*Unaudited Pro Forma Statement of Net Assets*) of this Prospectus. This information is unaudited and has been prepared for illustrative purposes only. It shows that the net proceeds from the Global Offer of £36.0 million would lead to an increase in total assets from £3,779 million to £3,815 million as at 31 January 2014.

4. WITHDRAWAL RIGHTS

If the Company is required to publish any supplementary prospectus, applicants who have applied for Offer Shares under the Global Offer shall have at least two clear business days following the publication of the relevant supplementary prospectus within which to withdraw their application to acquire Offer Shares in its entirety. The right to withdraw an application to acquire Offer Shares in these circumstances will be available to all investors under the Global Offer. If the application is not withdrawn within the stipulated period, any application to apply for Offer Shares under the Global Offer will remain valid and binding.

Details of how to withdraw an application will be made available if a supplementary prospectus is published.

5. ALLOCATIONS UNDER THE GLOBAL OFFER

The allocation of Offer Shares among prospective investors will be determined by the Joint Bookrunners (on behalf of the Banks), the Company and the Major Shareholder. All Ordinary Shares sold pursuant to the Global Offer will be sold, payable in full, at the Offer Price. No commissions, fees, expenses or taxes will be charged to investors by the Company or the Major Shareholder under the Global Offer. Liability for UK stamp duty and SDRT is described in Part XIII (*Taxation*) of this Prospectus.

Upon accepting any allocation, prospective investors will be contractually committed to acquire the number of Offer Shares allocated to them at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed not to exercise any rights to rescind or terminate, or otherwise withdraw from such commitment. Dealing may not begin before notification is made. A number of factors have been considered in determining the Offer Price and basis of allocation, including the prevailing market conditions, the level and nature of demand for the Offer Shares, the prices bid to acquire the Offer Shares and the objective of establishing an orderly and liquid after-market in the Ordinary Shares. The Offer Price and the number of Offer Shares have been established at a level determined in accordance with these arrangements, taking into account indications of interest received from prospective investors.

6. UNDERWRITING ARRANGEMENTS

The Company, the Directors, the Major Shareholder and the Banks have entered into the Underwriting Agreement pursuant to which, on the terms and subject to certain conditions contained therein (which are customary in agreements of this nature), the Underwriters have severally agreed to use their reasonable endeavours to procure purchasers and/or subscribers for the Offer Shares, failing which the Underwriters will purchase and/or subscribe for such Offer Shares.

The Underwriting Agreement contains provisions which entitle the Banks to terminate the Global Offer (and the arrangements associated with it) at any time prior to Admission in certain circumstances. If this right is exercised, the Global Offer and these arrangements will lapse and any moneys received by the Company or the Major Shareholder in respect of the Global Offer will be returned to applicants without interest.

The Global Offer is conditional upon, *inter alia*, Admission occurring not later than 8.00 a.m. on 10 June 2014 (or such later date and time as the Joint Bookrunners (on behalf of the Banks), the Major Shareholder and the Company may agree) and the Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms. Certain conditions contained in the Underwriting Agreement are related to events which are outside the control of the Company, the Directors, the Major Shareholder and the Banks.

The Underwriting Agreement provides for the Underwriters to be paid a commission in respect of the Offer Shares sold. Any commissions received by the Underwriters may be retained and any Offer Shares acquired by them may be retained or dealt in, by them, for their own benefit.

All Offer Shares issued/sold pursuant to the Global Offer will be issued/sold at the Offer Price. Liability for UK stamp duty and SDRT is described in Part XIII (*Taxation*) of this Prospectus.

Further details of the terms of the Underwriting Agreement are set out in Part XIV (*Additional Information*) of this Prospectus.

7. LOCK-UP ARRANGEMENTS

Each of the Company, the Directors, the Senior Managers, J.C. Flowers III and the Major Shareholder has agreed to certain lock-up arrangements.

Pursuant to the Underwriting Agreement:

(a) the Company has agreed that, subject to:

  (i) certain customary exceptions (including the issue and offer by or on behalf of the Company of the New Ordinary Shares and the Existing Ordinary Shares); and

  (ii) the Company's right to issue Regulatory Capital Convertible Instruments at any time following Admission,

  during the period of 180 days from the date of the Underwriting Agreement, it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks), issue, offer, lend, mortgage, pledge, assign, charge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or any interest in Ordinary Shares or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Ordinary Shares or any interest in Ordinary Shares, or file any registration statement under the Securities Act or file or publish any prospectus with respect to any of the foregoing, or enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares;

(b) the Major Shareholder has agreed that, subject to certain customary exceptions:

(i) in respect of Ordinary Shares in which J.C. Flowers III and the Non-Executive Directors are indirectly interested, for a period of 180 days from and including the date of the Underwriting Agreement; and

(ii) in respect of Ordinary Shares in which the Executive Directors are indirectly interested, for a period of 360 days from and including the date of the Underwriting Agreement,

it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks), offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing;

(c) the Non-Executive Directors have agreed that, subject to certain customary exceptions, during the period of 180 days from the date of the Underwriting Agreement, they will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks): (i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) redeem any of their respective shares in the Major Shareholder; and

(d) the Executive Directors have agreed that, subject to certain customary exceptions, during the period of 360 days from the date of the Underwriting Agreement, they will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks): (i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) redeem any of their respective shares in the Major Shareholder.

Pursuant to the Lock-Up Agreement entered into between the Banks, J.C. Flowers III and the Major Shareholder, J.C. Flowers III has agreed that, subject to certain customary exceptions, during the period of 180 days from the Lock-Up Agreement, it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks): (i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) redeem any of its shares in the Major Shareholder.

The Joint Bookrunners may, in their sole discretion, waive all or part of any of these lock-up arrangements.

In addition, pursuant to separate lock-up deeds granted in favour of the Company and the Major Shareholder:

(a) each of Rod Duke and Malcolm McCaig (as independent Non-Executive Directors) will not, for the duration of their respective directorships in the Company (in respect of the IPO Awards granted to them pursuant to the arrangements summarised at paragraph 16.2 of this Part XIV (*Additional Information*)); and

(b) each of the Senior Managers will not, for a period of 360 days from the date of this Prospectus,

(i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) redeem any of their respective shares in the Major Shareholder.

The lock-up arrangements summarised above are subject to certain customary exceptions. The Company and the Major Shareholder may, in their sole discretion, waive all or part of any of these lock-up arrangements.

In certain circumstances, it may be possible that indirect holdings of Ordinary Shares of shareholders of the Major Shareholder can be transferred so as to be held by them directly (or as they may otherwise direct). Ordinary Shares so transferred will remain subject to the terms of the lock-up arrangements applicable to those persons so far as they remain outstanding.

In addition, pursuant to a separate lock-up deed granted in favour of the Company, Mike Fairey will not (in respect of the Ordinary Shares awarded to him pursuant to his employment arrangements summarised at paragraph 9.7 of this Part XIV (*Additional Information*)), for the duration of his directorship in the Company, offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing. These lock-up arrangements are subject to certain customary exceptions. The Company may, in its sole discretion, waive all or part of any of these lock-up arrangements.

8. OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offer, BCSL, the Stabilising Manager, or any of its agents or affiliates, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Ordinary Shares or effect other transactions to support the market price of the Ordinary Shares, in each case at a higher level than that which might otherwise prevail in the open market.

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

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

Following allocation of the Ordinary Shares pursuant to the Global Offer, the Stabilising Manager may seek to agree the terms of deferred settlement with certain investors who have been allocated Ordinary Shares pursuant to the terms of the Global Offer. No fees will be payable to such investors.

9. STOCK LENDING AGREEMENT

In connection with settlement and stabilisation, the Stabilising Manager has entered into the Stock Lending Agreement with the Major Shareholder, pursuant to which the Stabilising Manager will be able to borrow from the Major Shareholder in aggregate up to a maximum of 11,848,686 Ordinary Shares (representing up to a maximum of 15 per cent. of the total number of Offer Shares (excluding the Ordinary Shares subject to the Over-allotment Option) for the purposes, among other things, of allowing the Stabilising Manager to settle on Admission over-allotments, if any, made in connection with the Global Offer. If the Stabilising Manager borrows any Ordinary Shares pursuant to the Stock Lending Agreement, it will be obliged to return equivalent shares to the Major Shareholder in accordance with the terms of the Stock Lending Agreement.

10. DEALING ARRANGEMENTS

Application will be made to the FCA for all of the Ordinary Shares to be admitted to the premium listing segment of the Official List and application will be made to the London Stock Exchange for those Ordinary Shares to be admitted to trading on the main market for listed securities of the London Stock Exchange. It is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. on 5 June 2014. The earliest date for settlement of such dealings will be 10 June 2014. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange at 8.00 a.m. on 10 June 2014. Settlement of dealings from that date will be on a three-day rolling basis. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be on a "when issued basis", will be of no effect if Admission does not take place, and will be at the sole risk of the parties concerned. The above-mentioned dates and times may be changed without further notice.

Each investor will be required to undertake to pay the Offer Price for the Offer Shares sold to such investor in such manner as shall be directed by the Underwriters. Pricing information and other related disclosures will be made available by the Company on www.osb.co.uk on 5 June 2014.

It is intended that, where applicable, definitive share certificates in respect of the Offer Shares will be despatched on 24 June 2014 or as soon thereafter as is practicable. Temporary documents of title will not be issued. Dealings in advance of crediting of the relevant CREST stock account(s) shall be at the sole risk of the persons concerned.

Following Admission, (i) the Ordinary Shares held by the Major Shareholder (on behalf of the Directors and J.C. Flowers III) and (ii) J.C. Flowers III, the Directors and the Senior Managers will, in each case be subject to the lock-up arrangements described in paragraph 7 of this Part XI (*Details of the Global Offer*).

11. CREST

CREST is a paperless settlement system enabling securities to be transferred from one person's CREST account to another person's CREST account without the need to use share certificates or written instruments of transfer. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission and, also with effect from Admission, the Articles will permit the holding of Ordinary Shares under the CREST system. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

12. SELLING AND TRANSFER RESTRICTIONS

The distribution of this Prospectus and the offer of the Offer Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Ordinary Shares, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer of the Offer Shares contained in this Prospectus. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or purchase any of the Offer Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

12.1 Australia

This Prospectus has not been, and will not be, lodged with the Australian Securities and Investments Commission as a disclosure document under Chapter 6D of the Australian Corporations Act 2001 (the "**Corporations Act**"). This Prospectus does not purport to include the information required of a disclosure document under Chapter 6D of the Corporations Act. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Ordinary Shares must not be issued or distributed directly or indirectly in or into Australia, and no Ordinary Shares may be offered for sale (or transferred, assigned or otherwise alienated) to investors in Australia for at least 12 months after their issue, except in circumstances where disclosure to investors is not required under Part 6D.2 of the Corporations Act.

Each purchaser of Ordinary Shares will be deemed to have acknowledged the above and, by applying for Ordinary Shares under this Prospectus, gives an undertaking to the Company not to offer, sell, transfer, assign or otherwise alienate those securities to persons in Australia (except in the circumstances referred to above) for 12 months after their issue.

12.2 Canada

The information contained in this Prospectus is not, and under no circumstances is to be construed as a prospectus, an advertisement, a public offering or an offer to sell Ordinary Shares in Canada or any province or territory thereof. The Ordinary Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada or to or for the benefit of any resident of any province or territory of Canada, except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which the offer or sale is made and only by a dealer duly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is not tailored to the needs of the recipient and under no circumstances is such information to be construed as investment advice in any province or territory of Canada.

The Ordinary Shares will not be offered, sold or distributed, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Neither this Prospectus, nor any other offering material in connection with the offer of the Ordinary Shares pursuant to the Offer, will be distributed or delivered in Canada other than in compliance with applicable securities laws. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon the Prospectus, the information contained herein, or the merits of the Ordinary Shares and any representation to the contrary is an offence.

12.3 European Economic Area

In relation to each Relevant Member State, an offer to the public of any Ordinary Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Ordinary Shares may be made at any time under the following exemptions under the Prospectus Directive if they have been implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the Company or any Bank to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplemental prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Ordinary Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with each of the Banks and the Financial Adviser and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For these purposes, the expression an "offer to the public" in relation to any Ordinary Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Global Offer and any Ordinary Shares to be offered so as to enable an investor to decide to purchase any Ordinary Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

12.4 Hong Kong

No Ordinary Shares have been offered or sold or will be offered or sold in Hong Kong, by means of any document, other than: (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No advertisement, invitation or document relating to the Ordinary Shares has been issued or has been in the possession of any person for the purposes of issue, nor will any such advertisement, invitation or document be issued or be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Ordinary Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

12.5 Japan

The Ordinary Shares offered hereby have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**Financial Instruments and Exchange Act**"). Accordingly, no Ordinary Shares will be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

12.6 Singapore

The offer or invitation which is the subject of this Prospectus is only allowed to be extended to certain persons and institutions and not to the retail public. Moreover, this Prospectus or any written materials issued in connection with the Global Offer is not a prospectus as defined in the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, statutory liability under the SFA in relation to the contents of prospectuses would not apply. Investors should consider carefully whether the investment is suitable for them.

This Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Ordinary Shares may not be circulated or distributed, nor may any Ordinary Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than:

- to an institutional investor (as defined in Section 4A of the SFA) in accordance with the conditions specified in Section 274 of the SFA;
- to a relevant person (as defined in Section 275(2) of the SFA) in accordance with the conditions specified in Section 275(1) of the SFA;
- to any person in accordance with the conditions specified in Section 275(1A) of the SFA; or
- pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where any Ordinary Shares are acquired pursuant to an offer made in reliance on an exemption under Section 274 or Section 275 of the SFA, it is a condition of the offer that each person who agrees to acquire any Ordinary Shares is acquiring such Ordinary Shares for investment purposes only and not with a view to distribute or resell such Ordinary Shares and that it will not offer for sale, resell or otherwise distribute or agree to distribute such Ordinary Shares within six months of such acquisition to any person other than to:

- an institutional investor;
- a relevant person; or
- any person pursuant to an offer referred to in Section 275(1A) of the SFA.

Where any Ordinary Shares are acquired pursuant to an offer made in reliance on an exemption under Section 275 of the SFA by a relevant person which is a corporation (other than a corporation which is an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, securities of that corporation shall not be transferred within six months after that corporation has acquired the Ordinary Shares unless such transfer is made in accordance with the conditions specified in Section 276(3) of the SFA.

Where any Ordinary Shares are acquired pursuant to an offer made in reliance on an exemption under Section 275 of the SFA by a relevant person which is a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that trust has acquired the Ordinary Shares unless such transfer is made in accordance with the conditions specified in Section 276(4) of the SFA.

Investors should therefore ensure that their own transfer arrangements comply with the above restrictions.

12.7 **Switzerland**

The Offer Shares will not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27ff. of the SIX Listing Rules or any of listing rules of any other stock exchange or regulated trading facility in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the Company or the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of the Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of the Offer Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to purchasers of the Offer Shares.

This Prospectus, as well as any other material relating to the Offer Shares, is personal and confidential and does not constitute an offer to any other person. This Prospectus may only be used by those investors to whom it has been sent in connection with the offering described herein and may neither, directly nor indirectly, be distributed or made available to other persons without the express consent of the Company. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

12.8 **United States**

This Prospectus is not a public offering (within the meaning of the Securities Act) of securities in the United States. The Ordinary Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Banks and the Financial Adviser may offer Ordinary Shares (i) in the United States only through their respective US registered broker-dealer affiliates to persons reasonably believed to be QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or (ii) outside the United States in offshore transactions in reliance on Regulation S.

In addition, until 40 days after the commencement of the Global Offer, any offer or sale of Ordinary Shares within the United States by any dealer (whether or not participating in the Global Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another available exemption from registration under the Securities Act.

Purchasers in the United States

Each purchaser of Offer Shares within the United States, by accepting delivery of this Prospectus and the Offer Shares, will be deemed to have represented, agreed and acknowledged that:

(a) The purchaser is, and at the time of its purchase of any Offer Shares will be, a QIB within the meaning of Rule 144A.

(b) The purchaser understands and acknowledges that the Offer Shares have not been, nor will they be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A thereunder, and that the Offer Shares may not be offered or sold, directly or indirectly, in the United States, other than in accordance with paragraph (d) below.

(c) The purchaser is purchasing the Offer Shares (i) for its own account, or (ii) for the account of one or more other QIBs for which it is acting as duly authorised fiduciary or agent with sole investment discretion with respect to each such account and with full authority to make the acknowledgments, representations and agreements herein with respect to each such account (in which case it hereby makes such acknowledgements, representations and agreements on behalf of such QIBs as well), in each case for investment and not with a view to any resale or distribution of any such shares.

(d) The purchaser understands and agrees that offers and sales of the Offer Shares are being made in the United States only to QIBs in transactions not involving a public offering or which are exempt from, or not subject to, the registration requirements of the Securities Act, and that if in the future it or any such other QIB for which it is acting, as described in paragraph C above, or any other fiduciary or agent representing such investor, decides to offer, sell, deliver, hypothecate or otherwise transfer any Offer Shares, it or any such other QIB and any such fiduciary or agent will do so only (i) to a person that it, or any person acting on its behalf, reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in an "offshore transaction" pursuant to Rule 903 or Rule 904 of Regulation S (and not in a pre-arranged transaction resulting in the resale of such Offer Shares into the United States), (iii) in accordance with Rule 144 under the Securities Act or (iv) pursuant to an effective registration statement under the Securities Act, and in each case, in accordance with any applicable securities laws of any state or territory of the United States and of any other jurisdiction. The purchaser understands that no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of the Offer Shares.

(e) The purchaser understands that for so long as the Ordinary Shares are "restricted securities" within the meaning of the US federal securities laws, no such shares may be deposited into any unrestricted depositary receipt facility established or maintained by a depositary bank.

(f) The purchaser understands that the Ordinary Shares will not settle or trade through the facilities of DTCC or any other US clearing system.

(g) The purchaser understands that the Offer Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

The Ordinary Shares represented hereby have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (1) to a person that the seller and any person acting on its behalf reasonably believe is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act purchasing for its own account or for the account of a qualified institutional buyer, (2) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act or (3) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States. No representation can be made as to the availability of the exemption provided by Rule 144 or Rule 144A under the Securities Act for resales of the Ordinary Shares. Notwithstanding anything to the contrary in the foregoing, the Ordinary Shares represented hereby may not be deposited into any unrestricted depositary receipt facility in respect of the Ordinary Shares established or maintained by a depositary bank. Each holder, by its acceptance of Ordinary Shares, represents that it understands and agrees to the foregoing restrictions.

(h) The purchaser understands that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Banks and the Financial Adviser, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Purchasers pursuant to Regulation S

Each purchaser who acquires Offer Shares pursuant to Regulation S, by accepting delivery of this Prospectus and the Offer Shares, will be deemed to have represented, agreed and acknowledged that:

(a) The purchaser understands that the Offer Shares have not been, nor will they be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States.

(b) The purchaser (i) is aware that the sale of the Offer Shares to it being made pursuant to and in accordance with Rule 903 and 904 of Regulation S, (ii) is, or at the time such Offer Shares are purchased will be, the beneficial owner of those Offer Shares and (iii) is purchasing such Offer Shares in an offshore transaction meeting the requirements of Regulation S.

(c) The purchaser is not an affiliate of the Company or a person acting on behalf of such an affiliate.

(d) The purchaser understands that the Company, the Banks and the Financial Adviser, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

12.9 **Other overseas territories**

Investors in jurisdictions other than Australia, the European Economic Area, the United States, Japan and Switzerland should consult their professional advisers as to whether they require any governmental or other consents or need to observe their formalities to enable them to purchase any Offer Shares under the Global Offer.

13. FTSE ELIGIBILITY

Subject to satisfying the appropriate criteria, including the sale of sufficient Existing Shares to satisfy the FTSE free float requirement, the Company may be eligible following completion of the Global Offer for inclusion in the FTSE UK Index Series at the quarterly review in September 2014.

14. TERMS AND CONDITIONS OF THE GLOBAL OFFER

These terms and conditions apply to investors agreeing to subscribe for New Ordinary Shares and/or purchase Existing Ordinary Shares under the Global Offer. Each investor agrees with each of the Company, the Major Shareholder and the Banks to be bound by these terms and conditions as being the terms and conditions upon which Ordinary Shares will be issued and/or sold under the Global Offer.

14.1 **Agreement to acquire Ordinary Shares**

Conditional on: (i) Admission occurring on or prior to 10 June 2014 (or such later date as the Joint Bookrunners (on behalf of the Banks) and the Company may agree); and (ii) the investor being allocated Ordinary Shares, each investor agrees to become a member of the Company and agrees to acquire Ordinary Shares at the Offer Price. The number of Ordinary Shares allocated to such investor under the Global Offer will be in accordance with the arrangements described in paragraph 5 of this Part XI (*Details of the Global Offer*). To the fullest extent permitted by law, each investor acknowledges and agrees that it will not be entitled to exercise any rights to rescind or terminate or, subject to any statutory rights, to withdraw an application for Ordinary Shares in the Global Offer, or otherwise to withdraw from, such commitment.

14.2 **Payment for Ordinary Shares**

Each investor undertakes to pay the Offer Price for the Ordinary Shares acquired by such investor in such manner as shall be directed by the Underwriters. In the event of any failure by any investor to pay as so directed by the Underwriters, the relevant investor will be deemed thereby to have appointed the Underwriters or any nominee of the Underwriters to sell (in one or more transactions) any or all of the Ordinary Shares in respect of which payment will not have been made as directed by the

Underwriters and indemnifies on demand the Underwriters and/or any relevant nominee of the Underwriters in respect of any liability for stamp duty and/or SDRT arising in respect of any such sale or sales. Liability for UK stamp duty and SDRT is described in paragraph 4 of Part XIII (*Taxation*) of this Prospectus.

14.3 **Representations and warranties**

Each investor and, in the case of sub-paragraphs (j) and (p) below, any person confirming an agreement to subscribe for and/or purchase Ordinary Shares on behalf of an investor or authorising the Joint Bookrunners (on behalf of the Banks) to notify the investor's name to the Registrars, represents, warrants and acknowledges to each of the Company, the Major Shareholder and the Banks that:

(a) the content of this Prospectus is exclusively the responsibility of the Company and the Directors and that neither the Major Shareholder, the Banks nor any person acting on their behalf is responsible for or will have any liability for any information, representation or statement contained in this Prospectus or any information previously published by or on behalf of the Company or any member of the Group and will not be liable for any decision by an investor to participate in the Global Offer based on any information, representation or statement contained in this Prospectus or otherwise;

(b) in agreeing to subscribe for and/or purchase Ordinary Shares under the Global Offer, the investor is relying on this Prospectus and any supplementary prospectus that may be issued by the Company, and not on any other information or representation concerning the Group, the Major Shareholder, the Ordinary Shares or the Global Offer. Such investor agrees that none of the Company, the Major Shareholder, the Banks nor any of their respective officers, partners or directors will have any liability for any such other information or representation and irrevocably and unconditionally waives any rights it may have in respect of any such other information or representation. This paragraph 14.3 of this Part XI (*Details of the Global Offer*) will not exclude any liability for fraudulent misrepresentation;

(c) the Banks are not making any recommendations to investors or advising any of them regarding the suitability or merits of any transaction they may enter into in connection with the Global Offer, and each investor acknowledges that participation in the Global Offer is on the basis that it is not and will not be a client of any of the Banks and that the Banks are acting exclusively for the Company and no one else in connection with the Global Offer, and they will not be responsible to anyone else for the protections afforded to their respective clients, and that the Banks will not be responsible to anyone other than the Company for providing advice in relation to the Global Offer, the contents of this Prospectus or any transaction, arrangements or other matters referred to herein, and the Banks will not be responsible to anyone other than the relevant party to the Underwriting Agreement in respect of any representations, warranties, undertakings or indemnities contained in the Underwriting Agreement or for the exercise or performance of the Banks' rights and obligations thereunder, including any right to waive or vary any condition or exercise any termination right contained therein;

(d) if the laws of any place outside the United Kingdom are applicable to the investor's agreement to subscribe for and/or purchase Ordinary Shares, such investor has complied with all such laws and none of the Company, the Major Shareholder or the Banks will infringe any laws outside the United Kingdom as a result of such investor's agreement to subscribe for and/or purchase Ordinary Shares or any actions arising from such investor's rights and obligations under the investor's agreement to subscribe for and/or purchase Ordinary Shares and under the Articles (and, in making this representation and warranty, the investor confirms that it is aware of the selling and transfer restrictions set out in paragraph 12 of this Part XI (*Details of the Global Offer*));

(e) the investor understands that no action has been or will be taken in any jurisdiction other than the United Kingdom by the Company or any other person that would permit a public offering of the Ordinary Shares, or possession or distribution of this Prospectus, in any country or jurisdiction where action for that purpose is required;

(f) if the investor is in any EEA member state which has implemented the Prospectus Directive it is: (a) a legal entity which is a qualified investor as defined under the Prospectus Directive; or (b) otherwise permitted by law to be offered and sold Ordinary Shares in circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive or other applicable laws;

(g) the investor is not a national, resident or citizen of Australia or Japan or a corporation, partnership or other entity organised under the laws of Australia or Japan, that the investor will not offer, sell, renounce, transfer or deliver, directly or indirectly, any of the Ordinary Shares in Australia or Japan or to any national, resident or citizen of Australia or Japan and the investor acknowledges that the Ordinary Shares have not been and will not be registered under the applicable securities laws of Australia or Japan and that the same are not being offered for subscription or sale, and may not, directly or indirectly, be offered, sold, transferred or delivered, in Australia or Japan;

(h) the investor is participating in the Global Offer in compliance with the selling and transfer restrictions set out in paragraph 12 of this Part XI (*Details of the Global Offer*), including the representations and acknowledgements contained therein. The investor acknowledges that the Ordinary Shares have not been and will not be registered under the Securities Act, or qualified for sale under the laws of any state or other jurisdiction of the United States, and may not be offered, sold, resold or transferred in, into or within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. The Ordinary Shares are being offered and sold in the United States to persons reasonably believed to be QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and outside the United States in an "offshore transaction" as defined in, and in accordance with, Regulation S;

(i) the investor is liable for any capital duty, stamp duty, stamp duty reserve tax and all other stamp, issue, securities, transfer, registration, documentary or other duties or taxes (including any interest, fines or penalties relating thereto) payable outside the United Kingdom by it or any other person on the acquisition by it of any Ordinary Shares or the agreement by it to acquire any Ordinary Shares;

(j) in the case of a person who confirms to any Bank, on behalf of an investor, an agreement to subscribe for and/or purchase Ordinary Shares and/or who authorises the Joint Bookrunners (on behalf of the Banks) to notify the investor's name to the Registrars, that person represents and warrants that he, she or it has authority to do so on behalf of the investor;

(k) the investor has complied with its obligations in connection with money laundering and terrorist financing under the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 (the "**Regulations**") and, if it is making payment on behalf of a third party, it has obtained and recorded satisfactory evidence to verify the identity of the third party as required by the Regulations;

(l) the investor is not, and is not applying as nominee or agent for, a person which is, or may be, mentioned in any of sections 67, 70, 93 and 96 of the Finance Act 1986 (depositary receipts and clearance services);

(m) if the investor is in the United Kingdom, it is: (a) a person having professional experience in matters relating to investments who falls within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); or (b) a high net worth body corporate, unincorporated association or partnership or trustee of a high value trust as described in Article 49(2) of the Financial Promotion Order, or is otherwise a person to whom an invitation or inducement to engage in investment activity may be communicated without contravening section 21 of FSMA;

(n) if the investor is acquiring Ordinary Shares as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

(o) each investor in a Relevant Member State who acquires any Ordinary Shares under the Global Offer contemplated hereby will be deemed to have represented, warranted and agreed with each of the Banks and the Company that: (i) it is a qualified investor within the meaning of the law in that relevant member state implementing Article 2(1)(e) of the Prospectus Directive; and (ii) in the case of any Ordinary Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive: (x) the Ordinary Shares acquired by it in the Offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any relevant member state other than qualified investors, as that term is defined in the Prospectus Directive, or in other circumstances falling within Article 3(2) of the Prospectus Directive and the prior consent of the Banks has been given to the offer or resale; or (y) where Ordinary Shares have been acquired by it on behalf of persons in any relevant member state other than qualified investors, the offer of those Ordinary Shares to it is not treated under the Prospectus Directive as having been made to such persons. For the purposes of this provision, the expression an "offer" in relation to any of the Ordinary Shares in any relevant member states means the communication in any form and by any means of sufficient information on the terms of the offer and any Ordinary Shares to be offered so as to enable an investor to decide to purchase the Ordinary Shares, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state;

(p) in the case of a person who confirms to any Bank, on behalf of an investor which is an entity other than a natural person, an agreement to purchase Ordinary Shares and/or who authorises the notification of such investor's name to the Registrars, that person warrants that he, she or it has authority to do so on behalf of the investor; and

(q) if the investor is an acquirer or transferee of Ordinary Shares, or an interest therein, you will be deemed to represent, warrant and agree that (1) if you are, or are acting on behalf of, an employee benefit plan (as defined in Section 3(3) of the United States Employee Retirement Income Security Act of 1974 as amended ("**ERISA**")) that is subject to the fiduciary responsibility provisions of Title I of ERISA, a plan that is subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**"), or an entity whose underlying assets include "plan assets" by reason of any such employee benefit plan's or plan's investment in the entity, your acquisition, holding and disposition of such Ordinary Shares will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, and (2) if you are a governmental, church, non-US or other plan which is subject to any state, local, other federal or non-US laws or regulations that are substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, your acquisition, holding and disposition of such Ordinary Shares will not constitute or result in a non-exempt violation of any state, local, other federal or non-US laws or regulations that are substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code.

The Company, the Major Shareholder and the Banks will rely upon the truth and accuracy of the foregoing representations, warranties and undertakings.

14.4 **Supply and disclosure of information**

If the Company, the Major Shareholder or the Joint Bookrunners (on behalf of the Banks) or any of their agents request any information about an investor's agreement to purchase Ordinary Shares, such investor must promptly disclose it to them and ensure that such information is complete and accurate in all respects.

14.5 **Miscellaneous**

(a) The rights and remedies of the Company, the Major Shareholder and the Banks under these terms and conditions are in addition to any rights and remedies which would otherwise be available to them, and the exercise or partial exercise of one will not prevent the exercise of others.

(b) On application, each investor may be asked to disclose, in writing or orally, to the Joint Bookrunners (on behalf of the Banks):

(i) if he or she is an individual, his or her nationality; or

(ii) if he, she or it is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

(c) All documents will be sent at the investor's risk. They may be sent by post to such investor at an address notified to the Joint Bookrunners (on behalf of the Banks).

(d) Each investor agrees to be bound by the Articles (as amended from time to time) once the Ordinary Shares which such purchaser has agreed to subscribe for and/or purchase have been issued or transferred to such investor.

(e) The Company, the Major Shareholder and the Joint Bookrunners (on behalf of the Banks) expressly reserve the right to modify the Global Offer (including without limitation, its timetable and settlement) at any time before the Offer Price and allocation are determined.

(f) The contract to subscribe for and/or purchase Ordinary Shares and the appointments and authorities mentioned herein will be governed by, and construed in accordance with, English law. For the exclusive benefit of the Company, the Major Shareholder and the Banks, each investor irrevocably submits to the exclusive jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an investor in any other jurisdiction.

(g) In the case of a joint agreement to subscribe for and/or purchase Ordinary Shares, references to a purchaser in these terms and conditions are to each of such investors and any investor's liability is joint and several.

PART XII

SUPERVISION AND REGULATION

1. EUROPEAN UNION LEGISLATION

The framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by European Union legislation. In March 2000, the adoption by the European Union of the Banking Consolidation Directive and Capital Adequacy Directive (as recast in July 2006 and subsequently amended, together commonly referred to as the "**Capital Requirements Directive**") resulted in the consolidation of the main pan-European banking legislation into a single directive. The principal intention underlying the Banking Consolidation Directive was the harmonisation of banking regulation and supervision throughout the European Union and Norway, Iceland and Liechtenstein, commonly known as the European Economic Area (the "**EEA**"). The Banking Consolidation Directive prescribes minimum standards in key areas and requires EEA Member States to give "mutual recognition" to each other's standards of regulation. The Banking Consolidation Directive establishes the "passport" concept, which amounts to freedom for a credit institution authorised in its "home" state to establish branches in, and to provide cross-border services into, other EEA Member States.

Although credit institutions are primarily regulated in their home state by a local prudential regulator, the Banking Consolidation Directive prescribes minimum criteria for regulation of the authorisation of credit institutions and the prudential supervision applicable to them. The local prudential regulator in the UK for banks is the PRA. For further information about regulation in the UK see paragraph 2 "*UK regulation*" below. Investment firms and other similar institutions that engage in the provision of services relating to securities, derivatives and other similar instruments are subject to a similar regulatory environment and can obtain a passport under the EU Markets in Financial Instruments Directive (Directive (2004/39/EC)). The Markets in Financial Instruments Directive, among other things, is designed to create a single European market in financial services. On 20 October 2011, the European Commission published a proposal for a revised version of the Markets in Financial Instruments Directive, which aims to introduce, among other things, requirements to enhance market transparency, increase regulatory oversight of certain markets and introduce stricter investor protection rules. The final text of the legislation related to this is expected to be finalised and published in the summer of 2014.

European Union legislation transposing the revised Basel Accord (known as the Basel II Framework), through the recast Capital Requirements Directive, was partially implemented at the start of 2007, with more advanced techniques in relation to the calculation of capital requirements for credit risk and operational risk implemented at the start of 2008. The Capital Requirements Directive has since been amended by Directive 2009/111/EC dated 16 September 2009 (known as "**CRD II**"). CRD II was implemented in the UK on 31 December 2010. CRD II included changes to the criteria for hybrid tier 1 capital, the control of large exposures and requirements relating to securitisation transactions. The requirements for hybrid capital to count as non-Core Tier 1 capital were toughened, as were the relative permissible proportions of core, non-core and innovative tier 1 capital. However, CRD II provided for a certain proportion of existing instruments that do not comply with the new rules to continue to count as capital for a long transitional period. The Capital Requirements Directive was further amended by Directive 2010/76/EU dated 24 November 2010 (known as "**CRD III**"), which further tightened the capital requirements for trading books and securitisations in accordance with the recommendations of the Basel Committee to amend the Basel II framework. CRD III entered into force on 15 December 2010 and, following its implementation, the last of its provisions came into force in the UK on 16 April 2012.

The Basel Committee subsequently approved significant changes to the Basel II framework in 2011 to 2013 (such changes being commonly referred to as "**Basel III**"), including new capital and liquidity requirements intended to reinforce capital standards with heightened requirements for global systemically important banks and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, among other things, new requirements for the 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 (referred to respectively as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). The Basel Committee intends that member countries 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 European Commission published corresponding proposals to implement Basel III through replacing the existing Capital Requirements Directive with a Capital Requirements Regulation and an associated Capital Requirements Directive (known as "**CRD IV**") on 20 July 2011. The CRD IV draft legislation was approved by the European Council on 21 June 2013.

CRD IV substantially reflects the Basel III capital and liquidity standards. Certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority (the "**EBA**"). The legislation entered into force in January 2014, with full implementation by January 2019; however the proposals allow individual Member States to implement the stricter requirements of contributing instruments and/or level of capital more quickly than is envisaged under Basel III.

The Capital Requirement Regulation gives express recognition for Common Equity Tier 1 capital instruments for mutuals and co-operatives and permits the use of a cap or restriction to safeguard the interests of members and reserves.

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. Loan agreements secured by land mortgage are exempted from the consumer credit directives. In March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposal is to some extent modelled on the second directive on consumer credit and requires, among other things, standard pre-contractual information, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and a right of the borrower to make early repayment.

2. UK REGULATION

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

- the Financial Policy Committee, a part of the Bank of England which is responsible for macro-prudential regulation, or regulation of stability and resilience of the financial system as a whole;
- the PRA, an independent subsidiary of the Bank of England, which is responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the FCA, which has responsibility for conduct of business and markets regulation. The FCA also represents the UK's interests in markets regulation at the European Securities and Markets Authority.

See "*Recent legislative and regulatory changes and future legislative and regulatory changes are imposing or could impose operational restrictions on the Group, require the Group to raise further capital, increase the Group's expenses and/or otherwise adversely affect its business, results, financial condition or prospects*" under the section headed "*Risk Factors*".

The Financial Services Act 2012 also gave the Government powers to transfer the regulation of consumer credit (which includes new and existing second charge mortgages) from the OFT to the FCA. This transfer occurred on 1 April 2014. The related secondary legislation was enacted in July 2013. Under the Financial Services Act 2012, the FCA may make rules under which, and from dates to be specified:

- carrying on certain credit-related activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval; and

- the FCA will have power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules.

The Financial Services Act 2012 also provides for formatted co-operation to exist between the FCA and the Financial Ombudsman Service (discussed below) particularly where issues identified potentially have wider implications with a view to the FCA requiring firms to operate consumer redress schemes.

Another area of change which has an impact on the UK regulatory landscape relates to the proposals for banking reform. On 14 June 2012, HM Treasury issued a white paper ("Banking reform: delivering stability and supporting a sustainable economy") on how the Government intends to implement the measures recommended by Sir John Vicker's Independent Commission on Banking ("**ICB**") final report of 12 September 2011. Broadly, the white paper covers the following areas: the ring-fencing of vital banking services from international and investment banking services; measures on loss absorbency and depositor preference; and proposals for enhancing competition in the banking sector. On 19 June 2013, the UK Parliament published the final report of the Parliamentary Commission on Banking Standards ("**PCBS**"): "Changing Banking for Good". The PCBS' recommendations related to issues such as: a new framework for individuals in the banking sector, replacing the existing approved persons regime; reforms to remuneration of staff whose behaviour could seriously harm the bank, its reputation or its customers; and sanctions and enforcement, including a new criminal offence of reckless misconduct in the management of a bank.

The Banking Reform Bill received Royal Assent on 18 December 2013. The new Banking Reform Act will give HM Treasury and the relevant regulators (primarily the PRA), the power to implement some of the ICB's recommendations, particularly regarding ring-fencing requirements for banks. Similarly the Act implements some of the PCBS' recommendations, particularly the introduction of a new Senior Persons regime and a new criminal offence of reckless misconduct in the management of a bank.

2.1 **Financial Services and Markets Act 2000**

In the UK, activities carried out by the Company are regulated under FSMA with secondary legislation under it including the FCA's and PRA's rules. It is an offence for any person to carry out regulated activities in the UK unless they are authorised or exempt from the need to be authorised. The Company is authorised under FSMA to carry out the activities it currently conducts with permission to undertake, among other things, accepting deposits, mortgage activities, dealing as principal and certain other investment activities. The FSMA, among other legislation, also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorised person or is exempt from such requirements.

The FSMA (as amended by the Financial Services Act 2012) imposes an ongoing system of regulation and control on banks. The detailed rules and prudential standards set by the FCA and the PRA are contained in various parts of their respective Handbooks. Parts of the FCA and PRA Handbooks which are of particular relevance to banks include the General Prudential sourcebook, the Prudential sourcebook for Banks, Building Societies and Investment Firms and the Conduct of Business Sourcebook.

The following sections describe some of the concepts for a bank which is authorised under the FSMA.

Threshold conditions, principles for business and fundamental rules

An FCA authorised firm must satisfy at all times certain "threshold conditions" which are set out in FSMA. These threshold conditions include the requirement that an authorised firm must have adequate financial resources, not have "close links" of a nature that would impede the FCA's supervision of the firm and generally satisfy the FCA that it is "fit and proper" and otherwise suitable to be authorised.

Further, a dual regulated firm, such as the Company, must also comply with the PRA's threshold conditions which are designed to promote safety and soundness, and which firms must comply with on a continuous basis. They are wider in scope than the FCA's threshold conditions, and require a dual regulated firm to ensure that: (i) its 'mind and management' is in the UK; (ii) its business is conducted in a prudent manner which requires maintaining appropriate non-financial (as well as financial) resources; (iii) the firm is fit and proper and appropriately staffed; and (iv) the group is capable of being effectively supervised which will require firms to consider how their group structure and group links may impact upon this requirement.

More generally, the Company must carry out its business in accordance with the FCA's general principles, and generally, act in accordance with the PRA's fundamental rules (which are soon to be implemented), requiring, among other things, it to act with integrity at all times.

Restrictions on changes of control

Firms authorised by the PRA and the FCA are subject to restrictions regarding persons who may act as a "controller" of it, and procedural requirements which apply to the process by which a person acquires control, or certain increases in control over it. A "controller" for the purposes of FSMA and the PRA and the FCA Rules is a person who alone or with those he is acting in concert holds ten per cent. or more of the shares or voting rights in, or is able to exercise significant influence in relation to, a regulated firm or its parent undertaking.

A person who decides to acquire or increase control over a UK (PRA) authorised firm must give advance written notice to the PRA which will then decide whether to approve the acquisition (and will liaise with the FCA in relation to this), either conditionally or unconditionally, or to object to it. There is also a general duty to give prior notification to the PRA of any proposal to cease to have control or to reduce an existing level of control from specified thresholds.

Breach of the notification requirements imposed by FSMA on the controller is a criminal offence.

The FCA Rules

An FCA authorised firm must comply with the principles and rules set out in the FCA Rules, which also provide guidance on the application and interpretation of these rules.

The FCA's Principles for Business (the "**Principles**") are high-level principles which are a general statement of the fundamental obligations of FCA authorised firms under the regulatory system. The FCA is a "principles based regulator" and expects firms to meet the standards of behaviour set out in the Principles. These Principles include obligations relating to treating customers fairly. The FCA may take disciplinary action against any firm which breaches one or more of the Principles, irrespective of whether it has also breached a specific FCA rule.

If a breach of the FCA Rules occurs, the FCA has the power to take a wide range of disciplinary actions against regulated firms and any FCA approved persons, including public censure, the imposition of fines, the variation, suspension or termination of the firm's authorisations or the removal of approved status from individuals.

Regulatory capital

Regulatory capital requirements form an integral part of the PRA's prudential supervision of UK authorised banks. The regulatory capital rules oblige firms to hold a certain amount of capital at all times (taking into account the particular risks to which the firm may be exposed given its business activities), thereby seeking to ensure that firms can meet their liabilities as they fall due and safeguarding their (and their counterparties') financial stability. The PRA also expects firms to take a proactive approach to monitoring and managing risks, consistent with its high level requirement for firms to have adequate financial resources. Further information may be found in Part V (*Operating and Financial Review*) of this Prospectus.

2.2 Lending

The FSMA regulates mortgage credit within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (a) the credit agreement is one under which the lender provides credit to an individual or to trustees; (b) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the Financial Services and Markets Act 2000 as to authorisation or financial promotions are contravened, then the affected regulated mortgage contract (and, in the case of financial promotions, other credit secured on land) is unenforceable against the borrower without a court order. The FCA's Mortgages and Home Finance: Conduct of Business sourcebook ("**MCOB**") sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorised firm (such as the Company) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

Any credit agreement intended to be a regulated mortgage contract or unregulated might instead be wholly or partly regulated by the Consumer Credit Act 1974, as amended (the "**Consumer Credit Act 1974**") or treated as such, and any credit agreement intended to be regulated by the Consumer Credit Act 1974 or treated as such or unregulated might instead be a regulated mortgage contract, because of technical rules on determining whether the credit agreement or any part of it falls within the definition of a regulated mortgage contract or within the definition of a regulated agreement (described below) and technical rules on changes to credit agreements.

The Consumer Credit Act 1974 regulates credit within the definition of "regulated agreement". A credit agreement is a regulated agreement if: (a) the borrower is or includes an "individual" as defined in the Consumer Credit Act 1974; and (b) the credit agreement is not an exempt agreement under the Consumer Credit Act 1974. Certain financial limits in respect of the credit provided applied to credit agreements entered into before 6 April 2008, or before 31 October 2008 in the case of buy-to-let mortgages satisfying prescribed conditions. Buy-to-let mortgages entered into on or after 31 October 2008 and satisfying prescribed conditions are exempt agreements under the Consumer Credit Act 1974.

If requirements under the Consumer Credit Act 1974 as to licensing of lenders or brokers or the entering into and documenting of a credit agreement are not met, then the affected regulated agreement is unenforceable against the borrower without an order of the OFT or court order or (for agreements entered into before 6 April 2007) is totally unenforceable, depending on the circumstances. Under Sections 75 and 75A of the Consumer Credit Act 1974, in certain circumstances a lender is liable to a customer in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement regulated by this Act or treated as such, and the lender has a statutory indemnity from the supplier against liability under Section 75, subject to any agreement between the lender and the supplier.

In December 2011, the FSA published a consultation paper that consolidated proposals arising out of its wide-ranging mortgage market review ("**MMR**"), which was launched in October 2009 to consider strengthening rules and guidance on, among other things, affordability assessments, product regulation, arrears charges and responsible lending. The FSA's aim was to ensure the continued provision of mortgage credit for the majority of borrowers who can afford the financial commitment of a mortgage, while preventing a re-emergence of poor lending practices as the supply of mortgage credit in the market recovers. In October 2012, the FSA published a feedback statement and final rules which have recently come into force. These rules require, among other things, an assessment of affordability in accordance with detailed requirements, with transitional arrangements where the borrower does not take on additional borrowing except for essential repairs or maintenance work, and will ban self-certified loans. These rules permit interest-only loans where there is a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan and check at least once during the term of the loan) and the cost of the repayment strategy must be part of the affordability assessment. These rules came into effect on 26 April 2014.

The changes affect every firm that is subject to the MCOB rules in the FCA Handbook. Broadly, this means every firm that carries on a home finance activity (subject to certain provisions). Similarly, firms which issue certain kinds of financial promotions (or approve another firm's financial promotions) relating to the mortgage market, will be within the remit of the new rules.

2.3 **Transfer in responsibility for consumer credit regulation**

Responsibility for consumer credit transferred from the OFT to the FCA on 1 April 2014, bringing it under the umbrella of the FSMA regime. The regulatory framework for consumer credit activities is now made up of a combination of: FSMA (and its secondary legislation); retained provisions in the Consumer Credit Act 1974, (and its retained secondary legislation); and both existing and new FCA rules and guidance.

In conjunction with this change, parts of the Consumer Credit Act 1974 were repealed and replaced with FCA Handbook rules. 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. Those parts of the Consumer Credit Act 1974 that implement the (maximum harmonisation) Consumer Credit Directive (2008/48/EC) have been retained. Guidance published by the OFT has been replicated as FCA Handbook rules so that it has the force of law.

Offences under the Consumer Credit Act 1974 can be prosecuted, however, criminal prosecutions by the OFT were rare. This could change under the FCA. The FSMA enforcement regime provides a broader range of sanctions, including powers to impose potentially higher fines on individuals and firms, prohibit individuals from working in financial services or carrying on particular activities, publicly censure firms or individuals and require consumer redress schemes to compensate consumers. In addition, the Financial Services Act 2012 gives the FCA power to render unenforceable contracts made in contravention of its product intervention rules.

2.4 **Financial Services Compensation Scheme**

Financial Services and Markets Act 2000 established the Financial Services Compensation Scheme, or 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 are, for example, for claims against firms declared in default on or after 1 January 2010 (31 December 2010 for deposits): (i) for deposits, 100 per cent. of the first £85,000; (ii) for mortgage advice and arranging, 100 per cent. of the first £50,000; and (iii) 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. Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes (the "**DGSD**") requires Member States to set the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at €100,000.

2.5 **Financial Ombudsman Service**

The Financial Services and Markets Act 2000 established the Financial Ombudsman Service (the "**FOS**"), which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money award by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012 (£100,000 for earlier complaints) plus interest and costs. The FOS may also make directions awards, which direct the business to take steps as the FOS considers just and appropriate.

2.6 Other Relevant Legislation and Regulation

The UK Money Laundering Regulations 2007 place a requirement on the Company 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 the Money Laundering Regulations 2007 is contained in the Guidance Notes of the Joint Money Laundering Steering Group, including in respect of the identification of new clients, record keeping and otherwise. Directive 2005/60/EC, which underpins the Money Laundering Regulations 2007, was reviewed by the European Commission between 2010 and 2012 and it found that there were no fundamental shortcomings in the regime.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers. The UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) apply to consumer contracts entered into on or after 1 July 1995. The main effect of these Regulations is that a contract term which is "unfair" will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services. The FSA issued statements of good practice in this regard in May 2005, January 2007 and January 2012, and since 1 April 2013 the FCA works with the OFT to allocate responsibility for regulation of mortgage products.

On 1 November 2009, the FSA introduced its Banking Conduct Regime for retail banking. The main constituents of this regime are: (i) extending the FCA's Principles for Businesses as they apply to deposit-taking, from prudential matters only, to conduct of business matters in addition; (ii) conduct of business requirements in the Payment Services Regulations 2009 (the "**PSR**"), which apply to certain payment services made in euro or sterling; and (iii) the FCA's Banking: Conduct of Business Sourcebook, which applies to deposit-taking in respects not covered by the PSR.

On 1 November 2009, the British Bankers' Association, the Building Societies Association and The UK Cards Association launched The Lending Code, a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the Business Banking Code then ceased to have effect.

PART XIII

TAXATION

A. UK TAXATION

*The following statements are intended only as a general guide to certain UK tax considerations relevant to prospective investors in the Ordinary Shares. They do not purport to be a complete analysis of all potential UK tax consequences of acquiring, holding or disposing of Ordinary Shares. They are based on current UK tax law and what is understood to be the current published practice (which may not be binding) of HM Revenue and Customs ("**HMRC**") as at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. The following statements relate only to Shareholders who are resident (and, in the case of individuals, resident and domiciled) for tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), to whom split year treatment does not apply, who hold their Ordinary Shares as an investment (other than under an individual savings account) and who are the absolute beneficial owners of both the Ordinary Shares and any dividends paid on them. The tax position of certain categories of Shareholders who are subject to special rules, such as persons who acquire (or are deemed to acquire) their Ordinary Shares in connection with their (or another person's) office or employment, traders, brokers, dealers in securities, insurance companies, banks, financial institutions, investment companies, tax-exempt organisations, persons connected with the Company or the Group, persons holding Ordinary Shares as part of hedging or conversion transactions, Shareholders who are not domiciled or not resident, or who are temporarily non-resident in the UK, collective investment schemes, trusts and those who hold 5 per cent. or more of the Ordinary Shares, is not considered. Nor do the following statements consider the tax position of any person holding investments in any HMRC-approved arrangements or schemes, including the enterprise investment scheme, venture capital scheme or business expansion scheme, or any person able to claim any inheritance tax relief or holding Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or, in the case of a corporate Shareholder, a permanent establishment or otherwise).*

Prospective investors who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK are strongly recommended to consult their own professional advisers.

1. TAXATION OF DIVIDENDS

1.1 UK resident individuals

An individual Shareholder who is resident for tax purposes in the UK and who receives a cash dividend from the Company will generally be entitled to a tax credit equal to one-ninth of the amount of the cash dividend received, which tax credit will be equivalent to 10 per cent. of the aggregate of the dividend received and the tax credit (the gross dividend). Such an individual Shareholder will be subject to income tax on the gross dividend. An individual UK resident Shareholder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross dividend at the rate of 10 per cent. so that the tax credit will satisfy the income tax liability of such a Shareholder in full. An individual UK resident Shareholder who is subject to income tax at the higher rate (but not the additional rate) will be liable to income tax on the gross dividend at the rate of 32.5 per cent. to the extent that such sum, when treated as the top slice of that Shareholder's income, exceeds the threshold for higher rate income tax. After setting the 10 per cent. tax credit against part of the Shareholder's liability, a higher rate tax payer will therefore be liable to account for tax equal to 22.5 per cent. of the gross dividend (or 25 per cent. of the net cash dividend) to the extent that the Shareholder's income (including the gross dividend) exceeds the threshold for the higher rate.

An individual UK resident Shareholder liable to income tax at the additional rate will be subject to income tax on the gross dividend at the rate of 37.5 per cent. of the gross dividend, but will be able to set the UK tax credit off against part of this liability. The effect of this set-off of the UK tax credit is that such a Shareholder will be liable to account for additional tax equal to 27.5 per cent. of the gross dividend (or approximately 30.6 per cent. of the net cash dividend) to the extent that the Shareholder's income (including the gross dividend) exceeds the threshold for the additional rate.

1.2 **No payment of tax credit**

Individual UK resident Shareholders whose tax liability in respect of the gross dividends is less than the tax credit, and other UK resident tax payers who are not liable to UK tax on dividends, including UK pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to any dividends paid by the Company.

1.3 **Companies**

Shareholders within the charge to UK corporation tax which are "small companies" for the purposes of Chapter 2 of Part 9A of the Corporation Tax Act 2009 will not be subject to UK corporation tax on any dividend received from the Company provided certain conditions are met (including an anti-avoidance condition). Such companies are not entitled to tax credits on any dividends paid by the Company.

Other Shareholders within the charge to UK corporation tax will not be subject to UK corporation tax on dividends received from the Company so long as the dividends fall within an exempt class and certain conditions are met. For example, dividends paid on shares that are "ordinary shares" and are not "redeemable" (as those terms are used in Chapter 3 of Part 9A of the Corporation Tax Act 2009), and dividends paid to a person holding less than a 10 per cent. interest in the Company, should generally fall within an exempt class. However, the exemptions are not comprehensive and are subject to anti-avoidance rules. Such companies are not entitled to tax credits on any dividends paid by the Company.

If the conditions for exemption are not met or cease to be satisfied, or such a Shareholder elects for an otherwise exempt dividend to be taxable, the Shareholder will be subject to UK corporation tax on dividends received from the Company at the rate of corporation tax applicable to that Shareholder (currently 21 per cent. for companies paying the full rate of corporation tax with effect from 1 April 2014).

1.4 **Non-UK resident Shareholders**

Where a Shareholder who is resident for tax purposes outside the UK carries on a trade, profession or vocation in the UK and the dividends are a receipt of that trade, profession or vocation or, in the case of corporation tax, the Ordinary Shares are held for a UK permanent establishment through which a trade is carried on, the Shareholder may be liable to UK tax on dividends paid by the Company.

Shareholders who are resident outside the UK for tax purposes will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends received from the Company, although this will depend on the existence and terms of any double taxation convention between the UK and the country in which such Shareholder is resident.

A Shareholder resident or otherwise subject to tax outside the UK may be subject to taxation on dividend income under their local law. Any such Shareholder should consult his (or its) own tax advisers concerning his (or its) tax liabilities (in the UK and any other country) on dividends received from the Company, whether they are entitled to claim any repayment of or relief for any part of the tax credit and, if so, the procedure for doing so.

1.5 **Withholding taxes**

The Company is not required to withhold UK tax at source from dividend payments or any other distributions it makes to Shareholders in respect of the Ordinary Shares.

2. TAXATION OF DISPOSALS

2.1 General

A disposal or deemed disposal of Ordinary Shares by a Shareholder who is (at any time in the relevant UK tax year) resident in the UK for tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains depending upon the Shareholder's circumstances and subject to any available exemption or relief.

2.2 UK resident individual Shareholders

For an individual Shareholder within the charge to UK capital gains tax, a disposal (or deemed disposal) of Ordinary Shares may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. The rate of capital gains tax is 18 per cent. for individuals who are subject to income tax at the basic rate and 28 per cent. for individuals who are subject to income tax at the higher or additional rates. An individual Shareholder is entitled to realise an exempt amount of gains (currently £11,000) in each tax year without being liable to tax.

2.3 UK resident corporate Shareholders

For a corporate Shareholder within the charge to UK corporation tax, a disposal (or deemed disposal) of Ordinary Shares may give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax. An indexation allowance on the cost of acquiring the Ordinary Shares may be available to reduce the amount of the chargeable gain which would otherwise arise on the disposal. Corporation tax is charged on chargeable gains at the rate applicable to the relevant company.

2.4 Non-UK resident Shareholders

A Shareholder (individual or corporate) who is not resident in the UK for tax purposes is generally not subject to UK taxation on chargeable gains. They may, however, be subject to taxation under their local law.

However, if such a Shareholder carries on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a non-UK resident corporate Shareholder, a permanent establishment) to which the Ordinary Shares are attributable, the Shareholder will be subject to the same rules that apply to UK resident Shareholders.

An individual Shareholder who acquires Ordinary Shares while a UK resident and who subsequently ceases to be resident for tax purposes in the UK only temporarily and who disposes of the Ordinary Shares during that period of non-residence may be liable, on his return to the UK, to capital gains tax in respect of any gain arising from the disposal (subject to any available exemption or relief).

3. INHERITANCE TAX

The Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by an individual Shareholder, or the death of an individual Shareholder, may therefore give rise to a liability to UK inheritance tax regardless of where the Shareholder is resident or domiciled, subject to any available exemption or relief. A transfer of Ordinary Shares at less than market value may be treated for inheritance tax purposes as a gift of the Ordinary Shares. Special rules apply to close companies and to trustees of certain settlements who hold Ordinary Shares, which rules may bring them within the charge to inheritance tax. The inheritance tax rules are complex and Shareholders should consult an appropriate professional adviser in any case where those rules may be relevant, particularly in (but not limited to) cases where Shareholders intend to make a gift of Ordinary Shares, to transfer Ordinary Shares at less than market value or to hold Ordinary Shares through a company or trust arrangement.

4. STAMP DUTY AND STAMP DUTY RESERVE TAX

4.1 General

The following statements are intended as a general guide to the current UK stamp duty and stamp duty reserve tax ("**SDRT**") position for holders of Ordinary Shares. Certain categories of person, including intermediaries, brokers, dealers and persons connected with depositary receipt systems and clearance services may not be liable to stamp duty or SDRT or may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986. The comments in this section relating to stamp duty and SDRT apply whether or not a Shareholder is resident in the UK.

4.2 **The Global Offer**

No UK stamp duty or SDRT will arise on the issue of Ordinary Shares by the Company.

The sale of Existing Ordinary Shares by the Major Shareholder pursuant to the Global Offer and the sale of Over-allotment Shares will generally give rise to a liability to stamp duty and/or SDRT for the purchaser at a rate of 0.5 per cent. of the Offer Price (in the case of stamp duty, rounded up to the nearest multiple of £5). In practice, only one of either stamp duty or SDRT would be paid (see paragraph 4.3 below which applies equally to sales pursuant to the Global Offer as to subsequent transfers).

If, in connection with the Global Offer or the over-allotment of Ordinary Shares, Ordinary Shares are transferred into a clearance service or a depositary receipt system, a liability to stamp duty or SDRT may be payable at the rate of 1.5 per cent. of the Offer Price, as discussed further in paragraph 4.5 below. As provided for and subject to the terms of the Underwriting Agreement, further details of which are set out in paragraph 23.1 of Part XIV (*Additional information*) of this Prospectus, stamp duty or SDRT liabilities which arise in respect of the transfer of Ordinary Shares to persons acquiring Ordinary Shares pursuant to the Global Offer or the over-allotment of Ordinary Shares are generally to be discharged by the Major Shareholder or the Company.

4.3 **Subsequent transfers**

Stamp duty at the rate of 0.5 per cent. of the amount or value of the consideration given (rounded up to the nearest multiple of £5) is generally payable on an instrument transferring Ordinary Shares. An exemption from stamp duty applies to an instrument transferring Ordinary Shares where the amount or value of the consideration (whether in the form of cash or otherwise) is £1,000 or less and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000.

A charge to SDRT will also generally arise on an unconditional agreement to transfer Ordinary Shares (at the rate of 0.5 per cent. of the amount or value of the consideration payable). However, if within six years of the date of the agreement (or, if the agreement is conditional, the date on which it becomes unconditional) an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any SDRT already paid will generally be refunded provided that a claim for payment is made, and any outstanding liability to SDRT will be cancelled. The purchaser or transferee of the Ordinary Shares will generally be responsible for paying such stamp duty or SDRT.

4.4 **Ordinary Shares held through CREST**

Paperless transfers of Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Under the CREST system, generally no stamp duty or SDRT will arise on a deposit of Ordinary Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise usually at a rate of 0.5 per cent. of the amount or value of the consideration for the Ordinary Shares.

4.5 **Depositary receipt systems and clearance services**

Under current UK legislation, where Ordinary Shares are issued or transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares (rounded up to the nearest multiple of £5 in the case of stamp duty).

There is an exception from the 1.5 per cent. charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an appropriate election which has been approved by HMRC. In these circumstances, the normal rates of stamp duty and SDRT (rather than the higher rate regime referred to above) will generally apply to any transfer of Ordinary Shares into the clearance service and to any transactions in Ordinary Shares held within the clearance service.

Any liability for stamp duty or SDRT in respect of the transfer into a clearance service or depositary receipt system, or in respect of a transfer of Ordinary Shares held within such a service or system, will strictly be payable by the operator of the clearance service or depositary receipt system or its nominee, as the case may be, but in practice will generally be reimbursed by participants in the clearance service or depositary receipt system.

However, following the European Court of Justice ("**ECJ**") decision in C-569/07 HSBC Holdings plc and Vidacos Nominees Ltd v The Commissioners of Her Majesty's Revenue & Customs (Case C-569/07) and the First-tier Tax Tribunal decision in HSBC Holdings Plc and the Bank of New York Mellon Corporation v The Commissioners of Her Majesty's Revenue & Customs HMRC has indicated that the overall effect of these decisions is that the 1.5 per cent. charge is no longer applicable to issues of UK shares to clearance services or depositary receipt issuers anywhere in the world. However, it is possible that HMRC might amend the UK stamp duty and/or SDRT regime in such a way as to alter the position outlined above. Accordingly, specific professional advice should be sought before paying the 1.5 per cent. stamp duty or SDRT charge.

An agreement to transfer Ordinary Shares held within a depositary receipt system or clearance service should not give rise to a liability for SDRT, provided that, in the case of an agreement to transfer Ordinary Shares held within a clearance service, no election has been made under Section 97A of the Finance Act 1986 which is applicable to such Ordinary Shares.

5. CLOSE COMPANY

It is likely that the Company and each member of the Group is a "close company" within the meaning of Part 10 of the Corporation Tax Act 2010 as at the date of this Prospectus.

Whether the Company and each member of the Group will be a close company following Admission is dependent, amongst other things, on how widely held the Ordinary Shares in the Company are and what proportion of the voting power in respect of the Ordinary Shares is controlled by certain Shareholders, and cannot be definitively determined.

If the Company is a close company at any time following the close of the Global Offer, certain transactions entered into by the Company or other members of the Group may have tax implications for Shareholders. In particular, certain gifts, transfers of assets at less than market value or other transfers of value by the Company or other members of the Group may be apportioned to Shareholders for the purposes of UK inheritance tax, although the payment of a dividend to a Shareholder or the payment of dividends or transfers of assets between members of the Group will not normally attract such an apportionment. Any charge to UK inheritance tax arising from such a transaction will primarily be a liability of the relevant company, although in certain circumstances Shareholders and beneficiaries may be liable for the tax if it is left unpaid by that company. In addition, any transfer of assets at less than market value by the Company or other members of the Group may result in a reduction of a Shareholder's base cost in his Ordinary Shares for the purposes of UK taxation of capital gains, although transfers of assets between members of the Group will not normally attract such treatment. Shareholders should consult their own professional advisers on the potential impact of the close company rules.

B. CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS AND/OR PURCHASERS OF ORDINARY SHARES ARE HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF US FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS AND/OR PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS AND/OR PURCHASERS UNDER THE INTERNAL REVENUE CODE OF 1986 (THE "CODE"); (B) SUCH DISCUSSION IS INCLUDED IN THIS PROSPECTUS BY THE ISSUERS IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED IN THIS PROSPECTUS; AND (C) HOLDERS AND/OR PURCHASERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a discussion of certain of the US federal income tax consequences of the acquisition, ownership and disposition of the Ordinary Shares that are applicable to you if you are a US Holder (as defined below) that acquires Ordinary Shares pursuant to this Prospectus. Except for the discussion of "FATCA Considerations" and "Information Reporting and Backup Withholding," this discussion does not apply to non-US Holders. This discussion is not a complete analysis or listing of all of the possible tax consequences of such transactions and does not address all tax considerations that might be relevant to particular holders in light of their personal circumstances or to persons that are subject to special tax rules, (some of which are discussed below). In particular, the information set forth below deals only with US Holders that will hold Ordinary Shares as capital assets for US federal income tax purposes (generally, property held for investment) and that do not own, and are not treated as owning, at any time 10 per cent. or more of the total combined voting power of all classes of the Group's shares entitled to vote. In addition, this description of certain material US federal income tax consequences does not address the 3.8% Medicare tax on net investment income or all of the US federal income tax consequences which may be applicable to special classes of US Holders, such as:

- certain financial institutions;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt entities;
- insurance companies;
- persons holding Ordinary Shares as part of a hedging, integrated or conversion transaction, constructive sale or "straddle";
- certain US expatriates;
- persons who are resident in the UK for tax purposes or who carry on a trade, profession or vocation in the UK through a branch or agency to which the Ordinary Shares are attributable;
- persons subject to the alternative minimum tax;
- dealers or traders in securities;
- partnerships and certain pass-through entities; or
- holders whose functional currency for US federal income tax purposes is not the US dollar.

For the purposes of this summary, a "**US Holder**" is a beneficial owner of Ordinary Shares who, for US federal income tax purposes, is: (1) an individual citizen or a resident of the United States; (2) a corporation (or other entity treated as a corporation for US federal income tax purposes) created or organised in or under the laws of the United States or any state thereof or the District of Columbia; (3) an estate the income of which is subject to US federal income taxation regardless of its source; or (4) a trust (A) if a court within the United States is able to exercise primary supervision over its administration and one or more US persons have authority to control all substantial decisions of the trust, or (B) that has a valid election in effect under applicable US Treasury regulations to be treated as a US person.

If a partnership is a beneficial owner of Ordinary Shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership that acquires Ordinary Shares, you should consult your tax advisers regarding the tax consequences of acquiring, owning and disposing of Ordinary Shares.

This summary does not address estate and gift tax or any US federal tax consequences other than income tax, or tax consequences under any state, local or non-US laws.

The following discussion is based upon the Code, US judicial decisions, administrative pronouncements, existing and proposed US Treasury regulations, as well as on the income tax treaty between the United States and the United Kingdom, all as of the date of this Prospectus. All of the preceding authorities are subject to change, possibly with retroactive effect, so as to result in US federal income tax consequences different from those discussed below. The Company has not requested, and will not request, a ruling from the US Internal Revenue Service (the "**IRS**") with respect to any of the US federal income tax consequences described below, and as a result there can be no assurance that the IRS will not disagree with or challenge any of the conclusions the Group has reached and described below.

The following discussion assumes that the Company is not, and will not become, a passive foreign investment company (or "**PFIC**") as discussed below in the section headed "Passive Foreign Investment Company Considerations". However, the rules applicable to a non-US corporation such as the Company for purposes of determining PFIC status are unclear. In addition, determination of PFIC status depends on, among other things, facts that may not be ascertained with certainty and is based on technical rules that are difficult to apply, and a separate determination after the close of each taxable year must be made by the Company as to whether it was a PFIC for such year. Finally, assuming that the Company is not treated as a PFIC for the current taxable year, it is not obliged to conduct its business or operations in order to avoid treatment as a PFIC and there can be no guarantees that the Company will not be treated as a PFIC for any future taxable year. If the Company were to be treated as a PFIC for any taxable year that a US Holder beneficially owns Ordinary Shares, certain material adverse tax consequences may result for such taxable year and all subsequent taxable years. Prospective purchasers should consult with their tax advisers about the US tax classification of the Company and any related consequences.

The following discussion is for general information only and is not intended to be, nor should it be construed to be, legal or tax advice to any holder or prospective holder of Ordinary Shares and no opinion or representation with respect to the US federal income tax consequences to any such holder or prospective holder is made. Prospective purchasers are urged to consult their tax advisers as to the particular consequences to them under US federal, state and local, and applicable foreign, tax laws of the acquisition, ownership and disposition of Ordinary Shares.

1. DISTRIBUTIONS

The gross amount of any distribution made by the Company will generally be subject to US federal income tax as dividend income to the extent paid out of the Company's current or accumulated earnings and profits, as determined under US federal income tax principles. Distributions in excess of current and accumulated earnings and profits generally would be treated as a non-taxable return of capital to the extent of the US Holder's adjusted basis in Ordinary Shares and, thereafter, as capital gain from the sale or exchange of property. However, the Company does not calculate its earnings and profits under US federal income tax principles and, therefore, it is expected that distributions will be reported as dividends for US federal income tax purposes. A distribution will be includable in gross income by US Holders of Ordinary Shares as ordinary income on the date that a US Holder actually or constructively receives the distribution.

Dividends paid by the Company will not be eligible for the dividends-received deduction generally allowed to US corporations. In general, dividends received by certain non-corporate US Holders may constitute "qualified dividend income" that is subject to tax at long term capital gains rates if (i) the relevant US Holder has held Ordinary Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and is not under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property and (ii) the Company is a "qualified foreign corporation". The Company expects to be a qualified foreign corporation for these purposes. However, because treatment as a qualified foreign corporation depends upon the satisfaction of certain requirements for each taxable year, there can be no assurance as to such treatment. US Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends in their particular circumstances.

The gross amount of distributions paid in pounds sterling will be included by US Holders in income in a US dollar amount calculated by reference to the exchange rate in effect on the day US Holders actually or constructively receive the distribution, regardless of whether the payment is in fact converted into US dollars. If the pounds sterling are converted into US dollars on the date of receipt, US Holders should not be required to recognise any foreign currency gain or loss with respect to the receipt of pounds sterling as distributions. If, instead, the pounds sterling are converted at a later date, any currency gains or losses resulting from the conversion of the pounds sterling will be treated as US source ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income.

2. SALE, EXCHANGE OR OTHER TAXABLE DISPOSITION OF ORDINARY SHARES

A US Holder generally will recognise capital gain or loss on the sale or other disposition of an Ordinary Share equal to the difference, if any, between the US dollar value of the amount realised determined using the spot rate on the date of sale (or in the case of cash basis and electing accrual basis taxpayers, if the Ordinary Shares are considered to be traded on an established securities market, using the spot rate on the settlement date) and the US Holder's adjusted tax basis in the Ordinary Share. On the settlement date, a non-electing accrual basis US Holder will recognise US source foreign currency gain or loss (taxable as ordinary income or loss from US sources) equal to the difference (if any) between the US dollar value of the amount received based on the spot rates in effect on the date of sale or other disposition and the settlement date.

Generally, any capital gain or loss will be US source gain or loss for foreign tax credit purposes and will be long-term capital gain or loss if the Ordinary Shares have been held for more than one year at the time of the sale or other taxable disposition. However, regardless of a US Holder's actual holding period, any loss may be long-term capital loss to the extent the US Holder received a dividend that qualified for the reduced rates described above and the dividend exceeded 10 per cent. of the US Holder's basis in its Ordinary Shares. The deductibility of capital losses is subject to material limitations.

3. PASSIVE FOREIGN INVESTMENT COMPANY CONSIDERATIONS

In general, a non-US corporation will be classified as a PFIC for US federal income tax purposes if in any taxable year, after applying certain look-through rules, either (i) 75 per cent. or more of its gross income consists of passive income (e.g., dividends, interest and certain rents and royalties) or (ii) 50 per cent. or more of its assets, by value, determined on the basis of a quarterly average, consists of assets that produce, or are held for the production of, passive income. For purposes of these tests, if a non-US corporation owns directly or indirectly at least 25 per cent. (by value) of the stock of another corporation, that non-US corporation will be treated as if it held directly its proportionate share of the assets of the other corporation and directly earned its proportionate share of the other corporation's income.

Although interest income generally is treated as passive for purposes of the PFIC test, based on proposed Treasury regulations regarding the characterisation of certain banking income as non-passive, which are proposed to be effective for taxable years beginning after December 31, 1994, the Company does not believe it was a PFIC for its immediately preceding taxable year and the Company does not expect to be a PFIC for the current taxable year or in future taxable years. However, because the proposed Treasury regulations may not be finalised in their current form, because the manner of the application of the proposed regulations is not entirely clear and because the composition of its income and assets will vary over time, there can be no guarantees that the Company will not be treated as a PFIC for any taxable year. If the Company were a PFIC for any taxable year that a US Holder beneficially owns Ordinary Shares, certain material adverse tax consequences may result for such taxable year and all subsequent taxable years during which the US Holder holds the Ordinary Shares, even if the Company ceases to meet the threshold requirement for PFIC status. Prospective investors should consult with their tax advisers about the Company's PFIC status and any related US federal income tax consequences of investing in a PFIC.

If the Company were a PFIC for any taxable year during which a US Holder owned Ordinary Shares, the US Holder generally would be subject to special rules with respect to (i) any "excess distribution" (generally, any distribution received by a US Holder in excess of 125 per cent. of the average annual distributions received in the three preceding taxable years, or, if shorter, the US Holder's holding period), and (ii) any gain realised on the sale or other disposition of Ordinary Shares. Under these rules, (i) the excess distribution or gain would be allocated rateably over the US Holder's holding period for the Ordinary Shares, (ii) the amount allocated to the current taxable year and any taxable year before the Company became a PFIC would be taxed as ordinary income, and (iii) the amount allocated to each other taxable year would be subject to tax at the highest rate in effect for the taxpayer for that taxable year, plus an interest charge on the amount of tax deemed to be deferred. Additionally, dividends will not be eligible for the preferential tax rate applicable to qualified dividend income received by individuals and certain other non-corporate persons as discussed above. Certain elections (such as the mark-to-market) may be available that would result in alternative taxation of the Ordinary Shares. In addition, a US Holder of an interest in a PFIC can sometimes avoid the interest charge described above by making a "qualified electing fund" ("**QEF**") election to be taxed currently on its share of the PFIC's ordinary earnings and net capital gains. That election, however, must be based on information concerning the PFIC's earnings provided by the PFIC to investors on an annual basis and the Company does not intend to make that information available to US Holders. Consequently it is expected that US Holders will not be able to make a QEF election in the event the Company is a PFIC in the current or any future taxable year. US Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

US Holders should also be aware that if a US Holder owns Ordinary Shares during any year in which the Company were a PFIC, they would generally be required to file IRS Form 8621 with respect to the Company.

US Holders should consult their tax advisers regarding the PFIC rules, their application to the Company, and the availability and advisability of making a mark-to-market election in their particular circumstances.

4. INFORMATION REPORTING AND BACK-UP WITHHOLDING

In general, information reporting will apply to dividends paid to US Holders in respect of Ordinary Shares and the proceeds received by a US Holder from the sale, exchange or other disposition of Ordinary Shares within the United States or through certain US-related financial intermediaries unless such US Holder is an exempt recipient. A back-up withholding tax may apply to such payments if a US Holder fails to provide a taxpayer identification number or certification of exempt status or fails to report in full dividend and interest income.

Backup withholding is not an additional tax. Any amounts withheld under the back-up withholding rules will be allowed as a refund or credit against a US Holder's US federal income tax liability, provided that the required information is furnished to the IRS.

In addition, US Holders should be aware of reporting requirements with respect to the holding of certain foreign financial assets, including stock of foreign issuers which is not held in an account maintained by a US financial institution, if the aggregate value of all of such assets exceeds US $50,000 on the last day of the taxable year or $75,000 at any time during the taxable year (or for certain individuals living outside the United States and married individuals filing joint returns, certain higher thresholds). US Holders should consult their own tax advisers regarding the application of the information reporting rules to the Ordinary Shares and their particular situations.

Non-US Holders generally will not be subject to US information reporting and back-up withholding, provided, in certain cases, they comply with US tax identification and certification requirements (generally, filing the applicable US IRS Form W-8).

THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT ABOVE IS FOR GENERAL INFORMATIONAL PURPOSES ONLY. PROSPECTIVE HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THE US FEDERAL, STATE, LOCAL AND NON-US TAX CONSEQUENCES TO THEM IN THEIR PARTICULAR CIRCUMSTANCES OF ACQUIRING, HOLDING, AND DISPOSING OF ORDINARY SHARES.

C. FATCA CONSIDERATIONS

Under certain provisions of the Code and Treasury regulations promulgated thereunder (commonly referred to as "**FATCA**"), as well as certain intergovernmental agreements between the United States and certain other countries (including the United Kingdom) together with local country implementing legislation, certain payments made in respect of the Ordinary Shares after December 31, 2016 may be subject to withholding ("**FATCA Withholding**"). The Company (or a relevant intermediary) may be required to impose FATCA Withholding on payments in respect of Ordinary Shares to the extent that such payments are "foreign passthru payments," made after December 31, 2016 to non-US financial institutions (including intermediaries) that have not entered into agreements with the IRS pursuant to FATCA or otherwise established an exemption from FATCA, and other Holders of Ordinary Shares that fail to provide sufficient identifying information to the Company or any relevant intermediary. Under current guidance it is not clear whether and to what extent payments on the Ordinary Shares will be considered foreign passthru payments subject to FATCA Withholding or how intergovernmental agreements will address foreign passthru payments (including whether withholding on foreign passthru payments will be required under such agreements). US Holders should consult their tax advisers as to how these rules may apply to payments they receive on the Ordinary Shares.

On 12 September 2012 the UK and US signed an inter-governmental agreement to implement FACTA in the UK (the "**IGA**"), and UK regulations giving effect to the IGA came into effect on 1 September 2013 (the "**Regulations**"). The Company has no withholding tax obligations under the Regulations on payments it makes to shareholders in respect of the Ordinary Shares. However, it is possible that this position may change, as terms of the IGA require the US and UK authorities to work together to achieve the policy objectives of so-called "passthru withholding" (which would come into effect no earlier than 1 January 2017). It is not yet clear whether, or to what extent, passthru withholding will apply to payments made by the Company.

PART XIV

ADDITIONAL INFORMATION

1. RESPONSIBILITY STATEMENT

The Directors, whose names appear on page 35, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INCORPORATION AND ACTIVITY OF THE COMPANY

The Company was incorporated and registered in England and Wales under the Companies Act as a private company limited by shares on 13 July 2010 under the name Sevco 5067 Limited, with registered number 07312896. The Company changed its name to OneSavings Limited on 3 August 2010. The Company re-registered as a public company limited by shares with the name OneSavings Plc on 8 October 2010. The Company changed its name to OneSavings Bank Plc on 1 February 2011.

The Company is domiciled in the UK. Its registered office and head office is at Reliance House, Sun Pier, Chatham, Kent ME4 4ET (telephone number: 01634 848944).

The principal legislation under which the Company operates, and under which the Ordinary Shares are and will be created is, the Companies Act and regulations made thereunder. The Company operates in conformity with its constitution.

The Company became the holding company of the Group on 1 February 2011.

3. SHARE CAPITAL OF THE COMPANY

3.1 The Company was incorporated with an issued share capital of £1.00 divided into 1 ordinary share of £1.00, which was issued to the subscriber to the Company's articles of association.

3.2 The following changes have occurred in the share capital of the Company since its incorporation:

(a) On 7 October 2010, the Company issued and allotted 49,999 Redeemable ordinary shares of £1.00 each to KRPS.

(b) On 31 January 2011, in connection with the transfer of the business of Kent Reliance Building Society to the Company:

(i) the Company issued and allotted 25,999 ordinary shares of £1.00 each to KRPS, in consideration for the transfer of the business of Kent Reliance Building Society to the Company on 1 February 2011;

(ii) the Company issued and allotted 17,426 ordinary shares of £1.00 each to the Major Shareholder;

(iii) the Company redeemed all of the 49,999 Redeemable ordinary shares held by KRPS;

(iv) the Company redesignated the 26,000 ordinary shares held by KRPS as "A Ordinary Shares" and the 17,426 ordinary shares held by the Major Shareholder as "B Ordinary Shares"; and

(v) the Company issued and allotted 32,574 B Preference Shares of £1.00 each to the Major Shareholder.

(c) On 30 August 2011, the Company issued and allotted 282,240 B Preference Shares of £1.00 each to the Major Shareholder.

(d) On 31 August 2011, the Company issued and allotted 2,571 B Ordinary Shares of £1.00 each to the Major Shareholder.

(e) On 28 June 2012, the Company issued and allotted 900 B Ordinary Shares of £1.00 each and 489,340 B Preference Shares of £1.00 each to the Major Shareholder.

(f) On 14 September 2012, as part of the consideration for the acquisition of Prestige Finance Limited and Swingcastle Limited, the Company issued and allotted 319 E Ordinary Shares of £150.00 each to Howard Marc Sheldon, 42 E Ordinary Shares of £150.00 each to John Sheldon, 312 E Ordinary Shares of £150.00 each to David Leon Stern, 15 E Ordinary Shares of £150.00 each to Harvey Bernard Stern, and 312 E Ordinary Shares of £150.00 each to Simon Perry Stern.

(g) On 8 April 2013, the Company issued and allotted 111,733 B Preference Shares of £1.00 each to the Major Shareholder.

(h) On 25 July 2013, the Company issued and allotted 765 B Ordinary Shares of £1.00 each and 151,253 B Preference Shares of £1.00 each to the Major Shareholder.

(i) On 14 May 2014, each B Preference Share of £1.00 in issue was converted into a B Ordinary Share of £1.00.

(j) On 15 May 2014, the Major Shareholder purchased all of the 1,000 E Ordinary Shares of £150.00 each in issue pursuant to an agreement dated 12 May 2014.

(k) On 19 May 2014, each B Ordinary Share of £1.00 each was redesignated as an ordinary share of £1.00 each. The basis for the conversion is described in paragraph 3.4 below of this Part XIV (*Additional Information*).

(l) On 19 May 2014 the 1,000 E Ordinary Shares of £150.00 in issue were redesignated as 1,000 new ordinary shares of £1.00 each and 149,000 Deferred Shares of £1.00 each.

(m) On 19 May 2014, the 26,000 A Ordinary Shares of £1.00 each were converted into 3,389 new ordinary shares of £1.00 each and 22,611 Deferred Shares of £1.00 each. The basis for the conversion is described in paragraph 3.4 below of this Part XIV (*Additional Information*).

(n) On 19 May 2014, a further Deferred Share of £1.00 was issued for the purpose of effecting a buyback of all the Deferred Shares in issue (including the newly issued Deferred Share) out of the proceeds of such issue and subsequently £0.02 of the proceeds of £1.00 was used to repurchase all Deferred Shares in issue (including the newly issued Deferred Share), with £0.01 paid to KRPS and £0.01 paid to the Major Shareholder, and such Deferred Shares were cancelled immediately after repurchase;

(o) On 4 June 2014, the Company effected a bonus issue of new ordinary shares (on a one-for-one basis), such that immediately following the bonus issue there were 2,186,382 ordinary shares in issue of £1.00 each. Immediately following this bonus issue, each ordinary share of £1.00 each was sub-divided into 100 Ordinary Shares of £0.01 each, resulting in there being 218,638,200 Ordinary Shares of £0.01 in issue.

3.3 As at the date of this Prospectus, the issued share capital of the Company was £2,186,382 comprising 218,638,200 Ordinary Shares (all of which were fully paid up or credited as fully paid up). As at the date of this Prospectus, 217,960,400 of the Ordinary Shares are owned by the Major Shareholder and the balance of the Ordinary Shares (being 677,800 Ordinary Shares in total) are owned by KRPS.

3.4 The number of new Ordinary Shares and Deferred Shares which KRPS received pursuant to the conversions described in paragraph 3.2(k) and 3.2(m) of this Part XIV (*Additional Information*) was agreed between KRPS and the Major Shareholder based on a number of factors, including: (i) the loss of their respective rights under a shareholders agreement (to which the Major Shareholder, KRPS and the Company were a party) which was terminated on 19 May 2014 (the "**Terminated Shareholders Agreement**"); (ii) certain of the waterfall arrangements that would have been followed at Admission had the Terminated Shareholders' Agreement not been terminated; and (iii) the surrender by KRPS of the benefit of certain rights arising from the termination of commercial arrangements between KRPS and the Company in December 2013.

Under arrangements for the termination of the Terminated Shareholders Agreement, the Major Shareholder agreed that, if and to the extent that certain rights of KRPS including under the waterfall arrangements which were surrendered on termination of the shareholders agreement would have had economic value by reference to the Offer Price, the Major Shareholder will transfer to KRPS immediately following Admission, such number of Ordinary Shares at the Offer Price as equates to that value. As a result of the conversion described in paragraph 3.2(m) of this Part XIV (*Additional Information*), immediately prior to Admission, KRPS will hold 677,800 Ordinary Shares in the Company (being 0.31 per cent. of the Ordinary Shares in issue immediately prior to Admission). As the Offer Price is 170 pence per Ordinary Share, an additional 147,855 Ordinary Shares will be transferred to KRPS immediately following Admission pursuant to these arrangements.

3.5 On 4 June 2014, by resolutions of the Company, in each case subject to and conditional upon Admission:

(a) the Directors were generally and unconditionally authorised pursuant to section 551 of the Companies Act, in substitution for all prior authorities conferred upon them, but without prejudice to any allotments made pursuant to the terms of such prior authorities, to exercise all of the powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company as follows:

(i) in connection with the Global Offer, Ordinary Shares with an aggregate nominal value of up to £244,118; and

(ii) following Admission:

(A) up to an aggregate nominal amount of £810,267 or, if less, one-third of the aggregate nominal amount of the issued Ordinary Share capital of the Company immediately following Admission; and

(B) up to an aggregate nominal amount of £1,620,533 or, if less, two-thirds of the aggregate nominal amount of the issued Ordinary Share capital of the Company immediately following Admission (such amount to be reduced by any allotments made under sub-paragraph (A) above) in connection with an offer by way of a rights issue to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings on the record date for such allotment,

such authorities expiring at the conclusion of the next annual general meeting of the Company (or, if earlier, on 30 June 2015), save that the Company may before the end of such period make an offer or agreement which would or might require equity securities to be allotted after expiry of the power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired;

(b) the Directors were authorised to allot equity securities (within the meaning of section 560(1) of the Companies Act) for cash pursuant to the authorities conferred in paragraph 3.5(a) of this Part XIV (*Additional Information*), pursuant to section 570 and section 573 of the Companies Act in substitution for all prior powers conferred upon them, but without prejudice to any allotments made pursuant to the terms of such powers, as if section 561(1) of the Companies Act did not apply to any such allotment, provided that this power shall be limited to:

(i) the allotment of Ordinary Shares with an aggregate nominal value of up to £1,620,533 in connection with the authority referred to in paragraph 3.5(a) above;

(ii) the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority referred to in paragraph 3.5(a)(ii) by way of a rights issue only) in favour of holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings and to holders of other equity securities as required by the rights attached to those securities or as the Directors otherwise consider necessary, but subject to such restrictions or other arrangements as the Directors deem necessary or appropriate in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

(iii) the allotment of Ordinary Shares (other than under (i) or (ii)) above) up to an aggregate nominal amount of £121,540 or, if less, five per cent. of the Company's issued Ordinary Shares immediately following Admission,

such authorities expiring at the conclusion of the next annual general meeting of the Company (or, if earlier, on 30 June 2015), save that the Company may before the end of such period make an offer or agreement which would or might require equity securities to be allotted after expiry of the power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired;

(c) the Directors were generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or convert any security into shares in the Company:

(i) up to an aggregate nominal amount of £291,696 or, if less, 12 per cent. of the Company's issued Ordinary Shares immediately following Admission, in relation to the issue of Regulatory Capital Convertible Instruments; and

(ii) subject to applicable law and regulation, at such conversion prices (or such maximum or minimum conversion prices or conversion price methodologies) as may be determined by the Directors,

such authorities to apply in addition to all other authorities pursuant to section 551 of the Companies Act and expiring at the conclusion of the next annual general meeting of the Company (or, if earlier, on 30 June 2015), save that the Company may before the end of such period make an offer or agreement which would or might require shares to be allotted after expiry of the power and the Directors may allot shares in pursuance of such an offer or agreement as if the power had not expired;

(d) the Directors were authorised to allot equity securities (within the meaning of section 560(1) of the Companies Act) for cash pursuant to the authorities conferred in paragraph 3.5(c) of this Part XIV (*Additional Information*), pursuant to section 570 of the Companies Act in relation to the issue of such Regulatory Capital Convertible Instruments as if section 561(1) of the Companies Act did not apply to any such allotment, up to an aggregate nominal amount of £291,696. Such authority shall apply in addition to all other authorities granted pursuant to section 570 of the Companies Act and shall expire at the conclusion of the next annual general meeting of the Company (or, if earlier, on 30 June 2015), save that the Company may before the end of such period make an offer or agreement which would or might require equity securities to be allotted after expiry of the power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired;

(e) the Company was generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693(4) of the Companies Act) of Ordinary Shares subject to the following conditions:

(i) the maximum aggregate number of Ordinary Shares authorised to be purchased is 24,307,996 or, if less, 10 per cent. of the Company's issued Ordinary Share capital immediately following Admission;

(ii) the minimum price (excluding expenses) which may be paid for each Ordinary Share is £0.01 (being the nominal value of an Ordinary Share); and

(iii) the maximum price (excluding expenses) which may be paid for each Ordinary Share is the higher of: (i) 105 per cent. of the average of the middle market quotations for the Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade of an Ordinary Share and the highest current independent bid for an Ordinary Share on the London Stock Exchange plc at the time the relevant purchase is carried out,

such authority expiring at the conclusion of the next annual general meeting of the Company or, if earlier, on 30 June 2015, save that the Company may, before the expiry of the authority enter into a contract to purchase Ordinary Shares which will or may be executed wholly or partly after the expiry of such authority;

(f) the Company and its subsidiaries were authorised, in aggregate to:

(i) make political donations to political parties and/or independent election candidates, not exceeding £50,000 in total;

(ii) make political donations to political organisations other than political parties, not exceeding £50,000 in total; and

(iii) incur political expenditure, not exceeding £50,000 in total,

such authority expiring at the conclusion of the next annual general meeting of the Company or, if earlier, on 30 June 2015 (unless previously revoked, varied or renewed by the Company in general meeting). For the purposes of this authority the terms “political donation”, “political parties”, “independent election candidates”, “political organisation” and “political expenditure” have the meanings given by sections 363 to 365 of the Companies Act. The Company does not make political donations and it has no intention of using the authority for that purpose. The Company has taken the authority on a precautionary basis in order to avoid any unintended breach of the Companies Act; and

(g) a general meeting of the Company other than an annual general meeting may be called on not less than 14 days’ notice.

3.6 Immediately following Admission, the Company’s issued share capital will comprise 243,079,965 Ordinary Shares (all of which will be fully paid up or credited as fully paid up).

3.7 As at 4 June 2014, being the latest practicable date prior to the date of this Prospectus, the Company held no treasury shares. No Ordinary Shares have been issued other than fully paid.

3.8 The Ordinary Shares will carry the right to receive dividends and distributions paid by the Company following Admission. The Shareholders will have the right to receive notice of and to attend and vote at all general meetings of the Company.

3.9 Further information on the rights attaching to the Ordinary Shares is set out in paragraphs 4 and 5 below, and further information on dealing arrangements and CREST is set out in Part XI (*Details of the Global Offer*) of this Prospectus.

3.10 As at the date of this Prospectus, and save as otherwise disclosed in this Part XIV (*Additional Information*):

(a) no share or loan capital of the Company has, since the incorporation of the Company, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;

(b) no commission, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital; and

(c) no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option.

4. INFORMATION ABOUT THE ORDINARY SHARES

4.1 Description of the type and class of securities being offered

The Ordinary Shares being offered pursuant to the Global Offer have a nominal value of £0.01 each. Upon Admission the Company will have one class of issued shares (Ordinary Shares), the rights of which will be set out in the Articles, a summary of which is set out in paragraph 5 of this Part XIV (*Additional Information*).

Each of the Ordinary Shares offered pursuant to the Global Offer will be credited as fully paid and free from all liens, equities, charges, encumbrances and other interests.

The Existing Ordinary Shares and the New Ordinary Shares (when issued and fully paid) will rank equally in all respects with each other, including in full for all dividends and distributions on Ordinary Shares declared, made or paid after their issue and in relation to voting rights and rights on a return of capital, as set out in the Articles.

On Admission, the ISIN of the Ordinary Shares will be GB00BM7S7K96.

4.2 Legislation under which the Ordinary Shares are created

The Ordinary Shares have been and will be created under the Companies Act and they conform with the laws of England and Wales. The Ordinary Shares have been and will be duly authorised according to the requirements of the Company's constitution and have and will have all necessary statutory and other consents.

4.3 Listing of the Ordinary Shares

Application will be made to the FCA for all of the Ordinary Shares to be admitted to the premium listing segment of the Official List. Application will also be made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on its main market for listed securities. No application has been made for admission of the Ordinary Shares to trading on any other stock exchange, and the Company does not currently intend to make any such application in the future.

It is expected that conditional dealings in the Ordinary Shares (on a "when issued" basis) will commence on the London Stock Exchange on 5 June 2014. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange by no later than 8.00 a.m. on 10 June 2014. Dealings on the London Stock Exchange before Admission will only be settled if Admission takes place. All dealings before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.

4.4 Form and currency of the Ordinary Shares

The Ordinary Shares are in registered form and are capable of being held in certificated and uncertificated form upon Admission. The Registrar of the Company is Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Title to certificated Ordinary Shares (if any) will be evidenced by entry in the register of members of the Company and title to uncertificated Ordinary Shares will be evidenced by entry in the operator register maintained by Euroclear UK & Ireland Limited (which will form part of the register of members of the Company).

No share certificates will be issued in respect of Ordinary Shares held in uncertificated form. If any such Ordinary Shares are converted to be held in certificated form, share certificates will be issued in respect of those Ordinary Shares in accordance with applicable legislation. No temporary documents of title have been or will be issued in respect of the Ordinary Shares.

It is currently anticipated that the Ordinary Shares will be eligible to join CREST with effect immediately upon Admission and the commencement of unconditional dealings on the London Stock Exchange.

The Ordinary Shares are denominated in pounds sterling.

4.5 **Rights attaching to the Ordinary Shares**

Subject to the provisions of the Companies Act, any equity securities issued by the Company for cash must first be offered to Shareholders in proportion to their holdings of Ordinary Shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be waived by a special resolution of the Shareholders, either generally or specifically, for a maximum period not exceeding five years. Please see paragraph 3.5 of this Part XIV (*Additional Information*) for a description of the waivers of pre-emption rights that will apply from Admission.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the Shareholders have no rights to share in the profits of the Company.

The Ordinary Shares are not redeemable. However, the Company may purchase or contract to purchase any of the Ordinary Shares on or off-market, subject to the Companies Act and the requirements of the Listing Rules. The Company may purchase Ordinary Shares only out of distributable reserves or the proceeds of a new issue of shares made for the purpose of funding the repurchase. Please see paragraph 3.5 of this Part XIV (*Additional Information*) for a description of the authorisations relating to the purchase of Ordinary Shares that will apply from Admission.

Further details of the rights attaching to the Ordinary Shares in relation to attendance and voting at general meetings, dividend rights, entitlements on a winding-up of the Company and transferability of shares are set out in paragraph 5 of this Part XIV (*Additional Information*).

4.6 **Description of restrictions on free transferability of the Ordinary Shares**

Save as described below, the Ordinary Shares will be freely transferable upon Admission.

Transfer restrictions under the Articles

The Board can decline to register any transfer of any Ordinary Share which is not a fully paid share. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer:

- is left at the registered office of the Company or such other place as the Board may from time to time determine accompanied (save in the case of a transfer by a person to whom the Company is not required by law to issue a certificate and to whom a certificate has not been issued) by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the person executing the instrument of transfer to make the transfer;
- (if stamp duty is generally chargeable on transfers of certificated shares) is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty and is accompanied by the relevant share certificate or such other evidence of the right to transfer as the Board may reasonably require;
- is in respect of only one class of share; and
- if to joint transferees, is in favour of not more than four such transferees.

Registration of a transfer of an uncertificated share may only be refused in the circumstances set out in the CREST Regulations and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The Board may decline to register a transfer of any of the Company's certificated shares by a person with a 0.25 per cent. interest (as defined in the Articles) if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act, unless the transfer is shown to the Board to be pursuant to an arm's length sale (as defined in the Articles).

Transfer restrictions under the Companies Act

The Company may, under the Companies Act, send out statutory notices to those it knows or has reasonable cause to believe have an interest in its shares, asking for details of those who have an interest and the extent of their interest in a particular holding of shares. When a person receives a statutory notice and fails to provide any information required by the notice within the time specified in it, the Company can apply to the court for an order directing, among other things, that any transfer of shares which are the subject of the statutory notice is void.

5. SUMMARY OF THE ARTICLES

The Articles, which were adopted on 4 June 2014 subject to and with effect from Admission, are available for inspection at the addresses specified in paragraph 30 of this Part XIV (*Additional Information*). The Articles contain provisions (among others) to the following effect:

5.1 Unrestricted objects

The objects of the Company are unrestricted. For so long as KRPS is a shareholder of the Company, the Company shall work with KRPS in order to offer membership of KRPS to those customers of the Company and/or subsidiaries of the Company who hold qualifying savings accounts or qualifying mortgage accounts.

5.2 Limited liability

The liability of the Company's members is limited to any unpaid amount on the shares in the Company held by them.

5.3 Voting rights

(a) *Votes on a show of hands*

Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every Shareholder present in person or by proxy at a general meeting of the Company and every duly authorised corporate representative shall have one vote. If a proxy has been duly appointed by more than one Shareholder entitled to vote on the resolution and the proxy has been instructed by one or more of those Shareholders to vote for the resolution and by one or more other of those Shareholders to vote against it then the proxy shall have one vote for and one vote against the resolution. If a proxy has been duly appointed by more than one Shareholder entitled to vote on the resolution and has been granted both discretionary authority to vote on behalf of one or more of those Shareholders and firm voting instructions on behalf of one or more other Shareholders, the proxy shall not be restricted by the firm voting instructions in casting a second vote in any manner he so chooses under the discretionary authority conferred upon him.

(b) *Votes on a poll*

On a poll, votes may be given in person or by proxy. A Shareholder, who is entitled to more than one vote, need not use all his votes or cast all the votes in the same way.

5.4 Dividends and return of capital

Subject to the provisions of the Companies Act, the Company may by ordinary resolution from time to time declare dividends in accordance with the respective rights of Shareholders, but no dividend shall exceed the amount recommended by the Board.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution passed at a general meeting of the Company and any other sanction required by the Companies Act, divide among the Shareholders in specie or kind the whole or any part of the assets of the Company (whether or not the assets shall consist of property of one kind or not), and may for such purposes 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 authority, vest the whole or any part of the assets in trustees upon such trusts for the benefit of Shareholders as the liquidator with the like authority shall think fit, but so that no Shareholder shall be compelled to accept any shares or other property in respect of which there is a liability.

5.5 **Unclaimed dividends**

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and shall revert to the Company.

5.6 **Transfer of shares**

Any Shareholder may transfer all or any of his uncertificated shares by means of a relevant system in such manner provided for, and subject as provided, in the CREST Regulations and the rules of any relevant system.

Any Shareholder may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a partly paid share) the transferee. The transferor shall be deemed to remain the holder of the share concerned until the name of the transferee is entered in the register in respect of it. All instruments of transfer, when registered, may be retained by the Company.

Subject to the provisions of the Companies Act, the Board may, in its absolute discretion, decline to register any transfer of any share which is not a fully paid share provided that where such a share is a member of a class of share admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in shares of that class from taking place on an open and proper basis.

The Board may only decline to register a transfer of an uncertificated share in the circumstances set out in the CREST Regulations, and the facilities and requirements of the relevant system. The Board may decline to register a transfer, whether fully paid or not, if in favour of more than four persons jointly.

The Board may decline to register any transfer of a certificated share unless:

- the instrument of transfer is left at the registered office of the Company or such other place as the Board may from time to time determine accompanied (save in the case of a transfer by a person to whom the Company is not required by law to issue a certificate and to whom a certificate has not been issued) by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the person executing the instrument of transfer to make the transfer; and
- the instrument of transfer is in respect of only one class of share.

5.7 **Restrictions on shares**

Where the holder of any shares in the Company, or any other person appearing to be interested in those shares, fails to comply within the relevant period (as defined below) with any notice under section 793 of the Companies Act in respect of those shares (in this sub-section, a "**statutory notice**"), the Company may give the holder of those shares a further notice (in this sub-section, a "**restriction notice**") that the Shareholder shall not, nor shall any transferee otherwise than permitted by the articles, be entitled to be present or vote or count as part of the quorum at any general meeting of the Company or separate general meeting of the holders of any class of shares of the Company.

If the Board is satisfied that the default in respect of which the restriction notice was issued no longer continues, any restriction notice shall cease to have effect on or within seven days of that decision. The Company may (at the absolute discretion of the Board) at any time given notice to the Member cancelling, or suspending for a stated period the operation of, a restriction notice in whole or in part.

The relevant period referred to above is the period of 14 days following service of a statutory notice.

Where the restricted shares represent at least 0.25 per cent. (in nominal value) of the issued shares of the same class, the restriction notice may also direct that:

(a) any dividend or other monies payable in respect of the restricted shares shall be withheld, bear no interest and shall be payable only when the restriction notice ceases to have effect; and/or

(b) where an offer of the right to elect to receive shares of the Company instead of cash in respect of any dividend has been made, any election make thereunder in respect of such restricted shares shall not be effective; and/or

(c) no transfer of any of the shares held by such Member shall be recognised or registered by the Directors unless the transfer is a permitted transfer or:

    (i) the Member is not in default as regards supplying the information required; and

    (ii) the transfer is of part only of the Member's holding and, when presented for registration, is accompanied by a certificate by the Member in a form satisfactory to the Directors to the effect that after due and careful enquiry the Member is satisfied that none of the shares the subject of the transfer are restricted shares.

5.8 **Variation of rights attaching to shares**

Subject to the provisions of the Companies Act, all or any of the rights for the time being attached to any class of shares for the time being issued may from time to time (whether or not the Company is being wound up) be varied either with the consent in writing of the holders of not less than 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 a special resolution passed at a separate general meeting of the holders of those shares.

5.9 **Conditions governing the manner in which annual general meetings and general meetings are called**

The Board shall convene and the Company shall hold general meetings as annual general meetings in accordance with the requirements of the Companies Act and at such time and place as the Board shall appoint.

An annual general meeting shall be convened by not less than twenty-one clear days' notice in writing. Subject to the Companies Act, all other general meetings shall be convened by not less than fourteen clear days' notice in writing. However, a meeting can be properly convened on a shorter notice period if it is so agreed by: (a) in the case of an annual general meeting, by all the Shareholders entitled to attend and vote at the meeting; and (b) in the case of any other meeting, by a majority in number of the Shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving the right.

Notice of every general meeting shall be given to all Shareholders other than any who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company.

Before a general meeting carries out business, there must be a quorum present. Unless the Articles state otherwise in relation to a particular situation, a quorum for all purposes is two Shareholders present in person or by proxy and entitled to vote.

5.10 **Notices to Shareholders**

Any notice or document (including a share certificate) may be served on or delivered to any Shareholder by the Company either personally or by sending it through the post addressed to the

Shareholder at his registered address or by leaving it at that address addressed to the Shareholder or by means of a relevant system or, where appropriate, by sending it in electronic form to an address for the time being notified by the Shareholder concerned to the Company for that purpose, or by publication on a website in accordance with the Companies Act or by any other means authorised in writing by the Shareholder concerned. In the case of joint holders of a share, service or delivery of any notice or document on or to the joint holder first named in the register is respect of the share shall for all purposes be deemed a sufficient service on or delivery to all the joint holders.

5.11 **Directors**

Unless otherwise determined by ordinary resolution of the Company, the number of Directors (disregarding alternate directors) shall not be less than 2 nor more than 15.

Each Director shall retire from office at the third annual general meeting after the annual general meeting at which he was elected or re-elected (as the case may be) unless he was appointed or re-appointed by the Company in the general meeting at, or since, either such meeting.

The Company may by ordinary resolution appoint any person who is willing to act to be a Director, either to fill a vacancy or as an addition to the existing Board. Without prejudice to this power the Board may appoint any person who is willing to act to be a Director, either to fill a vacancy or as an addition to the existing Board.

Only the following people can be elected as Directors at a general meeting:

- a Director who is retiring at the annual general meeting; or
- a person who has been proposed for election or re-election by way of notice signed by a Shareholder qualified to vote at the meeting (not being the person to be proposed) and also signed by the person to be proposed indicating his willingness to be appointed or reappointed.

In addition to any powers of removal conferred by the Companies Act, the Company may by ordinary resolution of which special notice has been given in accordance with the Companies Act remove any Director before the expiration of his period of office and may (subject to the Articles) by ordinary resolution, appoint another person who is willing to act in his place.

The Directors shall be paid out of the funds of the Company by way of fees for their services as directors, such sums (if any) and such benefits in kind as the Board may from time to time determine and such remuneration shall be divided between the Directors as the Board shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.

Any Director who is appointed to any executive office or who performs services which in the opinion of the Board or any committee authorised by the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may in its discretion decide.

The Board or any committee authorised by the Board may exercise all the powers of the Company to award pensions, annuities, gratuities or other retirement, superannuation, death or disability allowances or benefits whether similar to the foregoing or not, to any Director or former director or the relations, connections or dependants of any Director or former director provided that no benefits (except such as may be provided for by any other Article) may be granted to or in respect of a Director or former director who has not been employed by, or held an executive office or place of profit under, the Company or anybody corporate which is or has been its subsidiary undertaking or any predecessor in business of the Company or any such body corporate without the approval of an ordinary resolution of the Company.

Save as otherwise provided in the Articles, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board in respect of any actual or proposed transaction or arrangement with the Company in which he has an interest which (taken together with any interest of any person connected with him) is to his knowledge an interest of which he is aware, or ought reasonably to be aware, does conflict, or can reasonably be regarded as likely to give rise to a conflict, with the interests of the Company and, if he shall do so, his vote shall not be counted.

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:

- the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- the giving to a third party of any guarantee, indemnity or security 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 under a guarantee or indemnity or by the giving of security;
- where the Company or any of its subsidiary undertakings is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- any contract in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
- any contract concerning any other company (not being a company in which the Director owns 1 per cent. or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;
- any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or of any of its subsidiary undertakings and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
- any contract for the benefit of the employees of the Company or of any of its subsidiary undertakings under which he benefits in a similar manner to the employees and which does not accord to any Director as such any privilege or advantage not accorded to the employees to whom the contract relates;
- any contract for the purchase or maintenance of insurance against any liability for, or for the benefit of, any Director or Directors or for, or for the benefit of, persons who include Directors; and
- the provision of funds to any Director, or the doing of anything to enable a Director to avoid incurring expenditure of the nature described in section 205(1) of the Companies Act.

If any question arises at any meeting of the Board as to whether the interest of a Director gives rise to a conflict, or could reasonably be regarded as likely to give rise to a conflict, with the interests of the Company or as to the entitlement of any Director to vote or be counted in the quorum and the question is not resolved by him voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question shall be decided by the chairman of the meeting.

The Board may, subject to the provisions of the Articles, authorise any matter which would otherwise involve a Director breaching his or her duty under the Companies Act to avoid conflicts of interest.

A Director who is in any way, whether directly or indirectly, interested in an actual or proposed transaction or arrangement with the Company shall declare the nature and extent of his interest.

5.12 **Indemnity of directors**

To the extent permitted by the Companies Act, the Company may indemnify any director or former director of the Company or of any associated company against any liability and may purchase and maintain for any director or former director of the Company or of any associated company insurance against any liability.

5.13 **Borrowing powers**

Subject to the provisions of the Companies Act, the Board may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

6. MANDATORY BIDS AND COMPULSORY ACQUISITION RULES RELATING TO THE ORDINARY SHARES

Other than as provided by the City Code and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules that apply to the Ordinary Shares or the Company.

6.1 **Mandatory bids**

The City Code applies to the Company. Under Rule 9 of the City Code, if an acquisition of interests in shares were to increase the aggregate holding of the acquirer and its concert parties to interests in shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights in the Company.

"Interests in shares" is defined broadly in the City Code. A person who has long economic exposure, whether absolute or conditional, to changes in the price of shares will be treated as interested in those shares. A person who only has a short position in shares will not be treated as interested in those shares.

"Voting rights" for these purposes means all the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting.

Persons acting in concert (and concert parties) comprise persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company. Certain categories of people are deemed under the City Code to be acting in concert with each other unless the contrary is established.

For details regarding Shareholders and other persons presumed by the Panel to be acting in concert with respect to the Group on Admission for the purposes of Rule 9 of the City Code, please refer to paragraph 8.3 of this Part XIV (*Additional Information*).

6.2 **Squeeze-out rules**

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made by an offeror to acquire all of the shares in the Company not already owned by it and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the shares to which such offer relates, the offeror could then compulsorily acquire the remaining 10 per cent. The offeror would do so by sending a notice to the outstanding members informing them that it will compulsorily acquire their shares and, 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 for the outstanding shares to the Company which would hold the consideration on trust for the relevant members. The consideration offered to the members whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the offer value is unfair.

6.3 **Sell-out rules**

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. in value of the shares and not less than 90 per cent. of the voting rights carried by the shares in the Company, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any member notice of his/her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises his/her rights, the offeror is entitled and bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

7. SUBSIDIARY UNDERTAKINGS

The Company is the holding company of the Group. As at the date of this Prospectus, the Group comprises the Company and its subsidiaries named below.

Name	Country of Incorporation	Percentage of direct or indirect ownership interest (%)	Principal activity
EasiOption BPO Services Printed Ltd	India	100	N/A (dormant)
Easioption Ltd	England	100	Holding company
Easiprocess Private Ltd	India	100	Back office processing
Guernsey Home Loans Ltd	England	100	Mortgage provider
Guernsey Home Loans Ltd	Guernsey	100	Mortgage provider
Heritable Development Finance Limited	England	85	Mortgage originator and services
InterBay Group Holdings Limited	England	100	Mortgage provider
InterBay Holdings Ltd	England	100	Holding company
InterBay Financial I Limited	England	100	Raising and managing funding for the InterBay Group
5D Finance Limited	England	100	Provider of financial controller services to other members of the InterBay Group and employer of the financial controller
5D Lending Ltd	England	100	Holding of commercial mortgage loans originated by 5D Finance
InterBay Financial II Limited	England	100	Raising and managing funding for the InterBay Group
InterBay Funding, Ltd	England	100	Mortgage provider
InterBay ML, Ltd	England	100	Holding of commercial mortgage loans originated by IBF
Jersey Home Loans Limited	England	100	Mortgage provider
Jersey Home Loans Ltd	Jersey	100	Mortgage provider
Prestige Finance Limited	England	100	Mortgage originator and services
Cavenham Financial Services Limited	England	100	Mortgage processing
Reliance Property Loans Limited	England	100	Mortgage provider
Rochester Financing No. 1 Plc(1)	England	0[(1)]	Securitisation entity
Swingcastle Limited	England	100	Dormant entity

Notes:

1. Rochester Financing No. 1 plc is a securitisation entity established by the Company in October 2013 to raise diversified funds. Although not legally owned by the Group, it is fully controlled and consequently consolidated as a 100% subsidiary.

8. INTERESTS OF THE MAJOR SHAREHOLDER

8.1 Major Shareholder

Insofar as was known to the Company as at 4 June 2014 (being the latest practicable date prior to the publication of this Prospectus) the Major Shareholder was, and on Admission will be, directly or indirectly interested in 3 per cent. or more of the issued Ordinary Share capital of the Company. In addition to the New Ordinary Shares that will be issued by the Company pursuant to the Global Offer, Existing Ordinary Shares will be sold by the Major Shareholder pursuant to the Global Offer. Immediately prior to Admission (assuming Admission occurs, the option arrangements described in paragraph 16 of this Part XIV (*Additional Information*) are implemented and the transfer of Ordinary Shares by the Major Shareholder to KRPS as described in paragraph 3.4 of this Part XIV (*Additional Information*) occurs), the Major Shareholder will be the legal owner of 217,812,545 Ordinary Shares. Immediately following Admission (assuming no exercise of the Over-allotment Option), the Major Shareholder will be the legal owner of 163,233,071 Ordinary Shares. J.C. Flowers III, certain of the Directors and certain of the Senior Managers are shareholders of the Major Shareholder.

8.2 Interests in the Major Shareholder

The interests of J.C. Flowers III, certain of the Directors and certain of the Senior Managers in the Major Shareholder as at the date of this Prospectus are set out below. As at the date of this Prospectus, and immediately following Admission, none of the Directors or Senior Managers (either individually or acting together) is able to control the Major Shareholder or has any rights to appoint directors of the Major Shareholder.

	Interests in the Major Shareholder	
Name	**No./Class**	**% of voting rights in the Major Shareholder**
J.C. Flowers III	10,000,000 ordinary shares with a nominal value of US$ 0.01 each	79.6
Directors[(1)]		
Graham Allatt	–	–
Rod Duke	–	–
Mike Fairey	–	–
Andy Golding	9,821 B2 shares with a nominal value of US$ 2.00 each 25,000 A1 shares with a nominal value of US$ 0.01 each	5.1
Tim Hanford	–	–
Malcolm McCaig	–	–
Mary McNamara	–	–
Dr. David Morgan	–	–
Nathan Moss	–	–
April Talintyre	3,929 B5 shares with a nominal value of US$ 5.00 each 10,000 A1 shares with a nominal value of US$ 0.01 each	5
Stephan Wilcke	32,738 B6 shares with a nominal value of US$ 0.60 each 20,000 A1 shares with a nominal value of US$ 0.01 each	5.3
Senior Managers[(1)]		
Jens Bech	3,929 B5 shares with a nominal value of US$ 5.00 each 10,000 A1 shares with a nominal value of US$ 0.01 each	5

Name	Interests in the Major Shareholder: No./Class	% of voting rights in the Major Shareholder
Zoe Bucknell	1,179 ordinary shares with a nominal value of US$ 0.01 each 3,000 A2 shares with a nominal value of US$ 0.01 each	<0.1
Richard Davis	–	–
John Eastgate	1,964 ordinary shares with a nominal value of US$ 0.01 each 5,000 A2 shares with a nominal value of US$ 0.01 each	<0.1
Clive Kornitzer	2,964 ordinary shares with a nominal value of US$ 0.01 each 7,500 A2 shares with a nominal value of US$ 0.01 each	<0.1
Mark Paskowitz	–	–
Richard Wilson	–	–

Notes:

1. Each of the Directors and Senior Managers subscribed for the shares in the Major Shareholder at the nominal value of such shares.
2. Tim Hanford and Dr. David Morgan are the JCF Directors and have been appointed in accordance with the terms of the Relationship Agreement. Each of Tim Hanford and Dr David Morgan has interests in limited partners of J.C. Flowers III (the controlling shareholder of the Major Shareholder).

On Admission, the Major Shareholder will sell 54,579,474 Existing Ordinary Shares (assuming no exercise of the Over-allotment Option, that the option arrangements described in paragraph 16 of this Part XIV (*Additional Information*) are implemented and the transfer of Ordinary Shares by the Major Shareholder to KRPS as described in paragraph 3.4 of this Part XIV (*Additional Information*) occurs). As at the date of this Prospectus, none of J.C. Flowers III, the Directors nor the Senior Managers is the legal owner of any Ordinary Shares.

The indirect interests of J.C. Flowers III in the Company are set out below. Details of the indirect interests of the Directors and the Senior Managers in the Company are set out in paragraph 9.4 of this Part XIV (*Additional Information*).

	Indirect Interests immediately prior to Admission[(1)]		Indirect interests in Existing Ordinary Shares to be sold pursuant to the Global Offer		Indirect Interests immediately following Admission (assuming no exercise of the Over-allotment Option)		Indirect Interests following Admission assuming exercise in full of the Over-allotment Option	
Name	No. of Ordinary Shares	% of total issued share capital of the Company	No. of Ordinary Shares	% of indirect interests immediately prior to Admission	No. of Ordinary Shares	% of total issued share capital of the Company	No. of Ordinary Shares	% of total issued share capital of the Company
J.C. Flowers III	195,710,607	89.50	48,508,703	24.79	147,201,904	60.56	135,353,218	55.68

Note:

1. Assuming Admission occurs, the option arrangements described in paragraph 16 of this Part XIV (*Additional Information*) are implemented and the transfer of Ordinary Shares by the Major Shareholder to KRPS as described in paragraph 3.4 of this Part XIV (*Additional Information*) occurs.

8.3 **Other disclosures relating to Shareholders**

Save for the Major Shareholder, the Company is not aware of any persons who, as at 4 June (being the latest practicable date prior to the publication of this Prospectus) and immediately after Admission, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company.

As of Admission, the Ordinary Shares will be the only class of share capital of the Company. All Shareholders will have equal voting rights and none of the Existing Shareholders will have different voting rights.

9. DIRECTORS AND SENIOR MANAGERS

9.1 **Directorships and partnerships of the Directors and the Senior Managers outside the Group**

Details of those companies and partnerships outside the Group of which the Directors and the Senior Managers are currently directors or partners, or have been directors or partners at any time during the five years prior to the date of this Prospectus, are as follows:

Director	Position	Company/ Partnership
Graham Allatt		
Current directorships and partnerships: None		
Previous directorships and partnerships:		
	Acting Group Director	Lloyds TSB
	Chief Risk Officer	Lloyds Banking Group (Wealth and International Division)
	Group Chief Sanctioning Director	Lloyds Banking Group
Rod Duke		
Current directorships and partnerships		
	Director	M & R Duke Investments Ltd
Previous directorships and partnerships: None		
Mike Fairey		
Current directorships and partnerships		
Chairman	APR Energy plc	
Director	The Energy Savings Trust Foundation	
Director	MGM Advantage Holdings Limited	
Director	MGM Advantage Life Limited	
Director	Lloyds Bank Pension Trust (No.1) Limited	
Director	Lloyds Bank Pension Trust (No.2) Limited	
Chairman	Vertex Group Limited	
Previous directorships and partnerships		
Trustee	Consumer Credit Counselling Service	
Director	Danske Bank A/S	
Director	Legal and General plc	
Director	Northern Rock Limited (good bank)	
President and Chairman	The British Quality Foundation	

Director	Position	Company/ Partnership
Andy Golding		
Current directorships and partnerships		
	Director	Building Societies Trust Limited
	Director	Kent Reliance Provident Society Limited
Previous directorships and partnerships		
	Director	Crocus Home Loans Limited
	CEO	Saffron Building Society
	Director	Saffron Educational Trust
	Director	Saffron Independent Financial Advisers Ltd
	Director	Saffron Walden Investment Services Limited
	Director	Saffron Walden Property Developments Limited
	Director	Saffron Walden Property Sales Limited
Tim Hanford		
Current directorships and partnerships		
	Director	Cabot (Group Holdings) Limited
	Director	Carat Manager Nominee Limited
	Director	Carat UK Holdco Limited
	Director	Carat UK Midco Limited
	Director	Castle Trust Capital Nominees Limited
	Director	Castle Trust Capital Management Limited
	Director	Castle Trust Capital plc
	Director	Financiere Holding CEP
	Director	J. C. Flowers & Co UK LLP
	Director	Joint Stock Company Investment Trade Bank
	Member of the supervisory board	Luxco Holdings CEP II S.a.r.l
	Director	ORSU Metals Corporation
	Director	Pension Insurance Corporation Limited
	Director	Vitae Trading Company Limited
Previous directorships and partnerships		
	Director	Encore Capital Group
	Director	SGL No.1 Limited
	Director	SGL No.2 Limited
	Director	SGL No.3 Limited
	Director	Shelbourne Group Limited
	Director	Shelbourne Syndicate Services Limited

Director	Position	Company/ Partnership
Malcolm McCaig		
Current directorships and partnerships		
	Trustee	City of Glasgow Foundation
	Director	Crest Nicholson Holdings plc
	Director	M G McCaig Limited
	Director	Meretune Management (Falcon) Limited
	Director	Punjab National Bank (International) Limited
	Director	QBE Insurance (Europe) Limited
	Director	QBE Re (Europe) Limited
	Director	QBE Underwriting Limited
	Director	Renaissance Capital Limited
	Director	TFS Derivatives Limited
	Director	Tradition (UK) Limited
	Director	Tradition Financial Services Ltd
	Director	Trad-X (UK) Limited
	Director	Unum Limited
Previous directorships and partnerships		
	Director	ANV Syndicates Limited
	Chairman	Barbon Holdings Limited
	Chairman	Barbon Insurance Group Limited
	Chairman	Caley Limited
	Director	City of Glasgow College Foundation
	Governor	Court of Glasgow Caledonian University
	Director	Glasgow Caledonian University Company Limited
	Member	Glasgow Metropolitan College
	Director	Jubilee Group Holdings Limited
	Director	London Capital Group Holdings plc
	Director	Kent Reliance Provident Society
	Director	Kent Reliance Building Society
	Director	Property & Commercial Limited
Mary McNamara		
Current directorships and partnerships: None		
Previous directorships and partnerships		
	Director	Close Brothers Ltd

Director	Position	Company/ Partnership
Dr. David Morgan		
Current directorships and partnerships		
	Director	Castle Trust Capital plc
	Director	Castle Trust Capital Management Limited
	Director	Castle Trust Income House SA Plc
	Director	Castle Trust Capital Nominees Limited
	Director	HSH Nordbank AG
	Director	J.C. Flowers & Co. UK LLP
	Director	JCF & Co UK Holdings Limited
	Director	Mittagong Limited
	Director	NIBC Holdings NV
	Director	NIBC Bank NV
	Director	NPG Wealth Management Sarl
	Director	Vaucluse Limited
Previous directorships and partnerships:		
	Director	BHP Billiton Limited
	Director	J.C. Flowers & Co (Australia) Pty Ltd
	Director	Pension Insurance Corporation Holdings LLP
	Director	Pension Insurance Corporation Limited
Nathan Moss		
Current directorships and partnerships		
	Non-Executive Director	Homeserve Membership Ltd
Previous directorships and partnerships		
	Director	Friends Life Distribution Limited
	Chief Executive	Lloyds Bank Private Banking Limited
	Director	Lloyds Bank Financial Advisers Limited
	Director	Nathan Moss Limited
	Non-Executive Director	Sesame Bankhall Group Limited
	Non-Executive Director	Tenet Group Limited
April Talintyre		
Current directorships and partnerships		
	Director	Kent Reliance Provident Society Limited
Previous directorships and partnerships: None		

Director	Position	Company/ Partnership
Stephan Wilcke		
Current directorships and partnerships		
	Director	EMF Capital Partners Limited
	Commissioner	Financial Services Commission of Jersey
	General Council Member	Hellenic Financial Stability Fund
	Director	Virtu Group B.V.
Previous directorships and partnerships		
	Director	AP2 Ltd
	Director	Apax Strategy & Finance Sarl I
	Director	Apax Strategy & Finance Sarl II
	Director	Apax Strategy & Finance Sarl III
	Partner	Apax Partners Worldwide LLP
	Chief Executive Officer	Asset Protection Agency
	Director	Azimut Holdings Spa
	Director	Confarma Spa
	Supervisory Board Member	Independer/Robin Hood N.V
	Director	Merchant Cash Express Ltd
	Vice Chairman	Nova Ljubljanska Banka d.d
	Partner	Parsifal Partners I LLP
	Partner	Parsifal Partners LLP
	Director	Picture Financial Group Ltd
	Director	Resolution Mortgage Limited

Senior Manager	Position	Company/ Partnership
Jens Bech		
Current directorships and partnerships: None		
Previous directorships and partnerships:		
	Director	North Star Law LLP
Zoe Bucknell		
Current directorships and partnerships: None		
Previous directorships and partnership: None		
Richard Davis		
Current directorships and partnerships: None		
Previous directorships and partnerships		
	Director	Aston Dynamics Ltd
	Director	Aston Dynamics (LLP)

Senior Manager	Position	Company/ Partnership
John Eastgate		
Current directorships and partnerships		
	Director	Kent Reliance Provident Society Limited
Previous directorships and partnerships		
	Director	Crocus Home Loans Limited
	Director	Saffron Building Society
	Director	Saffron Independent Financial Advisers Ltd
Clive Kornitzer		
Current directorships and partnerships		
	Director	Impetus 4 Limited
	Director	Kent Reliance Provident Society Limited
Previous directorships and partnerships		
	Non-Executive Director	Trigoldcrystal Limited
Mark Paskowitz		
Current directorships and partnerships: None		
Previous directorships and partnerships: None		
Richard Wilson		
Current directorships and partnerships: None		
Previous directorships and partnerships		
	Director	Advantage Home Loans Ltd

9.2 **Conflicts of interest**

Although the external directorships and partnerships set out in paragraph 9.1 of this Part XIV (*Additional Information*) above are considered by the Board to represent potential conflicts of interest, as at the date of this Prospectus they are not considered by the Board to represent actual conflicts of interest.

The Company and the Major Shareholder have entered into the Relationship Agreement to regulate the relationship between them following Admission. As well as being Non-Executive Directors of the Company, Dr. David Morgan and Tim Hanford are both Managing Directors of J.C. Flowers & Co. UK LLP, an affiliate of J.C. Flowers III (which controls the Major Shareholder). Dr. David Morgan and Tim Hanford are the current JCF Directors under the Relationship Agreement. The JCF Directors, as a result of their relationship with J.C. Flowers III, may have interests which conflict with those of the Group. The Board has approved those conflicts of interest which have arisen, or which may arise in the future, as a result of Tim Hanford and Dr. David Morgan's current relationships with J.C. Flowers III, in accordance with the Companies Act. The Relationship Agreement contains an obligation on each of the JCF Directors to abstain from voting at any Board meeting on any matter giving rise to a conflict of interests. The Relationship Agreement contains obligations of confidentiality. For more information on the Relationship Agreement, see paragraph 23.4 of this Part XIV (*Additional Information*).

In addition, Andy Golding and April Talintyre are directors of KRPS, which, immediately prior to Admission will hold 0.31 per cent. of the Company's Ordinary Shares. These Directors, as a result of their relationship with KRPS, may have interests which conflict with those of the Group. The Board has approved those conflicts of interest which have arisen, or which may arise in the future, as a result of these Directors' relationship with KRPS, in accordance with the 2006 Act.

Save as set out above, there are no actual or potential conflicts of interests between the duties of the Directors or of the Senior Managers to the Company and the private interests and/or other duties that they may also have.

9.3 Confirmations by the Directors and the Senior Managers

As at the date of this Prospectus, no Director or Senior Manager has during the last five years:

- been convicted in relation to fraudulent offences;
- been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body of or senior manager of any company;
- been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities including, where relevant, designated professional bodies; or
- been disqualified by a court from acting as a member of the administrative, management or supervisory body of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no family relationships between any of the Directors or the Senior Managers.

There are no outstanding loans or guarantees granted or provided by any member of the Group for the benefit of any of the Directors or any of the Senior Managers.

9.4 Interests of the Directors and Senior Managers in the share capital of the Company

Each of the Directors and Senior Managers who, as at the date of this Prospectus, have an indirect interest in the Ordinary Shares do so by virtue of their direct shareholding in the Major Shareholder. Save for the Chairman, Mike Fairey, as at immediately prior to Admission and immediately following Admission, no Director or Senior Manager holds a direct interest in any Ordinary Shares. Each of the Directors and the Senior Managers (to the extent they hold indirect interests in Ordinary Shares) will dispose of up to 30 per cent. by value of their respective indirect interests in the Global Offer.

In addition, on Admission Mike Fairey will receive an award of 30,000 Ordinary Shares, in consideration for his services in preparing the Company for Admission. Such Ordinary Shares will be subject to the lock-up arrangements summarised at paragraph 23.2(c) of this Part XIV (*Additional Information*).

The indirect interests of the Directors and the Senior Managers in the Ordinary Shares expected to exist immediately prior to Admission and immediately following Admission (assuming the Over-allotment Option is not exercised), together with the number of Ordinary Shares sold by the Major Shareholder on behalf of the Directors and Senior Managers, are set out in the table below.

Name	Indirect interests immediately prior to Admission[1]		Indirect interests in Existing Ordinary Shares to be sold pursuant to the Global Offer		Indirect Interests immediately following Admission	
	No. of Ord-inary Shares	% of total issued share capital of the Company	No. of Ord-inary Shares	% of indirect interests immediately prior to Admission	No. of Ord-inary Shares	% of total issued share capital of the Company
Directors						
Graham Allatt	–	–	–	–	–	–
Rod Duke	106,481	0.05	31,944	30.00	74,537	0.03
Mike Fairey[2]	–	–	–	–	–	–
Andy Golding	5,462,174	2.50	1,638,652	30.00	3,823,522	1.57
Tim Hanford[3]	–	–	–	–	–	–
Malcolm McCaig	159,722	0.07	47,917	30.00	111,805	0.05
Mary McNamara	–	–	–	–	–	–
Dr. David Morgan[3]	–	–	–	–	–	–
Nathan Moss	–	–	–	–	–	–
April Talintyre	2,184,878	1.00	655,463	30.00	1,529,415	0.63
Stephan Wilcke	4,719,639	2.16	943,928	20.00	3,775,711	1.55
Senior Managers						
Jens Bech	2,184,878	1.00	655,463	30.00	1,529,415	0.63
Zoe Bucknell	868,430	0.40	260,529	30.00	607,901	0.25
Richard Davis	372,684	0.17	111,805	30.00	260,879	0.11
John Eastgate	1,624,838	0.74	487,451	30.00	1,137,387	0.47
Clive Kornitzer	1,638,648	0.75	491,594	30.00	1,147,054	0.47
Mark Paskowitz	319,444	0.15	95,833	30.00	223,611	0.09
Richard Wilson	372,684	0.17	111,805	30.00	260,879	0.11

Notes:

1. Assuming Admission occurs, the option arrangements described in paragraph 16 of this Part XIV (*Additional Information*) are implemented and the transfer of Ordinary Shares by the Major Shareholder to KRPS as described in paragraph 3.4 of this Part XIV (*Additional Information*) occurs.
2. In addition, on Admission Mike Fairey will receive an award of 30,000 Ordinary Shares, in consideration for his services in preparing the Company for Admission.
3. Each of Tim Hanford and Dr David Morgan has interests in limited partners of J.C. Flowers III (the controlling shareholder of the Major Shareholder).

The direct and indirect interests of the Directors and the Senior Managers together represent approximately 9.2 per cent. of the issued Ordinary Share capital of the Company as at 4 June 2014 (being the latest practicable date prior to the publication of this Prospectus) and immediately following Admission are expected to represent approximately 6.0 per cent. (assuming the Over-allotment Option is not exercised).

Save as set out above, no Director or Senior Manager has any interests (beneficial or non-beneficial) in the share capital of the Company or any other securities of the Company.

Pursuant to the Underwriting Agreement:

(a) the Non-Executive Directors have agreed that, subject to certain customary exceptions, during the period of 180 days from the date of the Underwriting Agreement, they will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks): (i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) redeem any of their respective shares in the Major Shareholder;

(b) the Executive Directors have agreed that, subject to certain customary exceptions, during the period of 360 days from the date of the Underwriting Agreement, they will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks): (i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) redeem any of their respective shares in the Major Shareholder; and

(c) the Major Shareholder has agreed that, subject to certain customary exceptions:

    (i) in respect of Ordinary Shares in which J.C. Flowers III and the Non-Executive Directors are indirectly interested, for a period of 180 days from and including the date of the Underwriting Agreement; and

    (ii) in respect of Ordinary Shares in which the Executive Directors are indirectly interested, for a period of 360 days from and including the date of the Underwriting Agreement,

    it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks), offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing.

The Joint Bookrunners may, in their sole discretion, waive all or part of any of these lock-up arrangements. In certain circumstances, it may be possible that indirect holdings of Ordinary Shares of shareholders of the Major Shareholder can be transferred so as to be held by them directly (or as they may otherwise direct). Ordinary Shares so transferred will remain subject to the terms of the lock-up arrangements applicable to those persons so far as they remain outstanding.

Pursuant to separate lock-up deeds granted in favour of the Company and the Major Shareholder

Pursuant to separate lock-up deeds granted in favour of the Company and the Major Shareholder:

(a) each of Rod Duke and Malcolm McCaig (as independent Non-Executive Directors) will not, for the duration of their respective directorships in the Company (in respect of the IPO Awards granted to them pursuant to the arrangements summarised at paragraph 16.2 of this Part XIV (*Additional Information*)); and

(b) each of the Senior Managers will not, for a period of 360 days from the date of this Prospectus,

(i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) redeem any of their respective shares in the Major Shareholder.

The lock-up arrangements summarised above are subject to certain customary exceptions. The Company and the Major Shareholder may, in their sole discretion, waive all or part of any of these lock-up arrangements. In certain circumstances, it may be possible that indirect holdings of Ordinary Shares of shareholders of the Major Shareholder can be transferred so as to be held by them directly (or as they may otherwise direct). Ordinary Shares so transferred will remain subject to the terms of the lock-up arrangements applicable to those persons so far as they remain outstanding.

Pursuant to a separate lock-up deed granted in favour of the Company

Pursuant to a separate lock-up deed granted in favour of the Company, Mike Fairey will not (in respect of the Ordinary Shares awarded to him pursuant to the arrangements summarised at paragraph 9.7 of this Part XIV (*Additional Information*)), for the duration of his directorship in the Company, offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing. These lock-up arrangements are subject to certain customary exceptions. The Company may, in its sole discretion, waive all or part of any of these lock-up arrangements.

9.5 **Transactions with Directors and Senior Managers**

None of the Directors or Senior Managers has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business which was effected by any member of the Group during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

None of the Directors or Senior Managers has or had a beneficial interest in any contract to which any member of the Group was a party during the current or immediately preceding financial year.

9.6 **Executive Directors' service contracts, remuneration and emoluments**

Name	Date of Agreement	Position	Salary (£)
Andy Golding	19 May 2014	Chief Executive Officer	£375,000 per annum
April Talintyre	19 May 2014	Chief Financial Officer	£265,000 per annum

The annual salaries of the Executive Directors are set out in the table above. The salaries are subject to annual review by the Remuneration Committee although there is no obligation to award an increase. Executive Directors are eligible for a discretionary annual bonus, life assurance, income protection, private medical insurance and an annual car allowance of £12,000 in respect of Andy Golding and £8,000 in respect of April Talintyre. The Executive Directors are entitled to a pension contribution equal to one per cent. of salary for every 0.5 per cent. contribution made by the Executive Directors up to a maximum Company contribution of 13 per cent. In the event that the Executive Directors reach HMRC's allowances on pension savings in a registered pension scheme they shall be entitled to a pension contribution equal to one per cent. of salary for every 0.5 per cent. contribution made by the Executive Directors into an investment vehicle nominated by the Executive Directors up to a maximum Company contribution of 13 per cent. These payments into an investment vehicle shall be in lieu of receiving pension contributions.

The Executive Directors are also entitled to 30 days' annual leave (plus public holidays) and, in the event of sickness absence, payment of salary for the following periods, dependent on years of service:

Length of service	Sick pay entitlement
Up to and including two years' service	Six weeks' full pay and six weeks' half pay
Over two years and up to and including ten years' service	Ten weeks' full pay and ten weeks' half pay
Over ten years' service	Thirteen weeks' full pay and thirteen weeks' half pay

Both agreements are terminable on twelve months' notice given by either party. The Executive Directors may be put on garden leave during their notice period. Both service agreements contain provisions entitling the Company to pay the Executive Directors in lieu of their notice period on termination to the value of their basic salary at the time of termination. Such payments may be made in instalments and in such circumstances can be reduced to the extent that the Executive Directors mitigate their loss.

The employment of each Executive Director will be terminable with immediate effect without notice in certain circumstances, including gross misconduct, fraud or financial dishonesty, bankruptcy or material breach of obligations under their service agreements.

The Executive Directors' service agreements also contain post-termination restrictions including: (i) six month post termination restrictive covenants against competing with the Company or a relevant Group Company; (ii) nine month post termination restrictive covenants against dealing with clients or suppliers of the Company or a relevant Group Company; and (iii) nine month post-termination restrictive covenants against soliciting clients, suppliers and key employees.

9.7 **Non-Executive Directors' letters of appointment and fees**

The Company has appointed a non-executive Chairman and eight Non-Executive Directors. Five are independent Non-Executive Directors.

The Non-Executive Directors (apart from the JCF Directors, who have been appointed by the Major Shareholder pursuant to the Relationship Agreement) are appointed by letters of appointment and do not have service contracts. The principal terms of these letters of appointment, which are conditional upon Admission, are set out below.

Tim Hanford and Dr. David Morgan are currently directors of the Company. Tim Hanford and Dr. David Morgan will remain on the Board following Admission, as the JCF Directors (in accordance with the terms of the Relationship Agreement). Each JCF Director's appointment will terminate in accordance with the Relationship Agreement (as described in paragraph 23.4 of this Part XIV (*Additional Information*). Pursuant to the terms of the Relationship Agreement, the Major Shareholder will receive an annual fee of £60,000 from the Company in respect of each JCF Director which it appoints to the Board, in consideration for the provision of each Director's time and expertise. Neither of the JCF Directors will receive any fees for the provision of their duties. The Relationship Agreement contains an obligation of confidentiality which will have effect during the appointment and after termination.

(a) *General terms*

Each Non-Executive Director (save for the JCF Directors) will be entitled to an annual fee. The level of these fees will be reviewed periodically by the Board and submitted annually to the annual general meeting for approval. The fee levels that will apply from Admission are set out in the table below. On Admission Mike Fairey will also receive an award of 30,000 Ordinary Shares in consideration for his services in preparing the Company for Admission. Such Ordinary Shares will be subject to the lock-up arrangements summarised at paragraph 23.2(c) of this Part XIV (*Additional Information*). In addition, each Non-Executive Director will be entitled to be reimbursed for all reasonable expenses incurred by him or her in the course of their duties to the Company and has the benefit of indemnity insurance maintained by the Company on their behalf. Each letter of appointment contains obligations of confidentiality which have effect during the appointment and after termination.

Name	Annual Fee	Position
Graham Allatt	£60,000	Non-Executive Director
Rod Duke	£80,000	Senior Independent Non-Executive Director and Chair of the Risk Committee
Mike Fairey	£160,000	Chairman and Chair of the Nomination Committee
Malcolm McCaig	£70,000	Non-Executive Director and Chair of the Audit Committee
Mary McNamara	£70,000	Non-Executive Director and Chair of the Remuneration Committee
Nathan Moss	£60,000	Non-Executive Director
Stephan Wilcke	£60,000	Non-Executive Director

(b) *Term of office*

The appointment of each of the Non-Executive Directors (save for the JCF Directors) is for an initial period of three years and is terminable by either the Non-Executive Director or the Company on three months' notice. The Company is entitled to make a payment in lieu of the notice period on termination. The appointments are also terminable with immediate effect and without compensation or payment in lieu of notice if the Chairman or any Non-Executive Director (save for the JCF Directors) is not re-elected to their position as a director of the Company.

The JCF Directors' appointments will terminate in accordance with the Relationship Agreement. The JCF Directors will not receive any fees from the Company for the provision of their services. The Relationship Agreement contains obligations of confidentiality which have effect during the appointment and after termination.

9.8 **Directors remuneration in 2013**

In 2013, the aggregate amount of remuneration paid (including salary and other emoluments) and benefits in kind granted to the Directors and the Senior Managers for services in all capacities to the Group was £2,145,008.[50]

In respect of the 2013 financial year, the Directors were remunerated as set out below:

Name	*Basic salary and fees (£)*	*Bonus (£)*	*Taxable benefits (£)*	*Pension contributions (£)*	*Total (£)*
Rod Duke	50,000				50,000
Andy Golding	306,000	142,000	30,000	40,000	518,000
Tim Hanford	40,000				40,000
Malcolm McCaig	50,000				50,000
Dr. David Morgan	40,000				40,000
April Talintyre	230,000	86,000	8,000	30,000	354,000
Stephan Wilcke	225,000	110,000	–	29,000	364,000

9.9 **Remuneration strategy and policy**

The Company's remuneration strategy is to provide remuneration packages that:

- attract, motivate and retain high performing employees;
- encourage and support a strong sales and service culture;

50 This figure does not include Mark Paskowitz, Richard Davis and Richard Wilson, as they were not Senior Managers in 2013.

- reward the achievement of the overall business objectives of the Group;
- align employees' interests with those of shareholders; and
- are consistent with the Group's risk policies and systems.

Consistent with this remuneration strategy, the Remuneration Committee has agreed a remuneration policy for the Group's senior management, including the Executive Directors, whereby:

- performance-related pay will form a significant part of remuneration packages; and
- there will be an appropriate balance between short and longer-term performance targets linked to delivery of the Group's objectives.

The Company intends to deliver this policy for senior management, including the Executive Directors, via a remuneration framework with the flexibility of being able to combine base salary, benefits, commission, annual bonuses and employee share plans.

As a result of new UK company law, it is expected that, following Admission, the Company will be required to submit this remuneration policy (as it relates to the Directors) to a binding vote of Shareholders at the Company's annual general meeting to be held in 2015. Accordingly, the Company will outline its future policy relating to the Directors' remuneration in its report and accounts for its financial year ending 31 December 2014.

10. SHARE PLANS AND EMPLOYEE INCENTIVE SCHEMES

The Directors believe that share ownership will form a vital part of the culture and incentives structure of the business. The key objective of the remuneration policy is to attract, motivate and retain high calibre individuals with the skills necessary to execute the business strategy. The policy also seeks to ensure that remuneration is reflective of pay at similarly performing institutions and that variable pay is linked to Group performance and aligned with shareholder expectations.

The Company has therefore adopted the following employee share plans:

- The OneSavings Bank plc Performance Share Plan 2014 (the "**PSP**");
- The OneSavings Bank plc Deferred Share Bonus Plan 2014 (the "**DSBP**"); and
- The OneSavings Bank 2014 Sharesave Plan (the "**Sharesave Plan**")

(together, the "**Plans**").

A summary of the key features of the Plans is set out below.

In addition to the Plans, the Company has established a new employee benefit trust in Jersey (the "**New EBT**"), which may be used to provide Ordinary Shares to employees in connection with the Plans. Further details of the New EBT are set out in paragraph 15 below.

The rules of the Plans will be available for inspection from the date of this Prospectus at the location stated in paragraph 30 of this Part XIV (*Additional Information*).

Summary of the Plans

The following sections describe the unique features of each Plan and then describe those features which are common to the Plans.

The Plans were adopted by the Board on Friday, 2 May 2014.

11. PRINCIPAL TERMS OF THE PSP

(a) ***Operation***

The Remuneration Committee will supervise the operation of the PSP.

(b) ***Eligibility***

Any employee of the Company and its subsidiaries will be eligible to participate in the PSP at the discretion of the Remuneration Committee.

(c) ***Grant of PSP awards***

The Remuneration Committee may grant awards to acquire Ordinary Shares within 42 days following:

- the commencement date of the PSP;
- the Company's announcement of its results for any period;
- the date of Admission;
- the day on which changes to legislation or regulation are announced or made which have an impact on any awards made under the PSP; or
- the lifting of any dealing restrictions which has prevented the grant of awards during the periods set out above.

The Remuneration Committee may also grant PSP awards at any other time when the Remuneration Committee considers that there are exceptional circumstances which justify the granting of PSP awards.

It is intended that the first PSP awards will be granted to executive directors and senior executives (the "**Senior Leadership Team**") in 2015.

PSP awards may be structured as nil (or nominal) cost options or as conditional share awards. The Remuneration Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

(d) ***Individual limit***

An employee may not receive awards in any financial year over Ordinary Shares having a market value in excess of 200 per cent. of his or her annual base salary in that financial year.

It is the Remuneration Committee's current intention that executive directors will receive awards of 100 per cent. of salary and that other senior executives will receive awards of up to 70 per cent. of salary.

(e) ***Performance conditions***

The vesting of PSP awards will be subject to performance conditions determined by the Remuneration Committee.

The Remuneration Committee's current intention is that the performance conditions applying to the first PSP awards will be based on earnings per share and total shareholder return. The precise details of the performance conditions will be set by the Remuneration Committee shortly before the grant of the awards.

The Remuneration Committee can set different performance conditions for the Senior Leadership Team for future PSP awards provided that, in the reasonable opinion of the Remuneration Committee, the new targets are set within the parameters of the Directors' Remuneration Policy in force at that time.

The Remuneration Committee may set different performance conditions for participants who are not members of the Senior Leadership Team.

The Remuneration Committee may also vary the performance conditions applying to existing PSP awards if an event has occurred which causes the Remuneration Committee to consider that it would be appropriate to amend the performance conditions, provided the Remuneration Committee considers the varied conditions are fair and reasonable and are not materially less challenging than the original conditions would have been but for the event in question.

(f) ***Vesting of PSP awards***

PSP awards will normally vest three years after they are granted, subject to the satisfaction of the applicable performance conditions and provided the participant is still employed within the Company's group.

PSP awards structured as options will normally be exercisable up to the tenth anniversary of grant unless they lapse earlier.

(g) ***Dividend equivalents***

The Remuneration Committee may decide that aggregate participants will receive a payment (in cash and/or Ordinary Shares) of an amount equivalent to the dividends that would have been paid on the Ordinary Shares that vest under their PSP award by reference to the dividend record dates occurring during the period starting on the date of grant of the award and the date when the award vests or, in the case of an award granted as an option, the date on which the option is exercised. This amount may assume the reinvestment of dividends. Alternatively, participants may have their awards increased as if dividends were paid on the Ordinary Shares subject to the award and then reinvested in further Ordinary Shares.

(h) ***Leaving Employment***

As a general rule, a PSP award will lapse upon a participant ceasing to hold employment or be a director within the Company's group. However, if a participant ceases to be an employee or a director because of his death, ill-health, injury, disability, retirement, redundancy, his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the Remuneration Committee ("good leaver circumstances"), then his award will vest on the date that it would have vested if he had not ceased such employment or office. The extent to which a PSP award will vest will depend upon two factors: (i) the extent to which the performance conditions have been satisfied over the original performance period; and (ii) the pro-rating of the PSP award to reflect the reduced period of time between its grant and vesting, although the Remuneration Committee can decide not to pro-rate a PSP award if it regards it as inappropriate to do so in the particular circumstances.

If a participant ceases to be an employee or director in the Company's group for one of the good leaver circumstances, the Remuneration Committee can decide, in circumstances which they consider to be sufficiently exceptional, that his award will vest on the date of cessation, subject to: (i) the satisfaction of the performance conditions measured at that time; and (ii) pro-rating by reference to the time of cessation as described above.

(i) ***Takeovers and other corporate events***

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation), all PSP awards will vest early subject to: (i) the extent that the performance conditions have been satisfied at that time; and (ii) the pro-rating of the awards to reflect the reduced period of time between their grant and vesting, although the Remuneration Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation, PSP awards will be replaced by equivalent new awards over ordinary shares in a new holding company unless the Remuneration Committee decides that awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Remuneration Committee, would affect the market price of Ordinary Shares to a material extent, then the Remuneration Committee may decide that PSP awards will vest on the basis which would apply in the case of a takeover as described above.

(j) ***Variation of capital***

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Ordinary Shares, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Ordinary Shares subject to a PSP award and/or the exercise price payable (if any).

(k) ***Overall Plan limits***

In any ten calendar year period, the Company may not issue (or grant rights to issue) more than:

- 10 per cent. of the issued Ordinary Share capital of the Company under the PSP and any other employee share plan adopted by the Company; and

- 5 per cent. of the issued Ordinary Share capital of the Company under the PSP and any other executive share plan adopted by the Company.

(l) ***Malus and clawback***

The Remuneration Committee may decide at any time prior to the vesting of a PSP award that a participant's award or any part thereof will be forfeit and lapse. The Remuneration Committee may also decide at any time following the vesting of a PSP award that a participant's award will be subject to clawback. The Remuneration Committee may decide to adjust or clawback PSP awards in circumstances which include but are not limited to there having been a material misstatement in the Company's financial results, an error in calculating the number of vested Ordinary Shares, a significant failure of risk management, a regulatory censure or where the participant's employment is (or would have been) terminated for gross misconduct.

In the event that the Remuneration Committee decides that any PSP award shall be clawed back, the Remuneration Committee may reclaim the relevant amounts by reducing future incentive compensation, including but not limited to the amount of any future unpaid bonus, the vesting of any subsisting or future awards under the PSP and/or certain share incentive plans. The Remuneration Committee may also require the relevant participant to make a cash payment of the relevant amount.

12. PRINCIPAL TERMS OF THE DSBP

The purpose of the DSBP is to facilitate the deferral of all or part of the Senior Leadership Team's annual bonus into Ordinary Shares. The decision to apply bonus deferral in any year, and the portion of any bonus which will be deferred, will be determined by the Remuneration Committee.

(a) ***Operation***

The Remuneration Committee will supervise the operation of the DSBP.

(b) ***Eligibility***

Any employee of the Company and its subsidiaries will be eligible to participate in the DSBP at the discretion of the Remuneration Committee.

In order to participate in the DSBP, an employee must receive a discretionary bonus relating to all or part of the immediately preceding financial year. It is currently intended that the first awards will be made in 2015, subject to eligible employees receiving a bonus in respect of the 2014 financial year.

(c) ***Grant of DSBP awards***

The Remuneration Committee may grant DSBP awards to acquire Ordinary Shares within the period of 42 days following:

- the commencement date of the DSBP;

- the Company's announcement of its results for any period;

- the date of Admission;

- the day on which changes to legislation or regulations are announced or made which impact on any awards made under the DSBP; or
- the lifting of any dealing restriction which has prevented the grant of awards during the periods set out above.

The Remuneration Committee may also grant DSBP awards at any other time when the Remuneration Committee considers there are exceptional circumstances which justify the granting of awards.

The Remuneration Committee may grant awards as nil (or nominal) cost options or as conditional share awards. The Remuneration Committee may decide to satisfy share-based awards in cash, although it does not currently intend to do so.

(d) ***Individual limit***

An employee may not receive DSBP awards in any financial year over Ordinary Shares with a market value exceeding 100 per cent. of his salary. Subject to this limit, the Remuneration Committee shall determine the percentage of the employee's pre-tax bonus over which a DSBP award may be granted.

(e) ***Vesting of awards***

Awards will normally vest three years after grant, provided the participant is still employed in the Company's group. DSBP awards will not be subject to performance conditions.

On vesting, awards in the form of nil (or nominal) options will normally be exercisable up to the tenth anniversary of grant unless they lapse earlier.

(f) ***Dividend equivalents***

The Remuneration Committee may decide that participants will receive a payment (in cash and/or Ordinary Shares) of an amount equivalent to the aggregate dividends that would have been paid on the Ordinary Shares that vest under their DSBP award by reference to the dividend record dates occurring during the period starting on the date of grant of the award and the date when the award vests or, in the case of an award granted as an option, the date on which the option is exercised. This amount may assume the reinvestment of dividends. Alternatively, participants may have their awards increased as if dividends were paid on the Ordinary Shares subject to the award and then reinvested in further Ordinary Shares.

(g) ***Leaving employment***

As a general rule, a DSBP award will lapse upon a participant ceasing to hold employment or be a director within the Company's group.

However, if a participant ceases to be an employee or a director because of his death, ill-health, injury, disability, retirement, redundancy, his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the Remuneration Committee, then his DSBP award will vest in full on the date of cessation.

(h) ***Takeovers and other corporate events***

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation), DSBP awards will vest early and in full.

In the event of an internal corporate reorganisation awards will be replaced by equivalent new awards over shares in a new holding company unless the Remuneration Committee decides that DSBP awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Remuneration Committee, would affect the market price of Ordinary Shares to a material extent, then the Remuneration Committee may decide that awards will vest on the basis which would apply in the case of a takeover as described above.

(i) ***Variation of capital***

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Ordinary Shares, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Shares subject to a DSBP award and/or the exercise price payable (if any).

(j) ***Overall plan limits***

In any ten calendar year period, the Company may not issue (or grant rights to issue) more than:

- 10 per cent. of the issued Ordinary Share capital of the Company under the DSBP and any other employee share plan adopted by the Company; and
- 5 per cent. of the issued Ordinary Share capital of the Company under the DSBP and any other executive share plan adopted by the Company.

(k) ***Malus and clawback***

The Remuneration Committee may decide at any time prior to the vesting of a DSBP award that a participant's award will be forfeit and lapse. The Remuneration Committee may also decide at any time following the vesting of a DSBP award that a participant's award will be subject to clawback. The Remuneration Committee may decide to adjust or clawback DSBP awards in circumstances where there has been a material misstatement in the Company's financial results, an error in calculating the number of vested Ordinary Shares, a significant failure of risk management, a regulatory censure or where the participant's employment is (or would have been) terminated for gross misconduct.

In the event that the Remuneration Committee decides that any DSBP award shall be clawed back, the Remuneration Committee may reclaim the relevant amounts by reducing future incentive compensation, including but not limited to the amount of any future unpaid bonus, the vesting of any subsisting or future awards under the DSBP and/or certain share incentive plans. The Remuneration Committee may also require the relevant participant to make a cash payment of the relevant amount.

13. PRINCIPAL TERMS OF THE SHARESAVE PLAN

(a) ***Operation***

The operation of the Sharesave Plan will be supervised by the Board. It will provide tax-advantaged options to UK employees.

(b) ***Eligibility***

Employees and full-time directors of the Company and any designated participating subsidiary who are UK resident taxpayers are eligible to participate. The Board may require employees to have completed a qualifying period of employment of up to five years before the grant of options. The Board may also allow other employees to participate.

(c) ***Grant of options***

Options can only be granted to employees who enter into HMRC approved savings contracts, under which monthly savings are made over a period of three or five years. Options must be granted within 30 days (or 42 days if applications are scaled back) of the first day by reference to which the option price is set. The number of Ordinary Shares over which an option is granted will be such that the total option price payable for those Ordinary Shares will correspond to the proceeds on maturity of the related savings contract.

(d) ***Individual participation***

Monthly savings by an employee under all savings contracts linked to options granted under any sharesave plan may not exceed the statutory maximum (£500 with effect from 6 April 2014). The Board may set a lower limit in relation to any particular grant.

(e) ***Option price***

The price per Ordinary Share payable upon the exercise of an option will not be less than the higher of: (i) 80 per cent. of the market value of an Ordinary Share on a date immediately preceding, or specified in, an invitation to participate in the Sharesave Plan; and (ii) if the option relates only to new issue Ordinary Shares, the nominal value of an Ordinary Share.

The option price will be determined by reference to dealing days which fall within six weeks of the announcement by the Company of its results for any period or at any other time when the Board considers there to be exceptional circumstances which justify offering options under the Sharesave Plan.

(f) ***Exercise of options***

Options will normally be exercisable for a six month period from the third or fifth anniversary of the commencement of the related savings contracts. Earlier exercise is permitted, however, in the following circumstances:

- following cessation of employment by reason of death, injury, disability, redundancy, TUPE transfer, retirement or the business or company that the employee works for ceasing to be part of the Company's group;
- where employment ceases more than three years from grant for any reason other than dismissal for misconduct; and
- in the event of a takeover, amalgamation, reconstruction or winding-up of the Company, except in the case of an internal corporate re-organisation when the Board may decide to exchange existing options for equivalent new options over shares in a new holding company.

Except where stated above, options will lapse on cessation of employment or directorship with the Company's group.

Ordinary Shares will be allotted or transferred to participants within 30 days of exercise.

(g) ***Variation of capital***

If there is a variation in the Company's share capital then the Board may make such adjustment as it considers appropriate to the number of Ordinary Shares under option and the option price.

14. PRINCIPAL TERMS COMMON TO THE PLANS

(a) ***Grant of awards/options***

Awards granted under the PSP and DSBP and options granted under the Sharesave Plan may be satisfied by the issue of new Ordinary Shares, by the transfer for Ordinary Shares held as treasury shares and/or by the transfer of Ordinary Shares purchased in the market.

No payment is required for the grant of an award/option. Awards/options are not transferable (except on death). Awards/options are not pensionable.

(b) ***Timing of grants***

An award/option may not be granted more than ten years after the date on which the Plans were adopted.

(c) ***Participants' rights***

PSP and DSBP Awards/Sharesave options will not confer any shareholder rights until the awards have vested or the options been exercised and the participants have received their Ordinary Shares.

(d) ***Rights attaching to Ordinary Shares***

Any Ordinary Shares allotted when an award vests or option is exercised under the Plans will rank equally with Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

(e) ***Overall Plan limits***

Ordinary Shares held as treasury shares will count as new issue Ordinary Shares for the purposes of these limits unless institutional investors decide that they need not count.

Ordinary Shares issued or to be issued under awards or options granted before the Company was listed on the London Stock Exchange will not count towards the overall Plan limits.

(f) ***Alterations to the Plans***

The Remuneration Committee (or, in the case of the Sharesave Plan, the Board) may, at any time, amend the Plans in any respect, provided that the prior approval of Shareholders is obtained for any amendments to the advantage of participants in respect of the rules governing: (i) eligibility; (ii) limits on participation; (iii) the overall limits on the issue of Ordinary Shares or the transfer of treasury shares; (iv) the basis for determining a participant's entitlement to, and the terms of, the Ordinary Shares or cash to be acquired; and (v) the adjustment of awards/options.

The requirement to obtain prior approval of Shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group.

Shareholder approval will also not be required for any amendments to any performance condition applying to a PSP award.

In the case of the PSP and DSBP only, no alteration to the material disadvantage of a participant may be made without the prior consent of the participants.

(g) ***Overseas plans***

The Plans allow the Board to establish further plans for overseas territories, any such plan to be similar to the relevant Plan, but modified to take account of local tax, exchange control or securities laws, provided that any Ordinary Shares made available under such further plans are treated as counting against the limits on individual and overall participation in the relevant Plan.

15. THE NEW EBT

The Company has established the New EBT which may be operated in connection with the Plans by providing Ordinary Shares to employees. The New EBT is a discretionary trust, administered from Jersey, the beneficiaries of which are the employees and former employees of the Group, their spouses, widows, widowers and children or step-children under the age of 18. The New EBT may hold Ordinary Shares required to satisfy awards and options granted under the Plans. The trustee of the New EBT may acquire or be issued with Ordinary Shares for this purpose and the Company or other member of the Group may provide sufficient funds by way of loan or gift to it. The Company has the power to appoint new and additional trustees or remove any trustee. With the agreement of the trustee, the Company may amend the trust deed.

16. INCENTIVE ARRANGEMENTS IN PLACE ON OR AROUND ADMISSION

16.1 Management incentive plan

Certain of the Directors and Senior Managers (each a "**Participant**") participate in an existing management incentive plan (the "**MIP**") under which they subscribed for ordinary shares and "growth shares" in the Major Shareholder. The growth shares entitle them to share in the net proceeds realised by the Major Shareholder from its investment in the Company above a hurdle rate of return. As part of the Global Offer, the Major Shareholder will sell Ordinary Shares representing up to 30 per cent.

by value of the Participants' respective interests under the MIP as determined by reference to the value of the Major Shareholder's shareholding in the Company on Admission (including the proceeds of its sale of Ordinary Shares at such time) and net proceeds will be paid to the Participants. These Ordinary Shares will form part of the number of Ordinary Shares referred to in paragraph 23.1(a) of this Part XIV (*Additional Information*). Full details of the number of Ordinary Shares being sold by the Major Shareholder in the Global Offer on behalf of the Directors and Senior Managers are set out at paragraph 9.4 of this Part XIV (*Additional Information*). Conditional upon Admission, the articles of association of the Major Shareholder will be amended so that each Participant will (through their retained shareholding in the Major Shareholder) have an indirect entitlement to such number of the Ordinary Shares retained by the Major Shareholder as has a value equal to the balance of that Participant's entitlement under the MIP. J.C. Flowers III will have an indirect entitlement to the balance of the Ordinary Shares retained by the Major Shareholder, excluding Ordinary Shares the subject of IPO Awards as described in paragraph 16.2 of this Part XIV (*Additional Information*). Details of the Directors' and Senior Managers' indirect interests in Ordinary Shares immediately prior to and following Admission are set out in paragraph 9.4 of this Part XIV (*Additional Information*). Under the terms of the articles of association of the Major Shareholder, its shareholders (including the Participants) will each be entitled (subject to certain restrictions) to redeem some or all of their shares in the Major Shareholder, which will result in a sale by the Major Shareholder of (and therefore reduction in) their indirect holdings in the Company and a corresponding distribution of redemption proceeds to them by the Major Shareholder. For the avoidance of doubt, Directors and Senior Managers will comply with the terms of the Company's share dealing code and lock-up arrangements in directing the Major Shareholder to effect the redemption described in the foregoing sentence.

In certain circumstances, it may be possible that indirect holdings of Ordinary Shares of shareholders of the Major Shareholder can be transferred so as to be held by them directly (or as they may otherwise direct). Ordinary Shares so transferred will remain subject to the terms of the lock up arrangements applicable to those persons (as summarised in paragraph 23.1(n) of this Part XIV (*Additional Information*)) so far as they remain outstanding.

16.2 **IPO Awards**

The Major Shareholder will grant nil price options ("**IPO Awards**") over up to 2,076,384 Ordinary Shares to certain Directors and Senior Managers and certain other employees of the Group (the "**Employee Holders**") on Admission (the "**IPO Scheme**"). The IPO Awards will have different vesting dates, as set out below. They will not be subject to performance conditions but will (subject to good leaver provisions) lapse if the option holder ceases to be employed by a member of the Group during the vesting period. IPO Awards have been granted to Directors, Senior Managers and Employee Holders as set out in the table below.

Name	Number of IPO Awards
Directors and Senior Managers	
Rod Duke	106,481
Malcolm McCaig	159,722
Zoe Bucknell	212,963
Richard Davis	372,684
John Eastgate	532,406
Mark Paskowitz	319,444
Richard Wilson	372,684
Employee Holders	1,331,016

IPO Awards granted to:

(a) Rod Duke and Malcolm McCaig will vest in full on Admission.

(b) Zoe Bucknell and John Eastgate will vest as to 30 per cent. on Admission and 70 per cent. on the first anniversary of Admission;

(c) Richard Davis, Mark Paskowitz, Richard Wilson and certain of the Employee Holders will vest as to 30 per cent. on Admission, as to 35 per cent. on the second anniversary of Admission and 35 per cent. on the fourth anniversary of Admission; and

(d) the remaining Employee Holders will vest in full on the first anniversary of Admission.

If, prior to the vesting of an individual's IPO Awards, that individual leaves the Group's employment or has his or her appointment terminated (as the case may be), all unvested IPO Awards granted to that individual will be cancelled and shares (in respect of such unvested IPO Awards) will be transferred for nil consideration to KRPS. Dividends accruing to shares in the Major Shareholder representing unvested IPO Awards will be retained by the Major Shareholder and will be transferred, along with the shares, to the benefitting individual (in respect of IPO Awards which vest) or to KRPS (in respect of cancelled IPO Awards), as the case may be. In addition to the IPO Awards granted to the Directors, Senior Managers and Employee Holders, certain former directors of the Company have received IPO Awards which will vest immediately upon Admission.

All awards under the IPO Scheme will be satisfied using Ordinary Shares held by the Major Shareholder. Each of Rod Duke, Malcolm McCaig, Zoe Bucknell, John Eastgate and certain of the Employee Holders will dispose of up to 30 per cent. by value of the Ordinary Shares in which they are indirectly interested in the Global Offer following the vesting of the IPO Awards described in this paragraph 16.2 of Part XIV (*Additional Information*). Full details of the Directors' and Senior Managers' indirect interests in Ordinary Shares immediately prior to and following Admission are set out at paragraph 9.4 of this Part XIV (*Additional Information*).

In the event of a general offer being made to shareholders (or a similar takeover event taking place) during the vesting period, the IPO Awards will vest in full. In the event of a corporate re-organisation, IPO Awards may be replaced by awards on equivalent terms over shares in a new holding company and may be amended in the event of a variation of the share capital of the Company. The prior approval of shareholders at a general meeting of the Company must be obtained if any amendment to the advantage of participants is made to the provisions relating to eligibility, individual or overall limits, the basis for determining an employee's entitlement to, and the terms of, Ordinary Shares provided pursuant to the IPO Awards, the adjustments that may be made in the event of any variation to the share capital of the Company and/or the rule relating to such prior approval, save that there are exceptions for any minor amendment to benefit the administration of the IPO Scheme, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for employees, the Company and/or its subsidiaries.

17. CORPORATE GOVERNANCE

17.1 Compliance with the UK Corporate Governance Code

The Board is committed to the highest standards of corporate governance. As at the date of this Prospectus the Company does not fully comply with the UK Corporate Governance Code because to date the UK Corporate Governance Code has not applied to the Company. However, the Company intends to comply with the UK Corporate Governance Code from Admission.

The UK Corporate Governance Code recommends, in the case of a FTSE 350 company, that at least half the board of directors (excluding the chairman) should comprise 'independent' non-executive directors, being individuals determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors. Where a company is outside the FTSE 350, the UK Corporate Governance Code recommends that the board of directors comprises at least two 'independent' non-executive directors. As at the date of this Prospectus, the Company (being outside the FTSE 350) complies with the recommendations of the UK Corporate Governance Code concerning the number of independent non-executive directors the Company should have.

17.2 The Board

The Company is led and controlled by the Board. The names, responsibilities and details of the current Directors appointed to the Board are set out above in Part III (*Directors, Senior Managers and Corporate Governance*) of this Prospectus.

17.3 Securities dealing code

Upon Admission, the Company will adopt a code on dealings in relation to the securities of the Group which requires full compliance with the requirements of the Model Code. The Company shall require the Directors and other persons discharging managerial responsibilities within the Group to comply with the Company's securities dealing code, and shall take all proper and reasonable steps to secure their compliance.

18. PENSIONS

18.1 Defined contribution arrangements

The Group contributes to defined contribution pension arrangements in respect of its employees. The total pension cost in the year ending 31 December 2013 amounted to £645,000. This may increase in the future due to legislative requirements relating to the level of contributions payable in respect of employees "automatically enrolled" into pension saving.

18.2 Defined benefit arrangements

Kent Reliance Building Society operated a defined benefit pension scheme (the "**Scheme**") funded by the payment of contributions to a separately administered fund for nine retired members. Kent Reliance Building Society decided to close the Scheme with effect from 31 December 2001 and introduced a new defined contribution scheme to cover service of Scheme members from 1 January 2002.

The Scheme trustees, having taken actuarial advice, decided to wind up the Scheme rather than continue to operate it on a "paid up" basis. The winding up is largely complete. As at 31 December 2013 the liability to remaining members is £1,600 (31 December 2012: £1,600) matched by Scheme assets.

No amounts have been set aside or accrued by the Group to provide pension, retirement or similar benefits.

19. RELATED PARTY TRANSACTIONS

Between 1 February 2011 and the date of this Prospectus, no member of the Group entered into any related party transactions (within the meaning ascribed to that term in paragraph 9 of International Accounting Standard 24, being the Standard adopted according to Regulation (EC) No. 1606/2002) other than:

(a) as disclosed in note 3 to the historical financial information set out in Part IX (*Historical Financial Information*) of this Prospectus; and

(b) the Relationship Agreement described in paragraph 23.4 of this Part XIV (*Additional Information*).

20. SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Group since 31 January 2014, being the latest date to which the historical financial information in Part IX (*Historical Financial Information*) of this Prospectus was prepared.

21. WORKING CAPITAL STATEMENT

The Company is of the opinion that, taking into account the net proceeds of the Global Offer receivable by it, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this Prospectus.

22. LITIGATION AND DISPUTES

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the Company and/or the Group's financial position or profitability.

23. MATERIAL CONTRACTS

Set out in paragraphs 23.1 to 23.4 below is a summary of: (i) each material contract (other than a contract entered into in the ordinary course of business) to which the Company or any member of the Group is a party which has been entered into within the two years immediately preceding the date of this Prospectus; and (ii) any other contract (other than a contract entered into in the ordinary course of business) entered into by any member of the Group which contains obligations or entitlements which are or may be material to the Group as at the date of this Prospectus.

23.1 Underwriting Agreement

On 5 June 2014, the Company, the Directors, the Major Shareholder and the Banks entered into the Underwriting Agreement. Pursuant to the Underwriting Agreement:

(a) the Major Shareholder has agreed, subject to certain conditions, to sell, or procure the sale of, 54,579,474 Ordinary Shares, in each case at the Offer Price, in connection with the Global Offer;

(b) the Company has agreed, subject to certain conditions, to allot and issue 24,411,765 Ordinary Shares at the Offer Price, in connection with the Global Offer;

(c) the Underwriters have severally agreed, subject to certain conditions, to use reasonable endeavours to procure subscribers or purchasers for (or, failing which, to subscribe or purchase itself) the 78,991,239 Ordinary Shares to be issued or sold pursuant to the Global Offer at the Offer Price;

(d) subject to the conditions set out in the Underwriting Agreement having been satisfied or waived and the Underwriting Agreement not having been terminated in accordance with its terms prior to Admission:

    (i) the Company has agreed that the Settlement Bank (on behalf of the Underwriters) may deduct from the proceeds of the Global Offer payable to the Company a commission of two per cent. of the amount equal to the product of the Offer Price and the number of New Shares issued and sold by the Company pursuant to the Global Offer; and

    (ii) the Major Shareholder has agreed that the Settlement Bank (on behalf of the Underwriters) may deduct from the proceeds of the Global Offer payable to the Major Shareholder a commission of two per cent. of the amount equal to the product of the Offer Price and the number of Ordinary Shares (including any Over-Allotment Shares) sold by the Major Shareholder pursuant to the Global Offer;

(e) in addition, the Company may, in its absolute and sole discretion as to the amount (if any) and as to the allocation between the Underwriters, pay to the Settlement Bank (on behalf of the Underwriters) an additional commission of up to 1.25 per cent. of the aggregate proceeds amount equal to the product of the Offer Price and the number of Ordinary Shares sold by the Company pursuant to the Global Offer;

(f) in addition, the Major Shareholder may, in its absolute and sole discretion as to the amount (if any) and as to the allocation between the Underwriters, pay to the Settlement Bank (on behalf of the Underwriters) an additional commission of up to 1.25 per cent. of the aggregate proceeds amount equal to the product of the Offer Price and the number of Ordinary Shares (including any Over-Allotment Shares) sold by the Company pursuant to the Global Offer;

(g) BCSL, as Stabilising Manager, has been granted the Over-allotment Option by the Major Shareholder pursuant to which it may call for the Major Shareholder to sell up to 11,848,686 Over-allotment Shares at the Offer Price for the purposes of covering short positions arising from over-allocations, if any, in connection with the Global Offer and/or from sales of Ordinary Shares, if any, effected during the stabilising period. If any Over-allotment Shares are acquired pursuant to the Over-allotment Option, the Stabilising Manager will be committed to pay to the Major Shareholder, or procure that payment is made to the Major Shareholder of, an amount equal to the Offer Price multiplied by the number of Over-allotment Shares purchased from such the Major Shareholder, less commissions and expenses;

(h) the obligations of the Underwriters to procure subscribers or purchasers for or, failing which, to subscribe or purchase themselves the Ordinary Shares (as the case may be) on the terms of the Underwriting Agreement are subject to certain customary conditions. These conditions include, among others, the absence of any breach of representation or warranty under the Underwriting Agreement and Admission occurring on or before 8.00 a.m. on 10 June 2014 (or such later time and/or date as the Joint Bookrunners (on behalf of the Banks) and the Company may agree). In addition, the Joint Bookrunners (on behalf of the Banks) have the right to terminate the Underwriting Agreement, exercisable in certain circumstances, prior to Admission;

(i) the Company and the Major Shareholder have agreed, broadly, to pay any stamp duty and/or stamp duty reserve tax arising on the issue and sale of Ordinary Shares pursuant to the Global Offer not the Over-allotment of Ordinary Shares;

(j) the Company has agreed to pay certain of the costs, charges, fees and expenses relating to the Global Offer (together with any related VAT);

(k) each of the Company, the Directors and the Major Shareholder has given certain representations, warranties and undertakings to the Banks. The liability of the Company is unlimited as to amount and time. The liabilities of the Major Shareholder and the Directors are limited as to amount and time;

(l) each of the Company and the Major Shareholder has given certain indemnities to the Banks and their respective affiliates;

(m) the parties to the Underwriting Agreement have given certain representations, warranties and undertakings regarding compliance with certain laws and regulations affecting the making of the Global Offer in relevant jurisdictions;

(n) each of the Directors and the Major Shareholder have also undertaken, amongst other things, to the Banks that, subject to certain customary exceptions: (i) for a period of 180 days from and including the date of the Underwriting Agreement, each Non-Executive Director and the Major Shareholder (in respect of Ordinary Shares in which J.C. Flowers III and the Non-Executive Directors are indirectly interested) will not; and (ii) for a period of 360 days from and including the date of the Underwriting Agreement, each Executive Director and the Major Shareholder (in respect of Ordinary Shares in which the Executive Directors are indirectly interested) will not, in each case without the prior written consent of the Joint Bookrunners (on behalf of the Banks): (i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) (in the case of J.C. Flowers III and each Director) redeem any of their respective shares in the Major Shareholder; and

(o) the Company has agreed that, subject to:

(i) certain customary exceptions (including the issue and offer by or on behalf of the Company of the New Ordinary Shares and the Existing Ordinary Shares);

(ii) the Company's rights to issue Regulatory Capital Convertible Instruments at any time following Admission,

during the period of 180 days from the date of the Underwriting Agreement, it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks), issue, offer, lend, mortgage, pledge, assign, charge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or any interest in Ordinary Shares or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Ordinary Shares or any interest in Ordinary Shares, or file any registration statement under the Securities Act or file or publish any prospectus with respect to any of the foregoing, or enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares.

23.2 **Lock-up arrangements**

The following lock-up arrangements have been entered into in connection with the Global Offer:

(a) *Lock-up Agreement*

On 5 June 2014, the Banks, J.C. Flowers III and the Major Shareholder entered into the Lock-Up Agreement. Pursuant to the Lock-Up Agreement, J.C. Flowers III has agreed that, subject to certain customary exceptions, during the period of 180 days from the Lock-Up Agreement, it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Banks): (i) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (ii) redeem any of its shares in the Major Shareholder. In certain circumstances, it may be possible that the indirect holdings of Ordinary Shares of J.C. Flowers III in the Major Shareholder can be transferred so as to be held by J.C. Flowers III directly (or as it may otherwise direct). Ordinary Shares so transferred will remain subject to the terms of the lock-up arrangements, so far as they remain outstanding.

(b) *Lock-up deeds entered into by Rod Duke, Malcolm McCaig and the Senior Managers*

Pursuant to separate lock-up deeds dated 5 June 2014 granted in favour of the Company and the Major Shareholder:

(i) each of Rod Duke and Malcolm McCaig (as independent Non-Executive Directors) will not, for the duration of their respective directorships in the Company (in respect of the IPO Awards granted to them pursuant to the arrangements summarised at paragraph 16.2 of this Part XIV (*Additional Information*); and

(ii) each of the Senior Managers will not, for a period of 360 days from the date of this Prospectus,

(A) offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing; or (B) redeem any of their respective shares in the Major Shareholder.

The lock-up arrangements summarised above are subject to certain customary exceptions. The Company and the Major Shareholder may, in their sole discretion, waive all or part of any of these lock-up arrangements. In certain circumstances, it may be possible that indirect holdings of Ordinary Shares of shareholders of the Major Shareholder can be transferred so as to be held by them directly (or as they may otherwise direct). Ordinary Shares so transferred will remain subject to the terms of the lock-up arrangements applicable to those persons so far as they remain outstanding.

(c) *Lock-up deeds entered into by Mike Fairey*

Pursuant to a separate lock-up deed dated 5 June 2014 granted in favour of the Company, Mike Fairey will not (in respect of the Ordinary Shares awarded to him pursuant to the arrangements summarised at paragraph 9.7 of this Part XIV (*Additional Information*)), for the duration of his directorship in the Company, offer, sell or contract to sell, grant or sell any option over, purchase any option or contract to sell, grant any right or warrant to purchase, charge, pledge or otherwise transfer, lend, or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable for Ordinary Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or announce or otherwise publicise the intention to do any of the foregoing. These lock-up arrangements are subject to certain customary exceptions. The Company may, in its sole discretion, waive all or part of any of these lock-up arrangements.

23.3 Stock Lending Agreement

In connection with settlement and stabilisation, the Stabilising Manager has entered into a stock lending agreement (the "**Stock Lending Agreement**") with the Major Shareholder pursuant to which the Stabilising Manager will be able to borrow from the Major Shareholder in aggregate up to 11,848,686 Ordinary Shares (representing up to 15 per cent. of the total number of Offer Shares (excluding the Ordinary Shares subject to the Over-allotment Option) for the purposes, among other things, of allowing the Stabilising Manager to settle, at Admission, over-allotments, if any, made in connection with the Global Offer. If the Stabilising Manager borrows any Ordinary Shares pursuant to the Stock Lending Agreement, it will be obliged to return equivalent shares to the Major Shareholder in accordance with the terms of the Stock Lending Agreement.

23.4 Relationship Agreement

On 5 June 2014, the Company and the Major Shareholder entered into the Relationship Agreement. The principal purpose of the Relationship Agreement is to ensure that the Company will be capable of carrying on its business independently of the Major Shareholder after Admission.

Pursuant to the Relationship Agreement:

(a) the parties shall procure that all transactions and relationships between any member of the Group and the Major Shareholder are conducted at arm's length and on normal commercial terms and the Major Shareholder shall abstain from voting on any resolution to which Listing Rule 11.1.7R(4) of the Listing Rules applies relating to a transaction with the Major Shareholder as the related party; and

(b) the Major Shareholder shall (and shall procure that each of its associates shall): (i) not take any actions that would have the effect of preventing the Company from complying with its obligations under the Listing Rules or be prejudicial to the Company's status as a listed company or the Company's eligibility for listing; (ii) not propose or procure the proposal of a shareholder resolution that would circumvent the proper application of the Listing Rules; and (iii) not exercise its voting rights or other rights to procure any amendment to the Articles of Association which would be contrary to the maintenance of the Company's ability to carry on its business independently from the Major Shareholder or otherwise inconsistent with the provisions of the Relationship Agreement.

Furthermore, the Company and the Major Shareholder have agreed that:

(a) for so long as the Major Shareholder holds 10 per cent. of the Company's Ordinary Shares, the Major Shareholder (together with any associates) shall be entitled to appoint one director of the Company and to the Nominations Committee and Risk Committee; and

(b) for so long as the Major Shareholder holds 30 per cent. or more of the Company's Ordinary Shares of the Company's Ordinary Shares, the Major Shareholder shall be entitled to appoint one further director of the Company.

The Relationship Agreement will be effective as from Admission and remain in effect for so long as:

(a) the Major Shareholder (and/or any of its associates) holds 10 per cent. of the Company's Ordinary Shares; and

(b) the Ordinary Shares are admitted to the premium listing segment of the Official List maintained by the FCA.

Prior to the transfer of any Ordinary Shares in which J.C. Flowers III is indirectly interested by the Major Shareholder to J.C. Flowers III (or any associate of the Major Shareholder), the Major Shareholder shall procure that J.C. Flowers III (or the relevant associate, as the case may be) executes and delivers a Deed of Adherence to the Company.

The Major Shareholder has agreed, subject to certain exceptions, not to purchase further Ordinary Shares in the Company. Exceptions to these standstill arrangements include where the Major Shareholder makes a takeover offer for all of the remaining Ordinary Shares in accordance with the City Code or where it participates in any rights issue or bonus issue by the Company (so as to maintain its overall percentage holding of Ordinary Shares).

The Major Shareholder will receive an annual fee of £60,000 from the Company in respect of each JCF Director which it appoints to the Board, in consideration for the provision of each Director's time and expertise.

23.5 Perpetual Subordinated Bonds

As a result of the transfer by KRBS to the Company of its business, assets and liabilities on 1 February 2011, the Company assumed a liability to each holder of Kent Reliance Building Society's permanent interest bearing shares ("**PIBS**") for a subordinated deposit equal to the principal amount of their PIBS. That deposit was automatically applied in subscription of perpetual subordinated bonds of the Company having an interest rate of either 7.875 per cent. (the "**First PSBs**") or 6.591 per cent. (the "**Second PSBs**", and together with the First PSBs, the "**PSBs**") (corresponding to the relevant interest rate on such PIBS) for an amount corresponding to the principal amount of that holder's PIBS. The Company issued £15,000,000 of First PSBs and £22,000,000 of Second PSBs.

The PSBs were admitted to the Official List of the UKLA and to the London Stock Exchange in accordance with a prospectus dated 25 February 2011 and constitute unsecured, subordinated obligations of the Company. The First PSBs and Second PSBs rank *pari passu* with each other.

The First PSBs and the Second PSBs were constituted pursuant to two separate trust deeds, each between the Company and The Law Debenture Trust Corporation plc.

The terms of the First PSBs include the following provisions:

- The First PSBs bear interest from and including 1 February 2011 to but excluding 27 August 2014 at a rate of 7.875 per cent. per annum payable in arrears by half yearly instalments on 27 February and 27 August in each year, commencing on 27 February 2011. Thereafter the interest will be a floating rate based on the aggregate of 4.00 per cent. and the gross redemption yield payable in arrears by half yearly instalments on 27 February and 27 August in each year.

- The Directors can, subject to certain notice requirements, resolve not to pay interest or reduce interest on a given interest payment date if the Company ceases (or would cease as a result of the payment of interest) to comply with applicable regulatory capital requirements. However, a holder's right to interest under the First PSBs is cumulative; the holder does not lose the right to any interest which is not paid. For so long as arrears of interest remain outstanding, the Company will undertake not to declare or pay any dividend or other distribution on the Second PSBs or other *pari passu* or junior ranking securities (including the Ordinary Shares).
- Subject to certain conditions, the Company is entitled to redeem for taxation reasons all of the First PSBs at their principal amount on the occurrence of certain changes of law or regulation. In addition, the Company will be entitled, having first obtained FCA consent and complied with certain notice requirements, to redeem all (but not only some) of the First PSBs on 27 August 2014 and every fifth year thereafter.
- The First PSBs were issued in registered form in amounts of £1,000 and integral multiples of £1,000 thereafter.
- The First PSBs have no final maturity date and are not redeemable at the option of the holder.

The terms of the Second PSBs include the following provisions:

- The Second PSBs bear interest from and including 1 February 2011 to but excluding 7 March 2016 at a rate of 6.591 per cent. per annum payable in arrears by half yearly instalments on 7 September and 7 March in each year, commencing on 7 March 2011. Thereafter the interest will be a floating rate based on the aggregate of 3.40 per cent. and the gross redemption yield payable in arrears by half yearly instalments on 7 March and 7 September in each year.
- The Directors can, subject to certain notice requirements, exercise their discretion to resolve not to pay interest or reduce interest on a given interest payment date. However, a holder's right to interest under the second PSBs is cumulative; the holder does not lose the right to any interest which is not paid. For so long as arrears of interest remain outstanding, the Company will undertake not to declare or pay any dividend or other distribution on the First PSBs or other *pari passu* or junior ranking securities (including the Ordinary Shares).
- Subject to certain conditions, the Company is entitled to redeem for taxation reasons all of the Second PSBs at their principal amount on the occurrence of certain changes of law or regulation. In addition, the Company will be entitled, having first obtained FCA consent and complied with certain notice requirements, to redeem all (but not only some) of the Second PSBs on 7 March 2016 or on any interest payment date thereafter.
- The Second PSBs were issued in registered form in amounts of £1,000 and integral multiples of £1,000 thereafter.
- The Second PSBs have no final maturity date and are not redeemable at the option of the holder.

23.6 Securitisation

In connection with the securitisation described in paragraph 7 of Part II (*Information on the Company and the Group*), the Company entered into a mortgage sale agreement with Charter Court Financial Services Limited, Rochester Financing No. 1 Plc (the "**Issuer**") and U.S. Bank Trustees Limited (the "**Security Trustee**") on 16 October 2013 (the "**Mortgage Sale Agreement**"). Pursuant to this agreement, the Company agreed to sell a portfolio of mortgage loans (and related security) to the Issuer, conditional upon the issue by the Issuer of investment grade notes.

Pursuant to the Mortgage Sale Agreement:

(a) the Issuer gave certain customary undertakings to the Company, including undertaking to use its reasonable endeavours to administer and enforce the loans comprising the portfolio;

(b) the Company gave certain customary representations and warranties to the Issuer and the Security Trustee in relation to its capacity and authority, and in respect of the underlying loans which comprised the portfolio; and

(c) the Company gave undertakings to the Issuer maintain a material net economic interest of not less than 5 per cent. in the securitisation and to comply with certain customary disclosure obligations.

23.7 Subordinated Loan Notes

The Group has issued a range of subordinated, unsecured loan notes (together, the "**Subordinated Loan Notes**"), which as at 31 March 2014 comprised subordinated liabilities of £27,504,000. The Subordinated Loan Notes comprise a range of fixed and floating rate loan notes. Typically, the floating rate Subordinate Loan Notes are either linked to LIBOR or to the headline rate of the top ten building societies. The rights of repayment of the holders of these Subordinated Loan Notes are subordinated to the claims of all depositors and all creditors.

The Subordinated Loan Notes are subject to certain customary terms and conditions. In particular:

(a) the terms of the Subordinated Loan Notes typically provide for a step up in the interest rates in the event of a default in repayment by the relevant member of the Group;

(b) the borrower has provided customary representations and warranties as to its capacity and authority to issue the Subordinated Loan Notes;

(c) the borrower is subject to certain reporting requirements, including the provision of audited accounts, together with notifications of events of default; and

(d) the borrower has provided customary undertakings not to incur subordinated indebtedness which ranks ahead of the loans which are the subject of the Subordinated Loan Notes.

24. PROPERTY

Save for the Group's head office in Chatham and the Chatham branch of KRBS (which the Group owns the freehold of), the remainder of the properties utilised by the Group are occupied under leasehold terms.

	Leasehold/Freehold/Franchise	Term Expiry Date
Sun Pier, Chatham	Freehold	N/A
250 High Street, Chatham	Freehold	N/A
Unit 35, Whitefriars Shopping Centre	Leasehold	June 2027
5a Rose Lane, Canterbury, Kent		
99 Mortimer Street, Herne Bay	Franchise	N/A
4 Marsh Parade, Hythe	Franchise	N/A
12 Windmill Street, Gravesend	Leasehold	2970
76 High Street, Littlehampton	Franchise	N/A
14 High Street, Maidstone	Leasehold	27 February 2021
Unit 2 Ground Floor, Michael Gill Building, Tolgate Lane, Strood, Kent	Leasehold	2021
Redshank, St Mary's Island	Leasehold	September 2014
Second Floor, 85 Newman Street, London	Leasehold	June 2015

	Leasehold/Freehold/Franchise	Term Expiry Date
Prestige House, 16 Melbourne Road, Bushy, Watford, WD23 2LN	Leasehold	2016
Part of Second Floor Forum, Three Solent Business Park, Hampshire	Leasehold	24 March 2019

The Company does not believe that there are any material environmental issues which may affect the Group's utilisation of its properties.

25. CONSENTS

KPMG LLP has given and has not withdrawn its written consent to the inclusion in this Prospectus of its accountants' report as included in Part IX (*Historical Financial Information*) of this Prospectus and its report concerning the pro forma statement of net assets as included in Part X (*Unaudited Pro Forma Statement of Net Assets*) of this Prospectus and the references thereto in the form and context in which they appear and has authorised the contents of its reports for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules.

A written consent under the Prospectus Rules is different from a consent filed with the SEC under Section 7 of the Securities Act. As the Ordinary Shares have not been paid and will not be registered under the Securities Act, KPMG LLP has not filed a consent under Section 7 of the Securities Act.

26. EXPENSES OF THE GLOBAL OFFER AND ADMISSION

The total costs and expenses of, and incidental to, the Global Offer and Admission (including the listing fees, printer's fees, advisers' fees, professional fees and expenses, the costs of printing and distribution of documents, VAT and stamp duty) to be borne by the Company are estimated to be approximately £5.7 million. Included within the total are commissions which are expected to be up to approximately £1.3 million payable to the Joint Bookrunners and Macquarie.

The Major Shareholder will generally bear the amount of any stamp duty or SDRT chargeable on the sale of its Ordinary Shares and its share of any selling commissions.

27. US SECURITIES LAWS MATTERS

The Company has agreed that, for so long as any of the Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided pursuant to Rule 144A(d)(4) under the Securities Act. The Company expects that it will be exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder.

28. CREDIT RATING AGENCIES

This Prospectus contains references to Standard & Poor's and Fitch. Each of Standard & Poor's and Fitch is established in the European Union and, as at the date of this Prospectus, is registered under the CRA Regulation.

29. GENERAL

KPMG LLP, whose registered office is at Two New Street Square, London EC4A 3BZ, has audited and provided an accountants' report on the historical financial information of the Group for the 35 month period ended 31 December 2013, and the one month ended 31 January 2014 set out in Part IX (*Historical Financial Information*) of this Prospectus. KPMG LLP is a member of the Institute of Chartered Accountants in England and Wales and has no material interest in the Group.

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

30. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this Prospectus:

- the Articles;
- the reports of KPMG LLP set out in Parts IX (*Historical Financial Information*) and X (*Unaudited Pro Forma Statement of Net Assets*) of this Prospectus;
- the consent letter referred to in paragraph 25 of this Part XIV (*Additional Information*); and
- the rules of the Plans referred to in paragraphs 11, 12 and 13 of this Part XIV (*Additional Information*).

Copies of this Prospectus are also available for inspection at the National Storage Mechanism at www.hemscott.com/nsm.do.

For the purposes of PR 3.2.4 of the Prospectus Rules, the Prospectus will be published in printed form and available free of charge, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this Prospectus at the registered office of the Company at Reliance House, Sun Pier, Chatham, England ME4 4ET. In addition the Prospectus will be published in electronic form and be available on the Company’s website at www. osb.co.uk, subject to certain access restrictions.

DEFINITIONS

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

2011 financial period	means the 11 month period ended 31 December 2011;
2012 financial year	means the 12 month period ended 31 December 2012;
2013 financial year	means the 12 month period ended 31 December 2013;
Admission	admission of the Ordinary Shares to the Official List and to trading on the main market for listed securities of the London Stock Exchange becoming effective in accordance with LR 3.2.7G of the Listing Rules and paragraph 2.1 of the Admission and Disclosure Standards published by the London Stock Exchange;
Articles	the articles of association of the Company to take effect from, and conditional upon, Admission;
Audit Committee	the audit committee of the Board or a sub-committee of it;
Banking Reform Act	Financial Services (Banking Reform) Act 2013;
Banks	the Underwriters and BCSL;
Barclays	Barclays Bank PLC;
BCSL	Barclays Capital Services Limited;
Canaccord Genuity	Canaccord Genuity Limited;
CCA	Consumer Credit Act 1974, as amended;
certificated or **in certificated form**	shares or other securities recorded on the relevant register as being held in certificated form;
City Code	the City Code on Takeovers and Mergers;
Companies Act	the UK Companies Act 2006, as amended;
Company or **Issuer**	OneSavings Bank plc;
Controlling Interest	means: (a) 30 per cent. or more of the Ordinary Shares; (b) 30 per cent. or more of the shares in any parent undertaking of the Company; (c) 30 per cent. or more of the voting power in the Company or any parent undertaking of the Company; or (d) shares or voting power in the Company or any parent undertaking of the Company, as a result of which such person is able to exercise significant influence over the management of the Company;
CRA Regulation	Regulation (2009/1060/EC) on credit rating agencies;
CREST	the electronic transfer and settlement system for the paperless settlement of trades in listed securities operated by Euroclear UK & Ireland Limited;

CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001/3755);
Directors or **Board**	the Executive Directors and the Non-Executive Directors;
Disclosure and Transparency Rules	the disclosure and transparency rules made by the FCA under Part VI of FSMA;
DTCC	the Depository Trust Company, the US clearing system;
Element	as described in the section entitled "Summary";
European Economic Area or **EEA**	the European Union, Iceland, Norway and Liechtenstein;
European Union or **EU**	an economic and political union of 27 member states which are located primarily in Europe;
Exchange Act	the United States Securities Exchange Act of 1934, as amended;
Executive Directors	the executive directors of the Company, being Andy Golding and April Talintyre;
Executive Management Team	the Group's executive management team comprising the Executive Directors and the Senior Managers;
Existing Ordinary Shares	the existing Ordinary Shares being sold by the Major Shareholder;
Existing Shareholders	holders of Ordinary Shares immediately prior to Admission;
FCA	the UK Financial Conduct Authority established pursuant to the Financial Services Act 2012 and responsible for, among other things, the conduct and regulation of firms authorised and regulated under FSMA and the prudential regulation of firms which are not regulated by the PRA;
FCA Handbook	the FCA's Handbook of Rules and Guidance;
Financial Adviser	N M Rothschild & Sons Limited;
Fitch	Fitch Ratings Limited;
FSA	the Financial Services Authority, the predecessor to the FCA;
FSMA	the UK Financial Services and Markets Act 2000 (as amended);
Global Co-ordinator	Barclays;
Global Offer	the offer of Ordinary Shares to certain institutional and professional investors (including QIBs in the United States) described in Part XI (*Details of the Global Offer*) being made by way of this Prospectus;
Group or **OneSavings Bank**	the Company and its subsidiaries;
HMRC	HM Revenue and Customs in the UK;
IFRS	International Financial Reporting Standards, as adopted by the European Commission for use in the European Union;
InterBay	InterBay Group Holdings Ltd;
InterBay Group	together, InterBay and its subsidiaries;
ISIN	International Securities Identification Number;

JCF Directors	the Directors nominated by the Major Shareholder to be appointed to the Board in accordance with the terms of the Relationship Agreement;
J.C. Flowers III	together JCF III AIV II L.P. and J.C. Flowers III-B L.P.;
Joint Bookrunners	each of Barclays, Canaccord Genuity and RBC Capital Markets;
KRPS	Kent Reliance Provident Society, a mutual industrial and provident society organisation formed as part of the transfer of Kent Reliance Building Society's business to OneSavings Bank plc;
Listing Rules	the listing rules of the FCA relating to the admission of securities to the Official List;
Lock-Up Agreement	the lock-up agreement dated 5 June 2014 between the Banks, the Major Shareholder and J.C. Flowers III and described in paragraph 23.2(a) of Part XIV (*Additional Information*) of this Prospectus;
London Stock Exchange	The London Stock Exchange plc;
Macquarie	Macquarie Capital (Europe) Limited;
Major Shareholder	OSB Holdco Limited, a company incorporated in the Cayman Islands controlled by J.C. Flowers III;
Member State	a member state of the European Union;
Model Code	the model code published in Annex I to LR 9 of the Listing Rules;
New Ordinary Shares	new Ordinary Shares to be allotted and issued by the Company pursuant to the Global Offer;
Nomination Committee	the nomination committee of the Board or a sub-committee of it;
Non-Executive Directors	the non-executive directors of the Company, being Graham Allatt, Rod Duke, Tim Hanford, Malcolm McCaig, Mary McNamara, Dr. David Morgan, Nathan Moss and Stephan Wilcke;
Offer Price	the price at which each Ordinary Share is to be issued or sold under the Global Offer;
Offer Shares	those Ordinary Shares to be issued by the Company and to be sold by the Major Shareholder pursuant to the Global Offer as described in Part XI (*Details of the Global Offer*) of this Prospectus;
Official List	the Official List maintained by the FCA;
OFT	the Office of Fair Trading, now replaced by the Competition and Markets Authority;
Ordinary Shares or **Shares**	ordinary shares of £0.01 each in the capital of the Company;
Over-allotment Option	the over-allotment option granted by the Major Shareholder to the Stabilising Manager pursuant to the Underwriting Agreement;
Over-allotment Shares	Ordinary Shares sold pursuant to the exercise of the Over-allotment Option (if it is exercised);
PD Regulation	the Prospectus Directive Regulation (2004/809/EC);
PFIC	a passive foreign investment company;

PRA	the UK Prudential Regulation Authority, established pursuant to the Financial Services Act 2012;
PRA Handbook	the PRA's Handbook of Rules and Guidance;
Prestige	Prestige Finance Limited;
Prestige Group	together, Prestige and its subsidiary and Swingcastle Limited;
Prospectus	this document;
Prospectus Directive	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State;
Prospectus Rules	the prospectus rules of the FCA made under Part VI of FSMA relating to offers of securities to the public and admission of securities to trading on a regulated market;
PSBs	has the meaning given in paragraph 23.5 of Part XIV (*Additional Information*) of this Prospectus;
Qualified Institutional Buyer or **QIB**	Qualified Institutional Buyer within the meaning of Rule 144A;
RBC Capital Markets	RBC Europe Limited, trading as RBC Capital Markets;
Registrar	Equiniti Limited;
Regulation S	Regulation S under the Securities Act;
Regulatory Capital Convertible Instruments	any securities to be issued by the Company or any member of the Group, or by a company outside of the Group with the consent of the Company or a member of the Group and which are intended on issue to form all or part of a type or class of securities the terms of which are eligible to meet any Regulatory Capital Requirements and which are: (i) convertible into or exchangeable for Ordinary Shares; or (ii) issued together with share warrants relating to Ordinary Shares, and in each case, which grant to, or require, the holder of such security and/or its nominee a right or obligation (as applicable) to subscribe for such Ordinary Shares following a specified event relating to an actual or prospective adverse change in the capital position or viability of the Company, any member of the Group or the Group as a whole or any other event specified in the Regulatory Capital Requirements and otherwise on such terms as may be determined by the Board or a committee thereof upon issue;
Regulatory Capital Requirements	means any applicable requirements specified by the PRA or other such authority having primary supervisory authority with respect to the Company from time to time in relation to the margin of solvency, capital resources, capital, contingent capital or buffer capital of the Company, a member of the Group or the Group taken as a whole;
Relationship Agreement	the agreement between the Major Shareholder and the Company, dated 5 June 2014, and more fully described in paragraph 23.4 of Part XIV (*Additional Information*) of this Prospectus;
Relevant Interest	(a) 10 per cent. or more of the Ordinary Shares;

	(b) 10 per cent. or more of the shares in any parent undertaking of the Company; or
	(c) 10 per cent. or more of the voting power in the Company or any parent undertaking of the Company,
	and for the purposes of calculating a Relevant Interest, the holding of shares or voting power of a person includes any shares or voting power held by another person, if they are acting in concert;
Relevant Member State	each Member State of the European Economic Area that has implemented the Prospectus Directive;
Remuneration Committee	the remuneration committee of the Board or a sub-committee of it;
Risk Committee	the risk committee of the Board or a sub-committee of it;
Rothschild	N M Rothschild & Sons Limited;
Rule 144A	Rule 144A under the Securities Act;
SDRT	stamp duty reserve tax;
Securities Act	the United States Securities Act of 1933, as amended;
SEDOL	Stock Exchange Daily Official List;
Senior Managers	those persons identified as senior managers of the Group in Part III (*Directors, Senior Managers and Corporate Governance*) of this Prospectus;
Settlement Bank	BCSL;
Shareholder(s)	holder(s) of Ordinary Shares from time to time;
SID	senior independent director;
Sponsor	Barclays;
Stabilising Manager	BCSL;
Standard & Poor's	Standard & Poor's Credit Market Services Group Limited;
Stock Lending Agreement	the stock lending agreement dated 5 June 2014 entered into between the Stabilising Manager and the Major Shareholder and described in paragraph 23.3 of Part XIV (*Additional Information*) of this Prospectus;
Takeover Panel or **Panel**	the UK Panel on Takeovers and Mergers;
UK or **United Kingdom**	the United Kingdom of Great Britain and Northern Ireland;
UK Corporate Governance Code	the UK Corporate Governance Code dated September 2012 issued by the Financial Reporting Council;
UK Listing Authority or **UKLA**	the FCA, in its capacity as the UK Listing Authority;
uncertificated or **in uncertificated form**	shares or other securities recorded on the relevant register as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;

Underwriters	means each of Barclays, Canaccord Genuity, RBC Capital Markets and Macquarie;
Underwriting Agreement	the underwriting and sponsor's agreement dated 5 June 2014 entered into between the Company, the Directors, the Banks and the Major Shareholder and described in paragraph 23.1 of Part XIV (*Additional Information*) of this Prospectus; and
United States or **US**	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

GLOSSARY

APR	annual percentage rate;
BTL	buy-to-let;
Common Equity Tier 1	Common Equity Tier 1 capital consists of the sum of the following elements: Common shares issued by the bank that meet the criteria for classification as common shares for regulatory purposes; stock surplus resulting from the issue of instruments including common equity tier 1 retained earnings, accumulated other comprehensive income and other disclosed reserves; common shares issued by consolidated subsidiaries of the bank and held by third parties (i.e. a minority interest) that meet the criteria for inclusion in common equity tier 1, and any regulatory adjustment applied in the calculation of the common equity tier 1;
Core Tier 1	a Basel II measure of core tier 1 capital expressed as a percentage of the total risk-weighted assets;
CML	Council of Mortgage Lenders;
ECJ	European Court of Justice;
First charge mortgage lending	lending secured by a mortgage in a first lien position on a property and which has priority over all other liens or claims on a property in the event of default;
FLS	the funding for lending scheme introduced by the Bank of England and HM Treasury on 1 August 2012;
Forward Flow Agreements	agreements pursuant to which third party specialist lenders originate mortgages under their own brands pursuant to the Group's strict underwriting criteria. These loans (together with the relevant collateral) are then transferred onto the Group's balance sheet at regular intervals;
FSCS	Financial Services Compensation Scheme;
GDP	gross domestic product;
HMO	house in multiple occupation;
IAS	international accounting standards issued by the antecedent International accounting Standards council and endorsed and amended by the International Accounting Standards Boards;
ICAAP	internal capital adequacy assessment process;
ICB	Independent Commission on Banking;
LIBOR	London Interbank Offered Rate;
NIM	net interest margin;
Second charge mortgage lending	lending secured by a subordinate mortgage made while an original (or first) mortgage is still in effect;
Secured Funding Lines	agreements whereby specialist third party lenders are able to borrow from the Group. These loans are secured on collateral provided by the specialist third party lenders pursuant to trust arrangements. The loans are not transferred onto the Group's balance sheet;

SME	small and medium enterprises or businesses;
SPE	special purpose entities;
TSB	the bank made up of 631 branches being formed and disposed of by LBG; and
VAT	value added tax.

OneSavings Bank plc
Incorporated in England and Wales
Registered Number: 07312896

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