

Prospectus dated 26 October 2016



Aldermore Group PLC

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

£60,000,000 Callable Dated Subordinated Notes

Issue price: 100 per cent.

The £60,000,000 Callable Dated Subordinated Notes (the “Notes”) will be issued by Aldermore Group PLC (the “Issuer”) on or about 28 October 2016 (the “Issue Date”). The Notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 28 October 2021 (the “Reset Date”), at a rate of 8.50 per cent. per annum and thereafter at the Reset Interest Rate as provided in Condition 5. Interest will be payable on the Notes semi-annually in arrear on each Interest Payment Date, commencing on 28 April 2017.

Unless previously redeemed or purchased and cancelled, or (pursuant to Condition 7(f)) substituted, the Notes will mature on 28 October 2026 and shall be redeemed at their principal amount, together with any accrued and unpaid interest on such date. The Noteholders will have no right to require the Issuer to redeem or purchase the Notes at any time. The Issuer may, in its discretion but subject to Regulatory Approval, elect to (a) redeem all (but not some only) of the Notes at their principal amount, together with any accrued and unpaid interest on such date, (i) on the Reset Date or (ii) at any time if a Tax Event (as defined in Condition 7(d)) has occurred or a Capital Disqualification Event (as defined in Condition 7(c)) has occurred, and in the case of paragraphs (i) and (ii), subject to compliance with the Regulatory Preconditions, or (b) repurchase the Notes at any time in accordance with the then prevailing Regulatory Capital Requirements.

The Notes will be direct, unsecured and subordinated obligations of the Issuer and rank *pari passu*, without any preference among themselves. The Notes will, in the event of the winding-up of the Issuer, be subordinated to the claims of all Senior Creditors but shall rank (a) at least *pari passu* with the claims of holders of all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital (as defined in Condition 19) and (b) in priority to the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital (as defined in Condition 19) and all obligations which rank, or are expressed to rank, *pari passu* therewith and all classes of share capital of the Issuer.

Application has been made to the UK Financial Conduct Authority (the “FCA”) in its capacity as competent authority under the Financial Services and Markets Act 2000 (as amended from time to time) (the “UK Listing Authority” and the “FSMA”, respectively) for the Notes to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for the Notes to be admitted to trading on the London Stock Exchange’s regulated market. The London Stock Exchange’s regulated market is a regulated market for the purposes of Directive 2004/39/EC (the “Markets in Financial Instruments Directive”). This Prospectus has been approved by the UK Listing Authority for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the “Prospectus Directive”).

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

Potential investors should read the whole of this document, in particular the “Risk Factors” set out on pages 13 to 39.

Structuring Advisor, Sole Bookrunner and Sole Manager

The Royal Bank of Scotland

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

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

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

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

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

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

Neither The Royal Bank of Scotland plc (the "**Manager**") nor U.S Bank Limited (the "**Trustee**") nor any of their respective affiliates have authorised the whole or any part of this Prospectus (including the documents incorporated by reference in the Prospectus) and none of them makes any representation or warranty or accepts any responsibility as to the accuracy and completeness of the information contained or incorporated by reference in this Prospectus.

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

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

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

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each

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

The Notes are complex financial instruments and such instruments may be purchased by potential investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Prospective investors should also consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of the Notes.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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

IN CONNECTION WITH THE ISSUE OF THE NOTES, THE ROYAL BANK OF SCOTLAND PLC AS STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION ACTION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION

MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

FORWARD-LOOKING STATEMENTS

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

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

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

Subject to applicable law or regulation, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward looking statements in this Prospectus that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Prospectus. In this Prospectus, references to "**Aldermore**" and to "**Group**" are to Aldermore Group PLC and its subsidiaries, taken as a whole. The term "**Issuer Group**" has the meaning given to it in Condition 19 of the Conditions.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical financial information

The historical financial information in this Prospectus has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and as adopted by the European Union. The historical financial information presented in this Prospectus consists of audited consolidated financial information of the Group for the years ended 31 December 2015 and 2014, and the unaudited consolidated financial information of the Group for the six months ended 30 June 2016.

Non IFRS Financial Measures

The Group presents certain key performance measures that are not defined under IFRS but that it finds useful in analysing its results and that it believes are widely used by investors to monitor the results of banks generally. These measures include among others, loan to deposit ratio, CRD IV total capital ratio, CRD IV CET1 capital ratio and leverage ratio. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides the Group with certain discretion in making its calculations.

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

Non financial information operating data

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

Currency presentation

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

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

Roundings

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

Market, economic and industry data

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

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

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OVERVIEW OF THE PRINCIPAL FEATURES OF THE NOTES

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

Issuer	Aldermore Group PLC
Trustee	U.S. Bank Trustees Limited
Principal Paying Agent and Agent Bank	Elavon Financial Services DAC, UK Branch
Registrar and Transfer Agent	Elavon Financial Services DAC
Notes	£60,000,000 Callable Dated Subordinated Notes.
Risk factors	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Notes and the Trust Deed. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. These are set out under “Risk Factors”.
Status of the Notes	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank <i>pari passu</i> , without any preference, among themselves.
Rights on a winding-up	The rights and claims of Noteholders in the event of a Winding-Up of the Issuer are described in Conditions 4(a) and 10.
Interest	<p>The Notes will bear interest on their principal amount:</p> <ul style="list-style-type: none">(a) from (and including) the Issue Date to (but excluding) the Reset Date, at the rate of 8.50 per cent. per annum; and(b) thereafter, at the Reset Interest Rate (as described in Condition 5(c)), <p>in each case payable semi-annually in arrear on 28 April and 28 October in each year (each, an “Interest Payment Date”), commencing 28 April 2017.</p>
Maturity	Unless previously redeemed or purchased and cancelled or (pursuant to Condition 7(f)) substituted, the Notes will mature on 28 October 2026 and shall be redeemed at their principal amount together with any accrued and unpaid interest on such date. The Notes may only be redeemed or repurchased by the Issuer in the circumstances described below (as more fully described in Condition 7).

Optional redemption

The Issuer may, in its sole discretion but subject to the conditions set out under “*Conditions to redemption, substitution and variation*” below, redeem all (but not some only) of the Notes on the Reset Date at their principal amount together with any interest accrued and unpaid on such date.

Redemption following a Capital Disqualification Event or a Tax Event

The Issuer may, in its sole discretion but subject to the conditions set out under “*Conditions to redemption, substitution and variation*” below, redeem all (but not some only) of the Notes at any time following the occurrence of a Capital Disqualification Event (as defined in Condition 7(c)) or a Tax Event (as defined in Condition 7(d)), in each case, at their principal amount together with any interest accrued and unpaid on such date, subject to, in the case of a redemption occurring prior to the Reset Date following the occurrence of a Tax Event, the Issuer demonstrating to the satisfaction of the Supervisory Authority that the relevant Tax Law Change is material and was not reasonably foreseeable as at the Issue Date.

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

The Issuer may, in its sole discretion but subject to the conditions set out under “*Conditions to redemption, substitution and variation*” below, substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Compliant Notes (as defined in Condition 19) if, prior to the giving of the relevant notice to Noteholders, a Tax Event or Capital Disqualification Event has occurred.

Conditions to redemption, substitution and variation

Any redemption, substitution or variation of the Notes will be subject to obtaining Regulatory Approval and in the case of any redemption (to the extent required by prevailing Regulatory Capital Requirements) to:

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

In addition, if at the time of such redemption, the prevailing Regulatory Capital Requirements permit the redemption after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (a) and (b) above, the Issuer having complied with such other pre-condition.

Purchase of the Notes

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

Withholding tax and Additional Amounts

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will (subject to certain customary exceptions) pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction.

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

Enforcement

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

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

See Condition 10 for further information.

Modification

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

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

Substitution of the Issuer

The Trustee may, without the consent of the Noteholders but subject to Regulatory Approval, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute of the Issuer) as the principal debtor under the Notes and the Trust Deed of the Issuer's Successor in business subject to:

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

Form	The Notes will be issued in registered form. The Notes will initially be represented by a Global Certificate and will be registered in the name of a nominee of a common depository for the Clearing Systems.
Denomination	£100,000 and integral multiples of £1,000 in excess thereof.
Clearing systems	Euroclear and Clearstream, Luxembourg.
Listing	Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for admission of the Notes to trading on its regulated market.
Selling restrictions	United States and United Kingdom.
Governing law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed, will be governed by, and construed in accordance with, English law.
ISIN	XS1507529144
Common Code	150752914

RISK FACTORS

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

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

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

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

RISKS RELATED TO ALDERMORE'S BUSINESS

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

Aldermore's business is subject to inherent risks from general macro-economic conditions in the UK and the state of the global economic and financial markets both generally and as they specifically affect financial institutions. Since the start of the global financial crisis in 2008, the UK economy has experienced a significant degree of turbulence and a period of recession, albeit in recent years the economic environment has been relatively benign. The UK's vote to leave the European Union has however added a new element of uncertainty to the economic outlook.

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

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

While Aldermore has policies and procedures in place designed to allow Aldermore to mitigate any adverse consequences of such impairments, these policies and procedures have not been subjected to an actual downturn or period of severe stress and therefore may prove to be ineffective. Worsening economic and market conditions may lead to subdued levels of business investment in the UK, which could result in reduced demand for Aldermore's products. Small- and medium-sized enterprises ("**SME**") and retail consumers are particularly sensitive to adverse developments in the economy, and they may represent a relatively higher degree of risk than lending to other groups, such as large corporations. A deterioration of economic and market conditions could result in increased SME and retail loan losses, which could adversely affect Aldermore's business, financial condition, results of operations and prospects.

Aldermore's business is sensitive to interest rates.

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

Rising interest rates could affect customer affordability as they may put pressure on new and existing borrowers who have variable rate mortgages and who may have become accustomed to the current, low interest rate environment. Borrowers with variable rate mortgages would be exposed to increased monthly payments as and when their mortgage interest rate adjusts upward. In an increasing interest rate environment, borrowers may seek to avoid these increased monthly payments by refinancing their mortgages.

Aldermore tests the affordability of its mortgage products, including taking into account potential increases in interest rates, but if such borrowers are unable to find more affordable replacement loans, they could default on their payment obligations in respect of their mortgage, which could lead to an increase in arrears in Aldermore's mortgage portfolio as well as an increase in Aldermore's loan impairment charges.

Similarly, an increase in interest rates, without sufficient improvement in customer earnings or employment levels, could lead to an increase in default rates among customers with variable rate mortgages who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for Aldermore.

A high interest rate environment also reduces demand for mortgages generally, as individuals are less likely or less able to borrow when interest rates are high, thereby reducing incremental revenue.

Whilst the present outlook suggests rates are unlikely to increase materially in the short term, interest rate volatility, or negative interest rates could also impact Aldermore, especially if such changes occur rapidly. In the event of sudden or frequent changes in interest rates, Aldermore may not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short

term, which, in turn, can negatively affect net interest income. Although Aldermore seeks to minimise the interest rate mis-match risk by entering into swap agreements to ensure that its fixed and variable rate deposits are matched with fixed and variable rate loans, respectively, and may not always increase interest payable on customer deposits to the full extent of any increase in interest rates, there is no guarantee that Aldermore will be able to effectively manage its exposure to interest rate volatility, which could materially adversely affect its business, financial condition, results of operations and prospects.

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

Aldermore faces risks relating to the largely unseasoned nature of its loan book, as tested through a full economic cycle

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

Aldermore's Risk Management Framework and supporting policies, operating processes and assurance testing may prove inadequate for the risks faced by its business. Any failure to properly assess or manage the risks which it faces could cause harm to Aldermore and its business prospects.

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

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

Furthermore, Aldermore has limited operating history and consequently does not have a long track record on which it can assess the performance of its systems and processes or the analysis of those systems' output. While Aldermore has a Risk Management Framework in place it may not evolve quickly enough in different economic conditions and/or may prove inadequate in practice.

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

Aldermore has exposure to many different products, counterparties and obligors whose credit quality (in addition to their capital position and liquidity) can have a significant adverse impact on Aldermore's earnings and the value of assets on Aldermore's balance sheet. As part of the ordinary course of its

operations, Aldermore articulates its credit risk appetite as well as estimates provisions for credit risks based on the potential credit losses inherent in these exposures. This process, which is critical to Aldermore's results and financial condition, requires complex judgements, including, among others, forecasts of how changing macro-economic conditions might impair the ability of customers to repay their loans. Aldermore may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could adversely affect Aldermore's business, financial condition, results of operations and prospects.

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

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

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

Within the financial services industry, the default of any one institution could lead to defaults by other institutions 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. Concerns about, or a default by, or a governmental "bail out" of, or "bail in" of, one institution could lead to significant liquidity problems, including increases in the cost of liquidity, losses or defaults by other institutions, as was the case after the bankruptcy of Lehman Brothers in 2008. Even the perceived lack of creditworthiness of, or concerns about, a counterparty may lead to market wide liquidity problems and losses or defaults by Aldermore or by other institutions. This risk is often referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom Aldermore interacts on a daily basis.

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

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

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

The availability of retail and SME deposit funding may be impacted by increased competition from other deposit takers or factors that constrain the volume of liquidity in the market. In addition,

Aldermore's ability to access retail and SME funding sources on satisfactory economic terms is subject to a variety of factors, a number of which are outside its control, including, among others, liquidity constraints, general market conditions, increased competition, regulatory requirements and a loss of confidence in the UK banking system.

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

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

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

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

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

Aldermore's business has a heavy concentration in the UK residential market (both owner-occupier and buy-to-let) as well as commercial real estate. This may create significant losses in a market-wide downturn.

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

Aldermore has a significant exposure to the UK private rented sector, which has recently experienced fiscal and regulatory changes.

Demand for the Group's buy-to-let mortgages is susceptible to any systemic deterioration in the performance of the UK private rented sector ("PRs"), which will be influenced by underlying factors such as house prices, supply of rental property, demographic changes and government policy. The policy environment for the PRs has become more challenging following recent UK Government announcements.

On 8 July 2015 the UK Government announced plans to restrict the amount of income tax relief landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax, currently 20 per cent.. Such restriction will be introduced gradually from 6 April 2017, giving landlords time to adjust their strategies, and it is currently expected that the changes will have only a muted impact on the motivation for landlords to invest, although some reduction in the rate of growth is anticipated.

The UK Government has also introduced a higher rate of stamp duty land tax ("**SDLT**") on the purchase of additional residential properties, which has applied since 1 April 2016. The additional rate is three per cent above the ordinary SDLT rates for residential property purchases (subject to certain exemptions). The policy is designed to "level the playing field" for the benefit of home buyers: for example, in March 2016, the UK Government announced that there would be no exemption from the higher rates for significant investors and that the higher rates would apply equally to purchases by individuals and corporate investors. Such policy changes to the tax regime for the PRS could reduce the demand for buy-to-let mortgages.

On 29 September 2016, the PRA issued new underwriting standards for buy-to-let mortgage contracts, setting out revised minimum standards that firms should meet when underwriting buy-to-let mortgage contracts. Increased regulation of buy-to-let mortgages could reduce the choice of mortgage products available to buy-to-let investors, which in turn could reduce demand for buy-to-let mortgages. Demand and returns from buy-to-let mortgage lending is also susceptible to changes in interest rates, employment levels and other factors that determine disposable income and rental yields.

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

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

- failing to appropriately address potential conflicts of interest;
- breaching or facing allegations of having breached legal and regulatory requirements (including money laundering and anti-terrorism financing requirements and capital adequacy requirements);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record keeping;
- technology failures that impact customer services and accounts;
- failing to properly identify conduct, legal, reputational, credit, liquidity and market risks inherent in the products it offers;
- generally poor company performance;
- risk of association in respect of issues being faced by competitors or the banking industry generally, which may or may not be directly applicable to Aldermore; and
- negative reporting and wide dissemination of issues relating to Aldermore by the media, including social media.

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

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

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

Aldermore is exposed to the risks inherent in relying on third party, intermediary sales teams. For example, although Aldermore undertakes reviews of its broker panel, it has limited oversight of the intermediaries' interactions with prospective customers and, consequently, Aldermore faces certain risks related to the conduct of the intermediaries with which it does business. If the intermediaries are found to have acted inappropriately or violated applicable conduct regulations or standards in the sale of Aldermore's loan products, Aldermore's brand and/or reputation could be harmed as a result.

In addition, Aldermore may fail to develop products that are attractive to intermediaries or otherwise not succeed in developing relationships with intermediaries as a result of the pricing of its loan products, among other reasons. Furthermore, Aldermore could lose the services of intermediaries with whom it currently does business, for example, as a result of market conditions causing their closure or intermediaries switching to Aldermore's competitors due to higher commissions or other incentives offered by such competitors.

Any of these factors could have a negative impact on Aldermore's ability to meet its strategic objectives and, consequently, its business, financial condition, results of operations and prospects.

Aldermore is exposed to risks inherent in elements of its business outsourced to third parties

Aldermore relies significantly on third parties for certain elements of its business, such as Newcastle Building Society for retail deposits back office operations. Although there are contractual provisions seeking to protect Aldermore, a failure of one or more of these third party suppliers may result in service disruptions through the cessation of the availability of systems or infrastructure. In addition, such reliance on third parties limits Aldermore's ability to adjust its IT and communication systems. While Aldermore does have in place policies and governance frameworks, as well as disaster recovery and business continuity contingency plans, the occurrence of a serious disaster resulting in interruptions, delays, the loss or corruption of data or the cessation of the availability of systems could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects.

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

Aldermore relies heavily on its operational processes and on its IT and related communication systems to conduct its business. These systems are a fundamental enabler for originating and servicing business, including product pricing and product sales, assessing acceptable levels of risk exposure, setting required levels of provisions and capital, providing and maintaining customer service and meeting regulatory requirements, for example through accurate record keeping. These processes and systems may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by increases in usage, human error, unauthorised access and cyber risk events, natural hazards or disasters, or similarly disruptive events. Any failure of the IT systems or

failure to integrate new platforms including the transfer of data/customer information, or failure of third party processes, infrastructure and services on which Aldermore relies could lead to significant costs and disruptions that could adversely affect the overall operational or financial performance of the business, as well as harm Aldermore's reputation and/or attract increased regulatory scrutiny.

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

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

Moreover, as Aldermore seeks to implement its strategy and expand its business, it will need to invest capital in its IT systems in order to ensure that the processes and systems continue to operate as expected. Any inability to fund the necessary capital expenditure for such development could prevent Aldermore from successfully implementing its strategy and/or lead to system failures, which, in turn, could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects.

Aldermore could fail to attract or retain senior management or other key employees.

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

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

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

The market for financial services in the UK is competitive, and the Directors expect such competition to intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The financial services

markets in which Aldermore operates are such that growth by any bank typically requires taking market share from competitors.

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

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

Aldermore may be subject to privacy or data protection failures and cyber-crime.

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

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

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

Aldermore's hedging strategy may not be effective.

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

Execution risk

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

Overhedging risk

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

Counterparty risk

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

RISKS RELATING TO THE LEGAL AND REGULATORY ENVIRONMENT IN WHICH ALDERMORE OPERATES

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

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

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

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

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

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

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

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

- The regulation of consumer credit was transferred from the Office of Fair Trading (the "**OFT**") to the FCA on 1 April 2014. This consumer credit regime comprises the Financial Services and Markets Act 2000 ("**FSMA**") and its secondary legislation, retained provisions of the Consumer Credit Act 1974 ("**CCA**") and rules and guidance in the FCA Handbook, in particular in the consumer credit sourcebook ("**CONC**"), which sets out general conduct standards, rules on financial promotions, further rules on pre- and post- contractual requirements, responsible lending rules and debt advice rules. A wide range of credit and hire agreements are regulated under the UK consumer credit regime. This regime contains very detailed and highly technical requirements which have not been subject to significant judicial consideration and the regulatory approach which the FCA may adopt is not clear. If requirements under the regime as to: (i) authorisation of lenders or intermediaries; (ii) entering into and documenting a credit or hire agreement; or (iii) servicing such agreements, are not or have not been met, the relevant agreement may not be enforceable against the borrower and the lender might be precluded from recovering interest from borrowers for the period of non-compliance.
- The FCA has greater powers of enforcement than the OFT had previously. Along with other consumer credit providers, Aldermore's compliance with the requirements applicable to the provision of consumer credit may be subject to greater scrutiny by the FCA and require additional costs to be dedicated to this aspect of Aldermore's operations. Aldermore will also be subject to the possibility of the FCA exercising its product intervention rules, imposing penalties, requiring reimbursement to customers and imposing other sanctions if the FCA identifies non-compliance.
- Aldermore has interpreted certain technical rules under the consumer credit regime in a way common with many other lenders in the consumer credit market. If such an interpretation were held to be incorrect by a court, the FCA or other dispute resolution authority, then the relevant agreement(s) could be unenforceable without obtaining a court order. Where the court is able to exercise its discretion in considering an enforcement order, the court will take into account any prejudice suffered by the borrower, the court's power to reduce or discharge sums owed to compensate for prejudice caused, to suspend or place conditions on enforcement or amend an agreement or security, and any culpability by the lender. While

Aldermore considers that no material present obligation in relation to non-compliance with the consumer credit regime is likely, there is a risk that an eventual outcome may differ.

- In addition, sections 140A-C of the CCA contain an “unfair relationship” test that applies to all credit agreements other than regulated mortgage contracts under the FSMA. If the court makes a determination that the relationship between a lender and a borrower is unfair, then it may make an order, among other things, requiring that the originator, or any assignee, repay amounts received from such borrower. In applying the “unfair relationship” test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the lender’s conduct before and after making the agreement. There is no statutory definition of the word “unfair” in the CCA as the intention is for the test to be flexible and subject to judicial discretion and it is therefore difficult to predict whether a court would find a relationship “unfair”. Under the CCA, once the borrower alleges that an “unfair relationship” exists, the burden of proof is on the creditor to prove the contrary. In November 2014, the Supreme Court clarified in *Plevin v Paragon Personal Finance Limited* that compliance with the relevant regulatory regime by the lender (or a person acting on behalf of the lender) does not preclude a finding of unfairness, as a wider range of considerations may be relevant to the fairness of the relationship than those which would be relevant to the application of the rules. If the court were to find there was an unfair relationship between Aldermore and a borrower, it may require Aldermore to repay amounts received from the borrower.
- The Mortgage Credit Directive (“**MCD**”) was transposed into the UK on 21 March 2016. The directive requires, among other things, standardised pre-contractual information, adherence to business conduct rules, calculation of the annual percentage rate of charge in accordance with a prescribed formula, a ban on certain tying practices (i.e. offering or selling a credit agreement in a package of products) and a right of the borrower to make early repayment. Many of the requirements of the MCD were pre-emptively introduced in the UK through the Financial Services Authority’s Mortgage Market Review in April 2014. The implementation of the MCD has also resulted in greater regulation for buy to let mortgages than was previously the case. As a result, Aldermore is exposed to regulatory developments in respect of mortgage lending, although the full impact of the MCD on Aldermore cannot yet be ascertained.
- The FCA has a statutory objective to promote effective competition in the interests of consumers, and the PRA has a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorized firms. Recent initiatives include the introduction of a mobilisation phase for new firms wanting to enter the banking sector, intended to make entrance into the market easier and less costly, and a thematic review into cash savings. Further initiatives may follow which may impact on parts of Aldermore’s business model.
- The FCA has assumed concurrent powers with the Competition and Markets Authority (the “**CMA**”) to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively. Further, on 9 August 2016 the CMA published the final report on its market investigation for personal current accounts and SME banking. The CMA found that there are barriers to accessing information, barriers to switching and low levels of customer engagement, the combination of which means that there is a weak customer response to differences in prices or service quality. It also found that banks have unilateral market power over their existing customer base and, therefore, the incentives on banks to compete on prices, service quality and/or innovation are reduced. As a result, the CMA has proposed a comprehensive package of remedies, including the development of an open banking standard, publication of service quality information, and

the introduction of customer prompts to review their banking arrangements. The CMA has also decided on measures targeted at certain specific problems in SME banking (including the development of a new comparison tool and greater transparency of terms). These remedial changes may lead to Aldermore facing increasing competition which may affect Aldermore's ability to generate revenues and achieve the aims of its strategy. Aldermore may also face increased compliance costs if regulatory requirements relating to transparency, product disclosure or other conduct matters change.

- There is currently a significant regulatory focus on the fairness of contract terms, sales practices and reward structures that financial institutions have used when selling financial products. Financial institutions (including Aldermore) may incur liability for past actions which are determined to have been inappropriate, and any such liability incurred could be significant and have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects.
- On 7 March 2016, the senior managers regime, along with the certification regime and new sets of conduct rules, came into force for UK deposit-takers. The Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**"), which received Royal Assent on 18 December 2013, introduced into FSMA a new regime for senior managers of UK deposit-takers to replace the previous approved persons regime for banks, a new "certification regime" applying to other bank staff whose actions or behaviour could significantly harm the bank, its reputation or its customers, as well as giving the FCA and the PRA the power to create a new set of banking conduct rules applying to a wider population of bank staff. It also provides for a new criminal offence for senior managers of reckless mismanagement causing certain financial institutions to fail. Such provisions could have a significant negative impact on Aldermore's business, financial condition, results of operations and prospects.
- On 14 April 2016, the European Parliament formally approved the European Commission's draft EU Data Protection Regulation, which will come into force in May 2018. The General Data Protection Regulation introduces substantial changes to the EU data protection regime. It will impose a substantially higher compliance burden on the industry and impair Aldermore's ability to use data, including through expanding the requirement for informed opt-in consent by customers to the processing of their personal data, granting customers a "right to be forgotten", imposing restrictions on the use of personal data for profiling purposes, imposing disclosure requirements of data sources to customers and increasing the maximum levels of fines for compliance failures from its current level in the UK of £500,000 to 2 per cent. of annual turnover or €20 million (whichever is greater), among other requirements. Aldermore may face increased compliance costs to comply with these new requirements.
- From time to time, the IASB and/or the European Union change IFRS that govern the preparation of Aldermore's financial statements. These changes can be difficult to predict and could materially impact how Aldermore records and reports its financial condition and results of operations. In some cases, Aldermore could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. For example, IFRS 9 (Financial Instruments) ("**IFRS 9**") is the new standard to replace IAS 39 (Financial Instruments: Recognition and Measurement) and will be effective for annual periods beginning on or after 1 January 2018. IFRS 9 will change the classification and measurement of some financial assets and the recognition and the financial impact of impairments and hedge accounting. Depending on its interpretation by the relevant regulators, IFRS 9 could lead to a substantial negative impact on the capital position of affected institutions, including Aldermore. The IASB may make other changes to financial accounting and reporting standards that govern the preparation of Aldermore's financial statements, which Aldermore may be required to adopt or which Aldermore may adopt prior to the date on which such

changes become mandatory if determined to be appropriate by the Directors. Any such change in Aldermore's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

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

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

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

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

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

Aldermore faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to satisfy specific minimum capital ratios at all times. Effective management of Aldermore's capital is critical to its ability to operate its business and to pursue its strategy. The Directors set Aldermore's internal target amount of capital by taking account of their own assessment of the risk profile of the business, market expectations and regulatory requirements. If regulatory requirements as to capital levels increase, driven by, for example, new regulatory measures, Aldermore may be required to increase its capital ratios. Aldermore has in the past been required and may in the future be required to increase capital ratios following regulatory review, although Aldermore expects the substance and outcome of any such regulatory review will remain confidential. Aldermore may also need to increase its capital level in response to changing market conditions or expectations. If Aldermore is unable to increase its capital

or reduce its risk-weighted assets, it may no longer comply with regulatory requirements or satisfy market expectations related to its capital strength and, as a result, its business, financial condition, results of operations and prospects could suffer a material adverse effect. Material changes that may limit Aldermore's ability to effectively manage its capital (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets, or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) could have a material adverse effect on its business, financial condition, results of operations and prospects.

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

- Aldermore's borrowing costs and capital requirements could be affected by prudential regulatory developments, which include: (i) the legislative package implementing the proposals of the Basel Committee (known as "**Basel III**") in the European Union and amending and supplementing the existing Capital Requirements Directive and other regulatory developments impacting capital position ("**CRD IV**"); and (ii) the EU Directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, published in the Official Journal of the European Union on 12 June 2014 and commonly known as the Bank Recovery and Resolution Directive (the "**BRRD**"). The BRRD is discussed further in the risk factor entitled "*Aldermore's business is subject to the potential impacts of UK and European banking reform initiatives*" below. Any future unfavourable regulatory developments could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects. Aldermore may be subject to increased regulatory and compliance costs as a result of the UK's vote to leave the EU (see the risk factor entitled "*Exposure to UK political developments, including the outcome of the UK referendum on membership of the EU, could have a material adverse effect on Aldermore*").
- Under CRD IV, the Group is subject to capital requirements under both Pillar 1 (minimum capital requirements) and Pillar 2 (Supervisory Review). Under Pillar 1, banks are subject to a total capital requirement of 8 per cent. of risk weighted assets ("**RWA**"), which includes a minimum requirement of CET1 Capital equal to at least 4.5 per cent. of RWA and Tier 1 Capital equal to at least 6 per cent. of RWA. The Group meets its Pillar 2 requirements through its Internal Capital Adequacy Assessment Process ("**ICAAP**"), which represents the Group's own assessment of additional capital resources needed in order to cover specific risks faced by the institution that are not covered or not adequately covered by the minimum regulatory capital requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process. The Pillar 2A capital requirements set by the PRA at the end of this process need to be met with the same quality of capital as Pillar 1.
- CRD IV introduced a number of new capital buffers to provide further capital cushions for additional risks that financial institutions may be subject to. The combined buffer for Aldermore comprises of a counter-cyclical capital buffer and the capital conservation buffer. On 5 July 2016, the Bank of England's Financial Policy Committee ("**FPC**") announced that the UK counter-cyclical capital buffer rate would be set at 0 per cent. of RWA with immediate effect. The FPC has also indicated that it expects to review the counter-cyclical buffer quarterly and to set a UK counter-cyclical capital buffer rate in the region of 1 per cent. of RWA when risks are judged to be neither subdued nor elevated but the rate can be set in excess of this level in the future. There remains a risk therefore that the UK counter-cyclical capital buffer rate may increase, which could lead to an increase in capital requirements applicable to the Group. The capital conservation buffer began to be phased in from 1 January 2016, when it was set at 0.625 per cent. of RWA, and will increase each subsequent

year to its final level of 2.5 per cent. of RWA on 1 January 2019. In addition to the CRD IV combined buffer, the Group is subject to additional PRA buffers which are applied to individual banks and reviewed as part of the ICAAP process, and the PRA has the power to apply further sectoral capital measures in the future. An increase in the regulatory capital requirements and buffers may increase the amount of capital that Aldermore is required to hold. This may have an adverse effect on Aldermore's business, financial condition, results of operations and prospects.

- Banks are also required, under CRD IV, to meet two new liquidity standards, namely: (i) a liquidity coverage ratio requirement (“**LCR**”); and (ii) a net stable funding ratio requirement (“**NSFR**”). The LCR requires banks to hold an amount of unencumbered, high quality liquid assets that can be used to offset the net cash outflows the bank could encounter under an acute short-term liquidity stress scenario. The NSFR measures the amount of stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on liquidity arising from off-balance sheet commitments and obligations. Under CRD IV (and delegated acts made thereunder), banks domiciled in the EU are subject to a minimum 60 per cent. LCR requirement from 1 October 2015, rising in annual steps of at least 10 percentage points to reach 100 per cent. by 1 January 2018.
- The PRA is, however, granted the power to maintain higher standards during the phase-in period. In June 2015, the PRA confirmed that, among other things, it would exercise its discretion to impose higher liquidity coverage requirements than the minimum required by CRD IV during the phase-in period to 1 January 2018. The PRA is applying a minimum 80 per cent. LCR from 1 October 2015, which is due to increase to 90 per cent. on 1 January 2017 and 100 per cent. from 1 January 2018. The NSFR will remain subject to an observation period ahead of its planned implementation on 1 January 2018. Aldermore currently meets the minimum requirements set by the PRA. However there can be no assurance that future changes to the applicable liquidity requirements would not have an adverse effect on Aldermore's business, financial condition, results of operations and prospects.
- CRD IV requirements adopted in the UK may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the European Banking Authority, changes to the way in which the PRA interprets and applies these requirements to UK banks (including as regards individual model approvals granted under CRD II and III), or otherwise. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to Aldermore's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.
- The Basel Committee on Banking Supervision published a second consultative document on revisions to the standardised approach for credit risk in December 2015, which proposes to increase the capital treatment of buy-to-let and commercial real estate lending, and certain other asset classes. If these proposals are implemented as outlined, with no changes made, Aldermore may require increased capital to support these market segments.
- A perceived or actual shortage of capital held by Aldermore could result in actions by regulatory authorities, including public censure and the imposition of sanctions. Any of these outcomes may also affect Aldermore's capacity to continue its business operations, generate a sufficient return on capital, pay variable remuneration to staff, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential.

Aldermore may also experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section “Risk Factors”.

Aldermore's business is subject to the potential impacts of UK and EU banking reform initiatives.

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

The Banking Reform Act introduced a number of measures which are due to come into force at various dates up to 1 January 2019. These include: (i) a new bail-in option under the Banking Act 2009 (the "**Banking Act**") for resolving failing banks (in addition to the existing stabilisation options) whereby the Bank of England is given the power, in a resolution scenario, to cancel, reduce or defer the equity liabilities of a bank (including divesting shareholders of a bank of their shares), convert an instrument issued by a bank from one form or class to another (for example, a debt instrument into equity) and/or transfer some or all of the Notes of a bank to an appointed bail-in administrator; (ii) powers for the PRA and HM Treasury to implement further detailed rules to give effect to the recommendations of the Independent Commission on Banking (the "**ICB**") on ring-fencing requirements for the banking sector; (iii) powers for the PRA and the FCA to require non-regulated qualifying parent undertakings of regulated entities to take actions to facilitate resolution; (iv) an increase to the loss-absorbing capacity (including by way of bail-in bonds) for certain systemically important or ring-fenced banks ("**PLAC**"); and (v) preferential ranking of insured depositors on a winding up to rank ahead of all other unsecured creditors. The concept of PLAC has been superseded by the minimum requirement for own funds and eligible liabilities ("**MREL**") provisions which were introduced by the BRRD and transposed in the UK via statutory instrument. The Bank of England's powers to set MREL requirements on institutions came into effect on 1 January 2016. The PRA stated in December 2015 that firms should not be permitted to double count CET1 towards both MREL and their capital buffers and intends to publish a Statement of Policy in the third quarter of 2016. BRRD transposition within the UK also gave rise to revisions to the bail-in tool as introduced by the Banking Reform Act. These took effect from 1 January 2015. Further, the BRRD provides for resolution authorities to have the power to require institutions and groups to make structural changes to ensure legal and operational separation of "critical functions" from other functions where necessary, or to require institutions to limit or cease existing or proposed activities in certain circumstances. It also includes certain powers provided to resolution authorities, including write-down powers to ensure relevant capital instruments absorb losses upon, among other events, the occurrence of the non-viability of the relevant institution or its parent as well as a bail-in tool comprising a more general power for resolution authorities, to write-down the claims of unsecured creditors of a failing institution (including to zero), to vary the terms of debt instruments and to convert unsecured debt claims to equity. These powers, including the bail-in tool, must be exploited to the maximum extent possible before financial public support is used. The BRRD was transposed in the UK from 1 January 2015 mainly through amendments being made to the Banking Act to ensure that the objectives, tools and powers of the UK authorities were consistent with the European requirements. Use of bail-in powers by the UK authorities may result in the issuance of additional share capital or capital instruments, and shareholders may experience a dilution of their holdings or reduced profitability and returns.

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

While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants. Any such levies may be significant amounts that may, as a result,

have a material effect on Aldermore's profits. In common with other financial institutions which are subject to the FSCS, Aldermore also has a potential exposure to future levies resulting from the failure of other financial institutions and claims which arise against the FSCS as a result of such failure. There can be no assurance that there will not be any further claims against the FSCS and subsequent increased FSCS levies payable by Aldermore. Any such increases in Aldermore's costs and liabilities related to the levy may have a material adverse effect on its results of operations.

In the EU, the EU Deposit Guarantee Scheme Directive ("**EU DGSD**") required Member States to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD was reviewed and a new legislative proposal was published by the European Commission in July 2010 to recast and replace the current EU DGSD. The recast EU DGSD was published in the Official Journal of the EU on 12 June 2014 and Member States were required to transpose the majority of the EU DGSD into national law by 3 July 2015. The main aims of the recast EU DGSD were to restrict the definition of "deposit" (but expand the definition of "eligible deposits" which, notably, no longer excludes the deposits of 'large companies' from protection), to reduce time limits for payments of verified claims by depositors, to require banks to provide information on the aggregated deposits of a depositor, to make provisions on how deposit guarantee schemes should be funded (including mandatory part pre-funding of deposit guarantee schemes), to introduce insolvency preference for certain deposits (as well as £1 million protection limit for certain temporary high balances). In the UK, implementation required revisions to the legislation and regulation relating to the FSCS which, among other things, affected the methodology employed by the FSCS for determining levies on institutions. While the methodology includes maximum amounts and provides for the maximum aggregate levy to only be imposed on firms once in each financial year, there is the ability for the FSCS to impose higher levies and/or impose interim levies at any time. Such imposition could have a material effect on Aldermore's business, financial condition, results of operations and prospects. In addition, Aldermore may have to update its IT systems to comply with the PRA's proposals for new system requirements, including requirements on firms to have systems that will allow accounts that do not contain eligible deposits to be frozen at the point of resolution while leaving marked deposits accessible and will be able to separate FSCS-covered and uncovered balances. This may have a material adverse effect on its profitability.

Any failure to comply with anti-money laundering and anti-bribery regulations could have a material adverse effect on Aldermore.

Aldermore is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit Aldermore and its employees from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the Bribery Act 2010.

Monitoring compliance with anti-money laundering and anti-bribery rules can put a significant financial burden on banks and other financial institutions and requires significant technical capabilities. Aldermore cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted. Although Aldermore believes that its current policies and procedures are sufficient to comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that such policies completely prevent situations of money laundering or bribery, including actions by Aldermore's employees, for which Aldermore might be held responsible. Any such event may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on Aldermore's business, financial condition, results of operations and prospects.

Exposure to UK political developments, including the outcome of the UK referendum on membership of the EU, could have a material adverse effect on Aldermore

On 23 June 2016, the UK held a referendum on the UK's membership of the European Union (the "EU"). The result of the referendum's vote was to leave the EU, which creates a number of uncertainties within the UK, and regarding its relationship with the EU. Although the result does not entail any immediate changes to Aldermore's current operations and structure, it is likely to generate further increased volatility in the markets and economic uncertainty which could adversely affect Aldermore's results, financial condition and prospects. Until the terms and timing of the UK's exit from the EU are confirmed, it is not possible to determine the full impact that the referendum, the UK's departure from the EU and/or any related matters may have on general economic conditions in the UK (including on the performance of the UK housing market). The negotiation of the UK's exit terms is likely to take a number of years. The UK political developments described above, along with any further changes in government structure and policies, could affect the fiscal, monetary and regulatory landscape to which Aldermore is subject and also Aldermore's financing availability and terms. The political and economic uncertainties created by the UK's vote to leave the EU bring about a risk of instability which could adversely affect Aldermore's business, financial condition, results of operations and prospects.

RISKS RELATED TO THE NOTES

The obligations of the Issuer in respect of the Notes are unsecured and subordinated.

The Notes constitute unsecured and subordinated obligations of the Issuer.

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

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

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

As at 30 June 2016, the Issuer had indebtedness of £197 million, including but not limited to securitisation-related debt but excluding customer deposits, £159 million of which is senior to the Notes.

Noteholders are also subject to structural subordination to creditors of Aldermore Bank PLC as set out under "*Risk Factors – The Issuer is a holding company.*".

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

The terms of the Notes do not provide for any events of default. Noteholders may not at any time demand repayment or redemption of their Notes, although in a winding-up or administration the Noteholders will have a claim for an amount equal to the principal amount of the Notes plus any accrued and unpaid interest on such date. There is no right of acceleration in the case of non-

payment of principal or interest on the Notes or of the Issuer's failure to perform any of its obligations under or in respect of the Notes.

The sole remedy in the event of any non-payment of principal or interest under the Notes, subject to certain conditions as described under Condition 10, is that the Trustee, on behalf of the Noteholders may, at its discretion, or shall at the direction of the holders of at least 25 per cent. of the aggregate principal amount of the outstanding Notes subject to applicable laws, institute proceedings for the winding-up of the Issuer and/or prove for any payment obligations of the Issuer arising under the Notes in any winding-up or other insolvency proceedings in respect of such non-payment.

The remedies under the Notes are more limited than those typically available to the Issuer's unsubordinated creditors. For further details regarding the limited remedies of the Trustee and the Noteholders, see Condition 10.

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

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

The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks, UK Building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing. In certain circumstances, such actions may also be taken against a UK banking group company. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of any Notes.

Under the Banking Act 2009 (the "**Banking Act**") substantial powers are granted to HM Treasury, the Prudential Regulation Authority (the "**PRA**"), the Financial Conduct Authority (the "**FCA**") and the Bank of England (together, the "**Authorities**") as part of a special resolution regime (the "**SRR**"). These powers can be exercised, as applicable, by the Authorities in respect of a UK bank, UK building society, UK investment firm or UK recognised central counterparty (each a "**relevant entity**") in circumstances in which the Authorities consider its failure has become likely and if certain other conditions are satisfied (depending on the relevant power) for example, to protect and enhance the stability of the financial system of the UK. Certain of these powers may also be used in respect of a UK incorporated company which meets certain conditions and is in the same group as a relevant entity, an EU incorporated credit institution or investment firm or a third country incorporated credit institution or investment firm (a "**UK banking group company**") (such as the Issuer).

The SRR consists of five stabilisation options and two special insolvency procedures (bank administration and bank insolvency) which may be commenced by HM Treasury, the Bank of England, the PRA or Secretary of State, as the case may. The stabilisation options provide for: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly owned by the Bank of England; (iii) transfer of all or part of the business of the relevant entity to an asset management vehicle owned and controlled by the Bank of England; (iv) writing down certain claims of unsecured creditors of the relevant entity (including Notes) and/or converting certain unsecured debt claims (including Notes) to equity, (the "**bail-in option**"), which equity could also be subject to any cancellation, transfer or dilution; and (v) temporary public ownership (nationalisation) of all or part of the relevant entity or its UK holding company. In each case, the Authorities have wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to

disapply or modify laws (with possible retroactive effect) to enable stabilisation powers under the Banking Act to be used effectively.

In addition, the Banking Act provides the Authorities with the power to permanently write-down or convert capital instruments, such as the Notes, into equity at the point of non-viability and before any other resolution action is taken. Any shares issued to holders of the Notes upon any such conversion into equity may also be subject to any future cancellation, transfer or dilution.

The point of non-viability under the Banking Act is the point at which the relevant Authority determines that the relevant entity or UK banking group company meets certain conditions (but no resolution action has yet been taken) or that the relevant entity or, in certain circumstances, group will no longer be viable unless the relevant capital instruments (such as the Notes) are written-down or converted.

The paragraphs below set out some of the possible consequences of the exercise of the powers under the SRR.

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

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the relevant stabilisation options may be exercised if (a) the relevant Authority is satisfied that a relevant entity is failing, or is likely to fail, (b) following consultation with the other Authorities, the relevant Authority determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will result in the condition referred to in (a) ceasing to be met and (c) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated. In relation to a UK banking group company (such as the Issuer), the stabilisation options may be exercised against such UK banking group company if the stabilisation conditions referred to in (a) and (b) above are satisfied in relation to a relevant entity with the same group and the condition referred to in (c) is satisfied in relation to the UK banking group company.

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

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

- transferring the Notes notwithstanding any restrictions on transfer and free from any trust, liability or encumbrance
- delisting the Notes;
- writing down the principal amount of the Notes and/or converting the Notes into another form or class (which may include, for example, conversion of the Notes into equity securities);
- modifying any interest payable in respect of the Notes, the maturity date or the dates on which any payments are due, including by suspending payment for a temporary period; and/or

- disapplying certain terms of the Notes including disregarding any termination or acceleration rights or events of default under the terms of the Notes which would be triggered by the exercise of the powers and certain related events.

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

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

If the Issuer were made subject to the SRR and a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Notes) will result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the risk that it will be unable to meet its obligations in respect of the Notes and/or eventually become subject to administration proceedings pursuant to the Banking Act. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders would thereby recover compensation promptly or equal to any loss actually incurred.

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

The Notes are not 'protected liabilities' for the purposes of any Government compensation scheme.

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

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

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

The Notes mature on 28 October 2026. The Issuer is under no obligation to redeem the Notes at any time prior thereto and the Noteholders have no right to require the Issuer to redeem or purchase any Notes at any time. Any redemption of the Notes and any purchase of any Notes by the Issuer will be subject always to the prior approval of the Supervisory Authority and to compliance with prevailing Regulatory Capital Requirements, and the Noteholders may not be able to sell their Notes in the secondary market (if at all) at a price equal to or higher than the price at which they purchased their Notes. Accordingly, investors in the Notes should be prepared to hold their Notes for a significant period of time.

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

Subject to the prior approval of the Supervisory Authority and to compliance with prevailing prudential requirements, the Issuer may, at its option, redeem all (but not some only) of the Notes at any time at their principal amount plus any accrued and unpaid interest on such date, upon the occurrence of a Tax Event or a Capital Disqualification Event. The Issuer may also, in its sole discretion but subject to

certain conditions, redeem all (but not some only) of the Notes on the Reset Date at their principal amount together with any accrued and unpaid interest on such date.

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

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

It is not possible to predict whether the events referred to above will occur and lead to circumstances in which the Issuer may elect to redeem the Notes, and if so whether or not the Issuer will satisfy the conditions, or elect, to redeem the Notes. The Issuer may be more likely to exercise its option to redeem the Notes on or after the Reset Date if the Issuer's funding costs would be lower than the prevailing interest rate payable in respect of the Notes. If the Notes are so redeemed, there can be no assurance that Noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Notes.

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

Following the occurrence of a Tax Event or a Capital Disqualification Event, the Issuer may (subject to certain conditions) at any time substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Compliant Notes, without the consent of the Noteholders.

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

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

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

The Issuer is a holding company.

The Notes are obligations of the Issuer only. The Issuer is a holding company and conducts substantially all of its operations through its wholly-owned operating subsidiary Aldermore Bank PLC. Accordingly, the claims of the Noteholders under the Notes will be structurally subordinated to the creditors of the Issuer's subsidiaries. The Issuer plans to fund interest payments under the Notes through an intra-Group liquidity arrangement with Aldermore Bank PLC. The Issuer's subsidiaries are separate and distinct legal entities, and have no obligation to pay any amounts due under the Notes or to provide the Issuer with funds to meet any of the Issuer's payment obligations under the Notes.

The Issuer's rights to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors and any preference shareholders, except in the limited circumstance where the Issuer is a creditor with claims that are recognised to be ranked ahead of or *pari passu* with such claims. Accordingly, if one of the Issuer's subsidiaries were to be wound up, liquidated or dissolved, (i) the Noteholders would have no right to proceed against the assets of such subsidiary, and (ii) the Issuer would only recover any amounts (directly, or indirectly through its holdings of other subsidiaries) in the liquidation of that subsidiary, other than its claims (if any) as a creditor as aforesaid, if and to the extent that any surplus assets remain following payment in full of the claims of the creditors and preference shareholders (if any) of that subsidiary.

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

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

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

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

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

Meetings of Noteholders and modification.

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

In addition, the Trustee may agree (other than in respect of a Reserved Matter, as defined in the Trust Deed), without the consent of the Noteholders, to make any modification to any of the Conditions or any of the provisions of the Trust Deed or the Agency Agreement that (i) in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders; or (ii) (irrespective of whether the same constitutes a Reserved Matter) in its opinion is of a formal, minor or technical nature or to correct a manifest error. Any such modification shall be binding on the Noteholders.

Change of law.

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

Legality of purchase.

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

Legal investment considerations may restrict certain investments.

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

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

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Noteholders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

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

RISKS RELATED TO THE MARKET GENERALLY

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

The secondary market generally.

The Notes represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market does develop, it may not be very liquid and may be sensitive to changes in financial markets. In particular, holdings in the Notes upon issue may be concentrated as they will be purchased by a limited number of initial investors, one or more of whom may hold a significant proportion of the total issuance. If the initial investors decide to sell any Notes and a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case should the Issuer be in financial distress, which may result in any sale of the Notes having to be at a substantial discount to their principal amount. Illiquidity may have a severely adverse effect on the market value of Notes.

If a market for the Notes does develop, the trading price of the Notes may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Notes. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition of the Issuer Group

deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable to pay interest on the Notes in full, or of the Notes being subject to loss absorption under an applicable statutory loss absorption regime. In addition, the market price of the Notes may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control, including:

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

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

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

Moreover, although the Issuer and any subsidiary of the Issuer can (subject to regulatory approval and compliance with prevailing prudential requirements) purchase Notes at any time, they have no obligation to do so. Purchases made by the Issuer or any member of the Group could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

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

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

Exchange rate risks and exchange controls.

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

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

Interest rate risks.

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- a) the auditor’s report and audited consolidated annual financial statements for the financial year ended 31 December 2015 of the Issuer, including the information set out at the following pages in particular:

Consolidated income statement	Page 137
Consolidated statement of financial position	Page 139
Notes to the consolidated financial statements	Pages 142 to 181
Independent auditor’s report to the members of Aldermore Group PLC only.....	Pages 133 to 136

- b) the auditor’s report and audited consolidated annual financial statements for the financial year ended 31 December 2014 of the Issuer, including the information set out at the following pages in particular:

Consolidated income statement	Page 59
Consolidated statement of financial position	Page 60
Notes to the consolidated financial statements	Pages 63 to 120
Independent auditor’s report to the members of Aldermore Group PLC only.....	Page 58

- c) the interim consolidated and unaudited financial statements for the six months ended 30 June 2016 of the Issuer, including the information set out at the following pages in particular:

Consolidated income statement	Page 41
Consolidated statement of financial position	Page 43
Notes to the consolidated financial statements	Pages 46 to 63
Independent review report.....	Pages 39 and 40

The contents of the Issuer’s website, any website mentioned in this Prospectus, with the exception of the website of the London Stock Exchange (where the Issuer’s audited financial statements and interim unaudited financial statements have been published), or any website directly or indirectly linked to these websites have not been verified and do not form part of this Prospectus and investors should not rely on such information.

Copies of the documents incorporated by reference in this document may be obtained from the Issuer at its registered office and may be obtained (without charge) from the website of the Regulatory News

Service operated by the London Stock Exchange at:
<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

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

TERMS AND CONDITIONS

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

The £60,000,000 Callable Dated Subordinated Notes (the “**Notes**”, which expression shall in these Conditions, unless the context otherwise requires, include any further Notes issued pursuant to Condition 16 which are consolidated and form a single series with the Notes) of Aldermore Group PLC (the “**Issuer**”) are constituted by a trust deed dated 28 October 2016 (as amended and/or restated and/or supplemented from time to time, the “**Trust Deed**”) made between the Issuer and U.S. Bank Trustees Limited (the “**Trustee**”, which expression shall include all persons from time to time being trustee or trustees appointed under the Trust Deed) as trustee for the Noteholders.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the agency agreement dated 28 October 2016 (as amended and/or restated and/or supplemented from time to time, the “**Agency Agreement**”) made between the Issuer, the Registrar, the Agent Bank and other Agents and the Trustee are available for inspection during normal business hours by prior arrangement by the Noteholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at 125 Old Broad Street, Fifth floor, London, EC2N 1AR. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

1 Form, Denomination and Title

The Notes are issued in registered form in specified denominations of £100,000 and integral multiples of £1,000 in excess thereof.

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

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

2 Transfer of Notes

(a) *Transfer of Notes*

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

new Certificate in respect of the balance of the Notes not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a Holder of Notes, a new Certificate representing the enlarged holding may be issued but only against surrender of the Certificate representing the existing holding of such person. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) *Delivery of New Certificates*

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

(c) *Transfers Free of Charge*

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

(d) *Closed Periods*

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of the Notes pursuant to Condition 7 or (ii) during the period of seven days ending on (and including) any Record Date.

3 STATUS

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

4 SUBORDINATION

(a) *Winding-Up*

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

(b) *No set-off*

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

As stated in further detail in Condition 15(d), the provisions of this Condition 4 apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in this Condition 4 or in Condition 10 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

5 INTEREST

(a) *Interest Rate and Interest Payment Dates*

The Notes bear interest on their outstanding principal amount:

- (i) from and including the Issue Date to but excluding 28 October 2021 (the “**Reset Date**”), at the rate of 8.50 per cent. per annum (the “**Initial Interest Rate**”); and
- (ii) thereafter, at the Reset Interest Rate,

in each case, payable semi-annually in arrear on 28 April and 28 October of each year, commencing on 28 April 2017 (each an “**Interest Payment Date**”). The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an

Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an “**Interest Period**”.

(b) *Calculation of interest*

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

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

The semi-annual Interest Amount payable for each Interest Period commencing prior to the Reset Date will amount to £42.50 per Calculation Amount.

(c) *Reset Interest Rate*

(i) The “**Reset Interest Rate**” in respect of the Reset Period will be the sum of the 5-year Mid-Swap Rate and the Margin, all as determined by the Agent Bank at approximately 11.00 a.m. (London time) on the Reset Determination Date (rounded to three decimal places with 0.0005 rounded down).

(ii) In these Conditions (except where otherwise defined), the expression:

(iii) “**5-year Mid-Swap Rate**” means, in relation to the Reset Period:

(A) the semi-annual mid-swap rate with a term of five years calculated as the arithmetic mean of the bid and ask rates that appear on the Screen Page as at or around 11:00 a.m. (London time) on the Reset Determination Date; or

(B) if such rate does not appear on the Screen Page at such time on the Reset Determination Date, the Reset Reference Bank Rate on the Reset Determination Date;

(iv) “**5-year Mid-Swap Rate Quotations**” means the arithmetic mean of the bid and ask rates for the semi-annual fixed leg (calculated on an Actual/365 (Fixed) day count basis) of a fixed-for-floating sterling interest rate swap which:

(A) has a term of five years commencing on the Reset Date;

(B) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and

(C) has a floating leg based on 6-month LIBOR rate (calculated on an Actual/365 (Fixed) day count basis);

- (v) **“Business Day”** means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;
- (vi) **“Margin”** means 7.784 per cent.;
- (vii) **“Reset Determination Date”** means the day falling two Business Days prior to the Reset Date;
- (viii) **“Reset Reference Bank Rate”** means, in relation to the Reset Period, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Agent Bank at approximately 12:00 p.m. (London time) on the Reset Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period will be an amount equal to the Initial Interest Rate less the Margin;
- (ix) **“Reset Reference Banks”** means six leading swap dealers in the interbank market selected by the Agent Bank (excluding the Agent Bank or any of its affiliates) in its discretion after consultation with the Issuer; and
- (x) **“Screen Page”** means Bloomberg page “ICAB 1 <GO>” or such other page as may replace it on Bloomberg or, as the case may be, on such other information service that may replace Bloomberg, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate.

(d) *Publication of Reset Interest Rate*

The Issuer shall cause the Agent Bank to give notice of the Reset Interest Rate to the Issuer, the Agents, the Trustee and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed (by no later than the Reset Determination Date) and to be notified to Noteholders in accordance with Condition 12 as soon as possible after its determination, but in no event later than the fourth Business Day thereafter. The Reset Interest Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of manifest error.

(e) *Determination by the Trustee*

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

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

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Reset Reference Banks (or any of them) or the Agent Bank or the Trustee or any agent appointed by the Trustee, will (in the absence of manifest error) be binding on the Issuer, the Trustee, the Agent Bank and all Noteholders and (in the absence of wilful default and bad faith) no liability to the Issuer or the Noteholders shall attach to the Reset Reference Banks (or any of them), the Agent Bank or, if applicable, the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

(g) *Agent Bank*

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

(h) *Interest accrual*

Each Note will cease to bear interest from and including its due date for redemption pursuant to Condition 7(a), 7(b), 7(c) and/or 7(d) or its date of substitution pursuant to Condition 7(f) as the case may be, unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue as provided in the Trust Deed.

6 PAYMENTS

(a) *Payments in respect of Notes*

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

For the purposes of this Condition 6(a), a Noteholder's "**registered account**" means the sterling account maintained by or on behalf of it with a bank that processes payments in sterling, details of which appear on the register of Noteholders at the close of business, in the case of principal, on the second Business Day before the due date for payment and, in the case of interest, on the relevant Record Date, and a

Noteholder's registered address means its address appearing on the register of Noteholders at that time.

(b) *Payments subject to applicable laws*

Payments in respect of principal and interest on the Notes are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto and the Issuer will not be liable to Holders for any taxes or duties of whatever nature imposed or levied by such laws, agreements or regulations.

(c) *No commissions*

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition 6.

(d) *Payment on Business Days*

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

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

(e) *Agents*

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

- (i) there will at all times be a Principal Paying Agent (as defined in the Agency Agreement);
- (ii) there will at all times be a Paying Agent having a specified office in a European city;
- (iii) there will at all times be a Transfer Agent;
- (iv) there will at all times be a Registrar; and
- (v) there will be an Agent Bank in the circumstances described in Condition 5(g).

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

7 REDEMPTION AND PURCHASE

(a) *Final redemption*

Unless previously redeemed, purchased and cancelled or (pursuant to Condition 7(f)) substituted, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest on 28 October 2026 (the “**Maturity Date**”). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

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

The Issuer may, in its sole discretion but subject to Condition 7(g), having given not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 12, the Trustee, the Agent Bank and the Agents (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes on the Reset Date at their principal amount together with any accrued and unpaid interest.

(c) *Redemption for regulatory reasons*

If at any time a Capital Disqualification Event has occurred, the Issuer may, in its sole discretion but subject to Condition 7(g), having given not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 12, the Trustee, the Agent Bank and the Agents (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes at any time at their principal amount together with any accrued and unpaid interest.

A “**Capital Disqualification Event**” shall occur if at any time there is a change in the regulatory classification of the Notes which becomes effective on or after the Issue Date that results, or would be likely to result, in all or any part of the outstanding principal amount of the Notes ceasing to be included in, or counting towards, the Issuer Group’s Tier 2 Capital under the Regulatory Capital Requirements, subject, in the case of a redemption occurring prior to the Reset Date, to the Issuer demonstrating to the satisfaction of the Supervisory Authority that such exclusion was not reasonably foreseeable as at the Issue Date. For the avoidance of doubt, any amortisation of the Notes pursuant to Article 64 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012, (or any equivalent or successor provision) shall not comprise a Capital Disqualification Event.

Prior to the publication of any notice of redemption pursuant to this Condition 7(c), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the requirements for redeeming the Notes pursuant to this Condition 7(c) have been met and the Trustee shall accept the certificate without further inquiry as sufficient evidence of the satisfaction of the requirements set out above, in which event it shall be conclusive and binding on the Trustee and the Noteholders.

(d) *Redemption for tax reasons*

If a Tax Event has occurred, the Issuer may, in its sole discretion but subject to Condition 7(g), having given not less than 30 nor more than 60 days' notice to Noteholders in accordance with Condition 12, the Trustee, the Agent Bank and the Agents (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes at any time at their principal amount together with any accrued and unpaid interest, subject, in the case of a redemption occurring prior to the Reset Date, to the Issuer demonstrating to the satisfaction of the Supervisory Authority that the Tax Law Change (resulting in the Tax Event) is material and was not reasonably foreseeable as at the Issue Date.

A "**Tax Event**" is deemed to have occurred if as a result of a Tax Law Change:

- (i) in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts and the Issuer cannot avoid the foregoing by taking measures reasonably available to it; or
- (ii) the Notes are prevented from being treated as loan relationships for United Kingdom tax purposes; or
- (iii) the Issuer would not or there is more than an insubstantial risk that the Issuer would not be entitled to a deduction in computing its tax liabilities in respect of all or any part of its financing expense arising in relation to the Notes or the amount of such deduction is materially reduced; or
- (iv) the Issuer would not be able to have losses or deductions in respect of its finance expense arising in relation to the Notes set against the profits or gains, or profits or gains offset by the losses as deductions, of companies with which the Issuer is grouped, or otherwise would be so grouped for United Kingdom tax purposes.

"**Tax Law Change**" means a change in, or amendment to, the laws or regulations of the United Kingdom or any authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of such laws by a decision of any court or tribunal that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes effective, or, in the case of a change in law, if such change is enacted by a United Kingdom Act of Parliament or by statutory instrument, on or after the Issue Date.

Prior to the publication of any notice of redemption pursuant to this Condition 7(d), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the requirements for redeeming the Notes pursuant to this Condition 7(d) have been met, and the Trustee shall accept the certificate as sufficient evidence of the satisfaction of the requirements set out above, in which event it shall be conclusive and binding on the Trustee and the Noteholders.

(e) *Purchases*

The Issuer or any of its Subsidiaries may, at its option but subject to Regulatory Approval, purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements. All Notes purchased by or on behalf of the Issuer

or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, cancelled.

(f) *Substitution or Variation*

If a Tax Event or a Capital Disqualification Event has occurred, then the Issuer may, in its sole discretion but subject to Condition 7(g), having given not less than 30 nor more than 60 days' notice to Noteholders in accordance with Condition 12, the Trustee, the Agent Bank and the Agents (which notice shall be irrevocable and shall specify the date for substitution or variation, as the case may be, of the Notes), at its option and without any requirement for the consent or approval of the Noteholders, at any time (whether before or following the Reset Date), either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Compliant Notes, and the Trustee shall (subject to the following provisions of this Condition 7(f) and subject to the receipt by it of the certificates of the Authorised Signatories referred to below and in the definition of Compliant Notes) agree to such substitution or variation. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 7(f), as the case may be.

The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution of the Notes for, or the variation of the terms of the Notes so that they remain, or as appropriate, become, Compliant Notes, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation (i) if the terms of the proposed alternative Compliant Notes or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it or (ii) it is not indemnified and/or secured and/or pre-funded to its satisfaction in connection with such participation or assistance. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided above, redeem the Notes as provided in, as appropriate, Conditions 7(c) or 7(d).

Prior to the publication of any notice of substitution or variation pursuant to this Condition 7(f), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions precedent for substituting or varying the Notes pursuant to this Condition 7(f) have been met and that the terms of the relevant Compliant Notes comply with the definition thereof in Condition 19 and the Trustee shall accept the certificate without further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders.

In connection with any substitution or variation in accordance with this Condition 7(f), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(g) *Conditions to redemption, substitution and variation*

Any redemption, substitution or variation of the Notes under Conditions 7(b), 7(c), 7(d) or 7(f) is subject to obtaining Regulatory Approval and (in the case of any redemption) compliance with the Regulatory Preconditions.

(h) *Cancellation*

All Notes which are redeemed or substituted by the Issuer pursuant to this Condition 7 will be cancelled.

(i) *Notices final*

Upon the expiry of any notice as is referred to in Condition 7(b), 7(c), 7(d) and 7(f), the Issuer shall be bound (subject in all circumstances only to Condition 7(g)) to redeem, vary the terms of or substitute (as applicable) the Notes to which the notice refers in accordance with the terms of such paragraph.

(j) *Trustee not obliged to monitor*

The Trustee shall not be under any duty to investigate whether any condition precedent to redemption, substitution or variation under this Condition 7 has occurred and (i) shall not be responsible to Noteholders for any loss arising from any failure by it to do so and (ii) shall be entitled to assume, unless it has actual knowledge to the contrary, that no such condition precedent to redemption, substitution or variation has occurred and that all Regulatory Approvals and/or Regulatory Preconditions have been satisfied. The Trustee shall rely without further investigation and without liability as aforesaid on any certificate delivered to it in connection with this Condition 7.

8 TAXATION

(a) *Payment without withholding*

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Issuer will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Notes in the absence of any withholding or deduction, except that no Additional Amounts shall be payable in relation to any payment in respect of any Note:

- (i) held by or on behalf of a Noteholder who is liable to such Taxes in respect of such Note by reason of it having some connection with the United Kingdom other than the mere holding of the Note or the receipt of amounts in respect of the Note;
- (ii) where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the Noteholder would have been entitled to such Additional Amounts on surrendering such Certificate for payment on the last day of such period of 30 days; or
- (iii) where the Noteholder is able to avoid such withholding or deduction by complying, or procuring that a third party complies with, any applicable statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption.

(b) *Additional Amounts*

Any reference in these Conditions to any amounts payable in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, this Condition 8 pursuant to the Trust Deed.

9 PRESCRIPTION

Notes will become void unless presented for payment within periods of 10 years (in the case of principal) and 5 years (in the case of interest) from the Relevant Date in respect of the Notes.

10 NON-PAYMENT WHEN DUE AND WINDING-UP

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

(a) *Proceedings for Winding-Up*

If the Issuer has not made payment in respect of the Notes for a period of seven days or more (in the case of any payments of principal), or (in the case of any interest payment or any other amount in respect of the Notes) for a period of 14 days or more, in each case after the date on which such payment is due, the Issuer shall be deemed to be in default under the Notes and, unless proceedings for a Winding-Up have already commenced, the Trustee may institute proceedings for a Winding-Up.

In the event of a Winding-Up (whether or not instituted by the Trustee) the Trustee may prove in such Winding-Up, such claim being that set out in Condition 4(a).

(b) *Enforcement*

Without prejudice to Condition 10(a), the Trustee may, at its discretion, and without notice, institute such proceedings and/or take any other steps or action against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions or the Trust Deed.

Nothing in this Condition 10(b) shall, however, prevent the Trustee instituting proceedings for the Winding-Up, proving in any Winding-Up or exercising rights under Condition 4(a) in respect of any payment obligations of the Issuer arising from or in respect of the Notes or the Trust Deed (including any damages awarded for breach of any obligations) in the circumstances provided in Condition 10(a).

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Conditions 10(a) or 10(b) against the Issuer to enforce the terms of the Notes or the Trust Deed or any other action under or pursuant to the Trust Deed unless (i) it shall

have been so requested by an Extraordinary Resolution of the Noteholders or in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) *Right of Noteholders*

No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for a Winding-Up or to prove in a Winding-Up unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

(e) *Extent of Noteholder's remedy*

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or the Trust Deed.

11 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any other Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and/or the Registrar may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 NOTICES

All notices regarding the Notes shall be valid if sent by post to the Noteholders at their respective addresses in the Register and, if and for so long as the Notes are admitted to trading on the Market or on any other stock exchange, notices will also be given in accordance with any applicable requirements of such stock exchange. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

13 MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVERS

(a) *Meetings of Noteholders*

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

third, of the aggregate principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting and whether or not they voted on the resolution.

In addition, a resolution in writing signed by or on behalf of the holders of at least 75 per cent. in aggregate principal amount of the outstanding Notes who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification, authorisation, waiver*

Without prejudice to Condition 7(f), the Trustee may agree (other than in respect of a Reserved Matter), without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid and irrespective of whether the same constitutes a Reserved Matter, to any modification which, in its opinion, is of a formal, minor or technical nature or is to correct a manifest error.

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or substitution of the Issuer pursuant to Condition 14), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

(d) *Notification to the Noteholders*

Any modification, abrogation, waiver, authorisation or substitution referred to in this Condition 13 or in Condition 14 shall be binding on the Noteholders and, unless the Trustee agrees otherwise, notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

14 SUBSTITUTION OF THE ISSUER

The Trust Deed contains provisions permitting the Trustee (subject to Regulatory Approval) to agree, without the consent of the Noteholders, to the substitution of the Issuer's Successor in business (as defined in Condition 19) in place of the Issuer, or of any previously substituted company, as principal debtor under the Trust Deed and the Notes, subject to:

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

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

15 RIGHTS OF THE TRUSTEE

(a) Indemnification and protection of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer and the Noteholders.

(b) Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, among other things, to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

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

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institutions or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice in which event such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

(d) Trustee's remuneration, liability etc.

The provisions of Condition 4 apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in Conditions 4 or 10 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

16 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, if any, on them and/or the issue price thereof) so that the same shall be consolidated and form a single series with the Notes. Any further securities which are to form a single series with the Notes constituted by the Trust Deed or any supplemental deed shall be constituted by a deed supplemental to the Trust Deed.

17 GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) Governing law

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

(b) *Jurisdiction of English courts*

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

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

18 RIGHTS OF THIRD PARTIES

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

19 DEFINITIONS

In these Conditions:

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

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

“**Accrual Date**” has the meaning given to it in Condition 5(b).

“**Additional Amounts**” has the meaning given to it in Condition 8(a).

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

“**Agent**” means the Registrar and each of the other agents appointed pursuant to the Agency Agreement, save for the Agent Bank.

“**Agent Bank**” means Elavon Financial Services DAC, UK Branch or such other agent bank appointed by the Issuer from time to time in respect of the Notes in accordance with these Conditions.

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

“**Business Day**” has the meaning given to it Condition 5(c)(v).

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

“**Capital Disqualification Event**” has the meaning given to it in Condition 7(c).

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

“**Code**” has the meaning given to it in Condition 6(b).

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

- (i) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer), and provided that a certification to such effect (including as to such consultation) of two Authorised Signatories shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without further enquiry and without liability to any person) prior to the issue or, as appropriate, variation of the relevant securities), and, subject thereto, which (1) contain terms which comply with the then current requirements of the Supervisory Authority in relation to Tier 2 Capital; (2) include terms which provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Notes and do not provide for interest cancellation or deferral; (3) rank senior to, or *pari passu* with, the ranking of the Notes; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption and (5) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; and
- (ii) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer.

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

“**Day-Count Fraction**” has the meaning given to it in Condition 5(b).

“**Extraordinary Resolution**” has the meaning given to it in the Trust Deed.

“**Initial Interest Rate**” has the meaning given to it in Condition 5(a)(i).

“**Interest Amount**” means the amount due on each Note on an Interest Payment Date.

“**Interest Payment Date**” has the meaning given to it in Condition 5(a).

“**Interest Period**” has the meaning given to it in Condition 5(a).

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

“**Issue Date**” means 28 October 2016.

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

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

“**Margin**” has the meaning given to it in Condition 5(c)(vi).

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

“Maturity Date” has the meaning given to it in Condition 7(a).

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

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

“Proceedings” has the meaning given to it in Condition 17(b).

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

“Record Date” has the meaning given to it in Condition 6(a).

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

“Registrar” means Elavon Financial Services DAC or such other registrar appointed by the Issuer from time to time in respect of the Notes in accordance with these Conditions.

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

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

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

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

In addition, if at the time of such redemption, the prevailing Regulatory Capital Requirements permit the redemption after compliance with one or more alternative or additional pre-conditions to those set out in this definition, the Issuer having complied with such other pre-condition.

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

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

“Reset Date” means 28 October 2021.

“Reset Determination Date” has the meaning given to it Condition 5(c)(vii).

“Reset Interest Rate” has the meaning given to it in Condition 5(c)(i).

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

“Reset Reference Bank Rate” has the meaning given to it in Condition 5(c)(viii).

“Reset Reference Banks” has the meaning given to it in Condition 5(c)(ix).

“Screen Page” has the meaning given to it in Condition 5(c)(x).

“Noteholder” or “Holder” means the person in whose name a Note is registered.

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

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

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

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

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

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

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

“Taxes” has the meaning given to it in Condition 8(a).

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

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

“Transfer Agent” means Elavon Financial Services DAC.

“Trustee” means U.S. Bank Trustees Limited or such other trustee appointed by the Issuer from time to time in respect of the Notes in accordance with the Conditions and the Trust Deed.

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

“Winding-Up” means:

- (i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which reorganisation, reconstruction or amalgamation have previously been approved in writing by the

Trustee or an Extraordinary Resolution and do not provide that the Notes thereby become redeemable or repayable in accordance with the Conditions);

- (ii) following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend; or
- (iii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) or (ii) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009.

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

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

Initial Issue of Certificates

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

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

Relationship of Accountholders with Clearing Systems

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

Exchange of the Global Certificate

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

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

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

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

permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

Calculation of Interest

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

Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which (notwithstanding Condition 6(a)) shall be on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

Notices

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

Prescription

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

Meetings

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

Written Resolution and Electronic Consent

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

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

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

- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a written resolution has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by accountholders in the clearing system(s) with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “**commercially reasonable evidence**” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

Euroclear and Clearstream, Luxembourg

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

USE OF PROCEEDS

The Notes are being issued to support Aldermore's planned business growth, strengthen its capital position, and to further optimise the Group's capital structure and increase its capital planning flexibility.

DESCRIPTION OF ALDERMORE'S BUSINESS

Overview

Aldermore is a specialist lender, supporting UK SMEs, homeowners and landlords throughout the UK.

It was founded in May 2009 following the acquisition of Ruffler Bank Plc and Base Commercial Mortgages Limited by funds managed and advised by the private equity firm AnaCap Financial Partners LLP and, at that time, had customer lending in the region of £76 million and approximately 50 employees.

Aldermore has since developed into a multi-product asset based lender, growing significantly through its focus on organic loan origination and, as at 30 June 2016, Aldermore had £7,745.7 million of assets and almost 950 employees.

The Issuer is the holding company of the Group and has one principal subsidiary, Aldermore Bank PLC, which is registered in England and Wales with registered number 00947662. Aldermore Bank PLC is a UK deposit taking institution, which is authorised by the PRA and regulated by the PRA and the FCA.

The registered address of the Issuer is Apex Plaza, 4th Floor Block D, Forbury Road, Reading, Berkshire, RG1 1AX, United Kingdom and its telephone number is 0118 955 6600. On 30 September 2014, the Issuer re-registered as a public limited company named Aldermore Group PLC and was listed on the London Stock Exchange on 13 March 2015.

Aldermore has a diversified and balanced lending portfolio and focuses on segments of large, growing markets which it believes are under- or poorly served by the wider market and which provide numerous opportunities to deliver strong, sustainable and profitable growth. Aldermore's business model gives significant operation leverage as it is supported by modern scalable systems. Aldermore operates the following lending segments:

- **Asset Finance:** Aldermore supports capital investment in business critical assets. Leveraging its depth and breadth of expertise, it finances a wide range of assets such as plant and machinery, commercial vehicles and cars. This flexibility enables Aldermore to meet the needs of customers of all sizes across key industries. In addition, Aldermore offers wholesale block discounting facilities to smaller leasing companies and brokerages enabling them to extend credit directly to SMEs.
- **Invoice Finance:** Aldermore provides working capital solutions for UK SMEs, ranging from invoice discounting and full service factoring, where Aldermore manages the customer's debt collection on their behalf, to more tailored customer solutions requiring the in-house expertise that Aldermore has developed.
- **SME Commercial Mortgages:** Aldermore offers mortgages covering residential property development through to purchase and refinancing. Aldermore's SME Commercial Mortgages business focuses on mortgages for shops, warehouses, industrial units and offices distributed through financial intermediaries and directly with customers.
- **Buy-to-Let:** Aldermore provides a complete Buy-to-Let proposition catering for both individual and corporate landlords, simple to complex properties and from a single property to large portfolio.
- **Residential Mortgages:** Within Residential Mortgages, Aldermore targets prime creditworthy customers, including first time buyers, the self-employed and professionals, who often fall outside the automated lending criteria of some of the mainstream banks.

The split of the lending portfolio by division by percentage and amount is shown below:

Division	As at 31 December 2015 (per cent.)	As at 30 June 2016 (per cent.)
Asset Finance.....	22	22
Invoice Finance.....	3	2
SME Commercial Mortgages.....	13	14
Buy-to-Let	39	40
Residential Mortgages.....	23	22
TOTAL	100	100

Division	As at 31 December 2015 (£m)	As at 30 June 2016 (£m)
Asset Finance.....	1,346.7	1,498.2
Invoice Finance.....	160.8	155.3
SME Commercial Mortgages.....	829.2	926.0
Buy-to-Let	2,417.9	2,704.0
Residential Mortgages.....	1,390.2	1,515.7
TOTAL	6,144.8	6,799.2

The following table sets out summary information relating to Aldermore's market segments for the six month period ended and as at 30 June 2016.

		Six months ended 30 June 2016						
		Asset Finance (£m)	Invoice Finance (£m)	SME Commerci al Mortgages (£m)	Buy-to- Let (£m)	Residenti al Mortgage s (£m)	Central Functions 1 (£m)	Total (£m)
Net Interest	Income	29.9	2.2	23.7	40.9	22.8	(3.9)	115.6
Net Operating	Income	31.6	9.4	24.3	43.2	23.7	(4.5)	127.7
Segmental Result		22.9	3.1	21.3	37.6	20.6	(46.4)	59.1
Total Assets		1,498.2	155.3	926.0	2,704.0	1,515.7	946.5	7,745.7
Total Liabilities		-	-	-	-	-	(7,177.1)	(7,177.1)

The following table sets out summary information relating to Aldermore's market segments for the financial year ended and as at 31 December 2015.

		Year ended 31 December 2015						
		Asset Finance (£m)	Invoice Finance (£m)	SME Commercial Mortgages (£m)	Buy-to-Let (£m)	Residential Mortgages (£m)	Central Functions (£m)	Total (£m)
Net Interest	Income	51.8	5.3	34.2	73.3	43.8	(9.5)	198.9
Net Operating	Income	56.1	20.5	35.0	76.3	46.0	(9.2)	224.7
Segmental Result		39.3	4.5	28.2	66.0	40.1	(83.4)	94.7
Total Assets		1,346.7	160.8	829.2	2,417.9	1,390.2	863.7	7,008.5
Total Liabilities		-	-	-	-	-	(6,474.9)	(6,474.9)

¹ A £4.1 million impairment of goodwill in relation to an invoice finance acquisition has been recorded within Central Functions.

Aldermore is funded predominantly through online retail and SME deposits. Additional funding is provided by £155.9 million remaining on-balance sheet funding from Aldermore's £333 million RMBS issued in April 2014, participation in the Funding for Lending Scheme (as at 30 June 2016, Aldermore had drawn £780 million of UK Treasury Bills under the scheme of which £323.3 million was on balance sheet funding) and £40 million subordinated notes.

Aldermore has clearly defined control and risk functions in place and employs a modern IT infrastructure to support its operations, customer service proposition and planned growth.

Aldermore does not have a traditional branch network and as such does not have any costs associated with running such a branch network. Lending originations are conducted primarily through intermediaries with increasing direct distribution online, by phone and in person through Aldermore's regional offices across Great Britain which also provide product expertise, customer services and operational support services. Deposit accounts and savings products are directly originated and in the six months ended 30 June 2016, almost all SME deposits and approximately 75 per cent. of retail deposits were originated online.

Strategy

Aldermore intends to continue with its successful strategy of providing intermediaries and customers with a reliable, expert, dynamic and straightforward banking service across targeted segments. The Board believes that by focusing on its existing model and strategic priorities, Aldermore can continue to take advantage of the significant growth opportunity available to it and deliver strong, sustainable risk adjusted returns.

History and development of Aldermore

- | | |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2009 | Aldermore was founded in May 2009 by CEO Phillip Monks following the acquisition of Ruffler Bank Plc and Base Commercial Mortgages Limited by funds managed and advised by the private equity firm AnaCap Financial Partners LLP. Throughout 2009 and 2010 Aldermore purposefully established capabilities in its chosen segments of the lending market, recognising not only customer demand but also the consistently good risk adjusted returns and strong collateral characteristics of those segments. |
| 2010 | Aldermore strengthened the product range by launching its Residential Mortgages proposition in May to offer loans to homeowners and buy-to-let landlords. |
| 2011 | Aldermore continued to strengthen its capital position by raising £62 million in common equity from a consortium of leading global investors in September. |
| 2012 | In Aldermore's third full year of operations, it achieved its first year of profitability (£0.3 million profit before tax for the year). Aldermore diversified its funding profile in May when £36 million was raised from the issuance of Subordinated Notes with a nominal value of £40 million and associated warrants. |
| 2013 | Aldermore raised £40 million in common equity from Tosca Entrust Master Fund and Lansdowne Global Financials Master Fund Limited to drive the growth in its lending to SMEs and homeowners. |
| 2014 | Aldermore further diversified its funding by raising £333 million through the issuance of its inaugural residential mortgage-backed security (RMBS) in April 2014 and issued £75 million of Additional Tier 1 Securities (the " AT1 Securities ") in December 2014. |
| 2015 | Aldermore gained a premium listing on the London Stock Exchange on 13 March 2015 raising £75million of primary capital to ensure that Aldermore |

can continue to remain well ahead of the minimum regulatory requirement to fund the Group's growth plans to the point at which it becomes capital self-sufficient. For the full year 2015, Aldermore reported a profit before tax of £94.7 million representing an increase of 88% on the prior year and total assets of £7,008.5 million.

2016

For the six months ended 30 June 2016, Aldermore reported continued growth with net loans to customers increasing by 11% to £6.8 billion and total assets increasing by 11% to £7.7 billion. Reported profit before tax for the period increased by 50% to £59 million compared with the first six months of 2015.

Current Operations

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

Aldermore has constructed a diversified and balanced lending portfolio and range of funding sources.

Aldermore has achieved significant organic growth in each of the key market segments in which it operates.

The following table sets out a summary for the performance relating to Aldermore's market segments for the six month period ended and as at 30 June 2016.

	6 months ended 30 June 2016			
	Net Loans and Advances to customers (£m) as at 30 June 2016	Total originations (£m) in the 6 months ended 30 June 2016	Cost of Risk (bps) in the 6 months ended 30 June 2016	Average net loans (£m) as at 30 June 2016
Asset Finance	1,498.2	509	34	1,422.5
Invoice Finance	155.3	19	127	158.1
SME Commercial Mortgages	926.0	210	27	877.6
Buy-to-Let	2,704.0	519	7	2,561.0
Residential Mortgages	1,515.7	243	12	1,453.0
TOTAL	6,799.2	1,500	20	6,472.0

The following table sets out a summary for the performance relating to Aldermore's market segments for the financial year ended and as at 31 December 2015.

Year ended 31 December 2015				
	Net Loans and Advances to customers (£m) as at 31 December 2015	Total originations (£m) in the year ended 31 December 2015	Cost of Risk (bps) in the year ended 31 December 2015	Average net loans (£m) as at 31 December 2015
Asset Finance	1,346.7	893	40	1,195.5
Invoice Finance	160.8	35	88	170.7
SME Commercial Mortgages	829.2	428	29	690.8
Buy-to-Let	2,417.9	673	6	2,231.0
Residential Mortgages	1,390.2	582	7	1185
TOTAL	6,144.8	2,611	19	5,473.0

Distribution

Aldermore employs a modern digital platform to support its distribution and customer service proposition and provide a scalable, efficient operating model. Aldermore's digital distribution model is at the heart of its service proposition. It enables responsive customer service (including prompt, effective and consistent credit decision making and savings accounts that can be opened and funded in 15 minutes) and facilitates the growth of the business.

Aldermore has established strong distribution channels for each of its targeted lending segments and has been recognised for providing expertise, superior customer service and flexible, straightforward products. The table below shows the split of origination between that generated via intermediaries and other channels.

(per cent.)	Year ended 31 December 2015		6 months ended 30 June 2016	
	Intermediated	Direct	Intermediated	Direct
Asset Finance	75	25	68	32
Invoice Finance	60	40	53	47
SME Commercial Mortgages	74	26	84	16
Buy-to-Let	81	19	83	17
Residential Mortgages	91	9	93	7
Total	80	20	79	21

Asset Finance

Aldermore offers Asset Finance to fund SME capital investment in certain assets including plant and machinery, commercial vehicles, cars, IT and telephony equipment, business equipment and receivables. Aldermore focuses on sectors such as logistics, manufacturing, construction and agriculture because they:

- exhibit a high propensity for use of Asset Finance;
- offer strong, risk adjusted returns;
- provide diverse end user risk exposure; and
- have established and liquid secondary asset markets.

The Directors believe that Aldermore differentiates itself in this segment through its combination of depth of industry expertise (including logistics, manufacturing, construction and agriculture),

competitive pricing of simple, transparent products and focus on specific types of asset classes. Leveraging its depth and breadth of expertise, Aldermore finances a wide array of assets. This flexibility enables Aldermore to meet the needs of customers of all sizes across key industries.

Furthermore, Aldermore has a strong intermediary proposition which utilises an online broker portal and, where necessary, provides access to Aldermore's underwriters, thereby allowing intermediaries to discuss individual loan applications directly with sector experts.

Aldermore's customers are geographically spread throughout the UK across a range of sectors. The following table sets out a breakdown of Aldermore's Asset Finance book by asset type as at 31 December 2015 and 30 June 2016.

Asset Type	<u>As at 31 December 2015</u> (per cent.)	<u>As at 30 June 2016</u> (per cent.)
Plant and machinery	34	31
Commercial vehicles.....	30	30
Professional loans.....	11	11
Cars – used.....	10	11
Cars – new.....	6	7
Other.....	9	10
Total.....	100	100

Aldermore offers Asset Finance loans on single transactions of predominantly between £5,000 and £1 million. As at 30 June 2016, the average loan balance was approximately £32,000, 82 per cent. of Aldermore's Asset Finance portfolio was secured against tangible assets and 0.31 per cent. of gross balances were three months or more in arrears.

Invoice Finance

Aldermore Invoice Finance provides working capital solutions for UK SMEs ranging from invoice discounting and full service factoring, where Aldermore manages the customer's debt collection on their behalf, to more tailored customer solutions such as construction and trade finance requiring the in-house expertise that Aldermore has developed. Aldermore will usually lend up to 90 per cent of the approved outstanding sales invoices.

Aldermore's customers are typically SMEs with turnover of up to £2million with a focus on key sectors including Manufacturing, Wholesale, Recruitment and Logistics. Aldermore has experienced client relationship managers based in our regional offices who understand our customers' businesses and provide expert advice to support their growth aspirations.

The Directors believe that Aldermore differentiates itself in this segment through its industry expertise, simple and clearly priced products and responsive customer service through its sector specialist service teams and local relationship managers.

As at 30 June 2016, Invoice Finance represented 2 per cent. of the total loan portfolio, the average loan outstanding was approximately £136,000 with an average prepayment percentage of 69 per cent. and 1.68 per cent. of gross balances were individually impaired.

SME Commercial Mortgages

Aldermore offers mortgages covering transactions from residential property development through to purchase and refinancing. Aldermore's SME Commercial Mortgages business focuses on mortgages for shops, warehouses, industrial units and offices distributed through financial intermediaries and directly with customers.

Aldermore's SME Commercial Mortgage loans are fully secured by way of first ranking charge on the property, to ensure that Aldermore's claim to the property, in the event of default, is senior to those of other potential creditors.

As at 30 June 2016, Aldermore's SME Commercial Mortgages had an average indexed loan-to-value ("LTV") of 49.5 per cent., the average loan balance was approximately £468,000 and 0.59 per cent of SME Commercial Mortgage gross balances were three months or more in arrears.

The following table sets out the geographical split of Aldermore's SME Commercial Mortgage loans as at 30 June 2016 and 31 December 2015.

Region	<u>As at 31 December 2015</u> (per cent.)	<u>As at 30 June 2016</u> (per cent.)
Greater London.....	23	19
South East.....	20	18
Midlands.....	11	11
East Anglia.....	5	8
North West.....	11	12
South West.....	13	13
Yorkshire.....	5	7
Other.....	12	12

Aldermore currently offers both fixed term and variable rate SME Commercial Mortgage loans. The fixed rate mortgage is fixed for an agreed period of time, usually 2, 3 or 5 years. At the end of the fixed rate period, most mortgages revert to LIBOR and a small number to Bank of England Base Rate. The variable rate mortgage is mostly linked to LIBOR for the term of the mortgage.

Aldermore manages its credit portfolio by regularly monitoring the credit profile of its borrowers and credit exposure concentrations in particular industries or corporate groups. In the context of SME Commercial Mortgages, Aldermore has certain lending criteria which seek to ensure that the borrower has a clear credit history. Furthermore, Aldermore requires borrowers to supply detailed financial information or demonstrate a strong financial track record before mortgage loans are approved.

Buy-to-Let

Aldermore provides a complete Buy-to-Let proposition catering for both individual and corporate landlords, simple to complex properties and from a single property to large portfolio.

There have been a number of regulatory changes related to the buy-to-let sector. During the first half of 2016, Aldermore has seen no significant shift in customer behaviour and the Directors believe that buy-to-let remains a key element of UK housing stock with the underlying demand remaining strong. Aldermore represents a small part of the overall market and, as such, the Directors believe that this lending segment remains attractive from both a growth and return prospective.

Aldermore's Buy-to-Let loans are secured on the UK residential property of the borrower on terms which allow for the appointment of a "receiver of rent" and/or repossession and sale of the property if the borrower fails to comply with the terms and conditions of the loan. The security is taken by way of first ranking charge on the property to which the mortgage loan relates to ensure that Aldermore's claim to the property, in the event of default, is senior to those of other potential creditors.

As at 30 June 2016, Aldermore's Buy-to-Let mortgages had an average indexed LTV of 60.6 per cent., the average loan balance was approximately £163,000 and 0.18 per cent of Buy-to-Let gross balances were three months or more in arrears.

The following table sets out the geographical distribution of Aldermore's Buy-to-Let loans as at 30 June 2016 and 31 December 2015.

Region	<u>As at 31 December 2015</u> (per cent.)	<u>As at 30 June 2016</u> (per cent.)
Greater London.....	35	35
South East.....	20	20
Midlands.....	9	8
East Anglia.....	9	9
North West.....	9	8
South West.....	8	8
Yorkshire.....	5	4
Other.....	5	8

Aldermore currently offers both fixed term and variable rate Buy-to-Let loans. The fixed rate mortgage is fixed for an agreed period of time, usually 2, 3 or 5 years. At the end of the fixed rate period, mortgages revert to a rate linked to the Aldermore Managed Rate. The variable rate mortgage is also linked to the Aldermore Managed Rate for the term of the mortgage. The Aldermore Managed Rate is a variable rate set by Aldermore, reviewed monthly and subject to change at any time.

Aldermore manages its credit portfolio by regularly monitoring the credit profile of its borrowers and credit exposure concentrations. In the context of Buy-to-Let, Aldermore has certain lending criteria which seek to ensure that the borrower has a clear credit history. Furthermore, Aldermore requires borrowers to supply detailed financial information regarding the rental income generated by the property as well as the borrower's wider portfolio and business interests.

Residential Mortgages

Within Residential Mortgages, Aldermore targets prime creditworthy quality customers, including first time buyers, the self-employed and professionals, who often fall outside the automated lending criteria of some of the mainstream banks. Aldermore was an early adopter of Government schemes such as the Help to Buy: mortgages guarantee and equity loan schemes.

The Directors believe that Aldermore differentiates itself in the Residential Mortgages segment through its use of modern technology enabling it to provide a responsive customer service and by system driven credit rules enabling efficient use of manual underwriting to determine whether to lend to customers. In contrast to some large incumbent banks, Aldermore utilises personnel who possess extensive sector and product expertise to make underwriting decisions. This allows Aldermore to adopt a more pragmatic approach to its mortgage lending and enables it to lend to those customers who despite having a prime credit rating may fall outside the lending criteria of the automated decision processes used by some large incumbent banks. Aldermore's credit risk management processes were established with the FCA's Mortgage Market Review in mind and as such required no significant adjustment to be compliant with the rules introduced following the FCA's Mortgage Market Review in April 2014.

Aldermore's Residential Mortgage loans are secured on the UK residential property of the borrower on terms which allow for repossession and sale of the property if the borrower fails to comply with the terms and conditions of the loan. The security is taken by way of first ranking charge on the property to which the mortgage loan relates to ensure that Aldermore's claim to the property, in the event of default, is senior to those of other potential creditors.

Aldermore Residential Mortgages had an average indexed LTV of 70 per cent. as at 30 June 2016. The maximum available LTV for owner occupied mortgages without additional security is 85 per cent., increasing to 95 per cent. where backed by the Help to Buy Mortgage Guarantee scheme and up to 100 per cent. under the Family Guarantee product range (where a charge is also taken over the guarantor's property). The average indexed LTV of the non-Help to Buy portfolio was 62 per cent. with the average indexed LTV of the Help to Buy portfolio being 88 per cent as at 30 June 2016.

Also as at 30 June 2016, the Residential Mortgages average loan balance was approximately £139,000 and 0.31 per cent. of the Residential Mortgage gross balances were three months or more in arrears.

Aldermore currently offers fixed term, variable rate and discount rate mortgages. The fixed rate mortgage is fixed for an agreed period of time, usually 2, 3 or 5 years. At the end of the fixed rate period, the mortgage reverts to a rate linked to the Aldermore Managed Rate.

The following table sets out the geographical distribution of Aldermore's Residential Mortgage loans as at 30 June 2016 and 31 December 2015.

Region	<u>As at 31 December 2015</u> (per cent.)	<u>As at 30 June 2016</u> (per cent.)
Greater London.....	6	6
South East.....	21	22
Midlands.....	16	16
East Anglia.....	13	12
North West.....	13	13
South West.....	10	10
Yorkshire.....	8	8
Other.....	13	13

In order to minimise credit risk on Residential Mortgages, Aldermore's credit procedures for Residential Mortgage lending take into account, among other factors, the borrower's credit history, LTV criteria and income multiples.

Savings

Aldermore offers a range of award-winning, straightforward savings products for Retail, SME and Corporate customers.

As at 30 June 2016, Aldermore's savings deposit base had £6.5 billion of deposits and Aldermore's loan to deposit ratio was 104 per cent. The vast majority of savers are fully covered by the FSCS.

Aldermore operates its SME deposit product on an in-house IT platform. The Directors believe that this innovative platform enables product and service differentiation and provides potential for future product expansion.

Aldermore has outsourced administrative back office services for its retail deposit business to Newcastle Building Society allowing it to benefit from Newcastle Building Society's regulatory and operational expertise. These services include product set up and maintenance, customer on boarding, account opening and management, account closures, management of online application and transaction pages and certain telephone and postal based account operating services. The Newcastle Building Society relationship is managed by a dedicated team at Aldermore which provides effective governance and oversight of pre-determined performance service standards. Aldermore retains control of proposition, pricing, customer communication and any intellectual property in relation to product design.

The following table provides a breakdown of Aldermore's savings book by account type as at 30 June 2016 and 31 December 2015.

Deposits	<u>As at 31 December 2015</u> (£ billion)	<u>As at 30 June 2016</u> (£ billion)
Retail.....	4.2	4.8

SME.....	1.4	1.5
Corporate.....	0.2	0.2

Credit Risk Management

Aldermore targets SMEs, homeowners and landlords. Credit risk is managed in accordance with lending policies, the risk appetite and Risk Management Framework. Lending policies and performance against risk appetites are reviewed regularly.

Aldermore seeks to mitigate credit risk by focusing on business sectors where Aldermore has specific expertise and through limiting concentrated exposures on larger loans, certain sectors and other factors which can represent higher risk. Aldermore also seeks to obtain security cover, and where appropriate, personal guarantees from borrowers. Affordability checks on income versus outgoings are also made in relation to mortgages to assess a borrower's capacity to meet interest payments.

Credit risks associated with lending are managed through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. Aldermore maintains a dynamic approach to credit management and aims to take necessary steps if individual issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to borrower, economic or sector specific weaknesses.

Due to the retail and SME markets Aldermore operates in, external rating agency ratings for borrowers are not typically available. However, credit risk is assessed through applying a combination of due diligence, reviewing credit reference agency reports, reviewing financial information, credit scores and the use of underwriters.

Capital position

Aldermore continues to operate in line with internal capital targets and above regulatory requirements. As at 30 June 2016, the Group had a fully loaded CRD IV total capital ratio of 14.0% (31 December 2015: 15.1%), a fully loaded CRD IV CET1 capital ratio of 11.0% (31 December 2015: 11.8%) and a leverage ratio of 6.9% (31 December 2015: 7.2%).

The Group's total capital resources as at 30 June 2016 were £598.1 million (31 December 2015: £558.1 million), comprising of £472.8 million CET 1 capital (31 December 2015: £435.6 million), Additional Tier 1 capital of £74 million (31 December 2015: £74 million) and Tier 2 capital of £51.3 million (31 December 2015: £48.5 million). Risk weighted assets ("RWAs") were £4,281 million (31 December 2015: £3,693 million). The increase in RWAs in the first half of 2016 is a result of a combination of planned business growth and a number of seasonal non-lending items including an updated higher operational risk requirement and the annual AT1 Securities coupon payment.

Directors

The following table lists the names, positions and lists of other directorships held of the Directors of Aldermore:

Name	Position	Other Directorships
Glyn Jones	Chairman	Aspen Insurance Holdings Limited
Philip Monks	Chief Executive Officer	Cumberland House BPRA Property Fund LLP
James Mack	Chief Financial Officer	
Danuta Gray	Senior Independent Director	Danuta Gray Limited National Centre for Youth and Medical Health Limited Old Mutual PLC PageGroup PLC Paddy Power Betfair PLC
John Hitchins	Independent Non-Executive Director	The Marsh Academy Camphill Benevolent Fund Pellipar Services Company Limited Pellipar Investments Limited

		Skidders (Cheapside) No.2 Limited Skidders' Investment Company Limited Centre for the Study of Financial Innovation Camphill Devon Community Limited
Robert Sharpe	Independent Non-Executive Director	Al Rayan Bank PLC Stonehaven UK Ltd Honeycomb Investment Trust PLC Bank of Ireland (UK) PLC
Peter Shaw	Independent Non-Executive Director	Bank of Ireland (UK) PLC
Chris Stamper	Independent Non-Executive Director	
Cathy Turner	Independent Non-Executive Director	Countrywide PLC Manchester Square Partners LLP The Gurkha Welfare Trust

The business address of each of the Directors is Apex Plaza, 4th Floor Block D, Forbury Road, Reading, Berkshire, RG1 1AX.

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

TAXATION

UNITED KINGDOM TAXATION

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

Withholding tax, stamp duty and SDRT

The following comments are made on the assumption that the Notes qualify, or have qualified, as Tier 2 instruments under Article 63 of Commission Regulation (EU) No 575/2013 (the "**CRR**") and form, or have formed, a component of Tier 2 Capital for the purposes of the CRR and that, as a result, the Notes will be "regulatory capital securities" for the purposes of the Taxation of Regulatory Capital Securities Regulations 2013 (the "**Regulations**"). Prospective Noteholders should note that, if the Notes are not "regulatory capital securities" for the purposes of the Regulations, or if there are arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage (as defined in section 1139 of the Corporation Tax Act 2010) for any person as a result of the application of the Regulations, the applicability of the following comments to the Notes is likely to be affected.

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

Transfers (including the issuance and redemption) of, and agreements to transfer, the Notes are, pursuant to the Regulations, exempt from United Kingdom stamp duty and SDRT.

Information reporting

HMRC has powers to obtain information, including in relation to interest or payments treated as interest and payments derived from securities. Such information may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, without limitation, the holders of the Notes, persons by whom payments derived from the Notes are made or who receive such payments, persons who effect or are party to transactions relating to the Notes and certain registrars and administrators. In certain circumstances, the information obtained by HMRC may be provided to tax authorities in other jurisdictions.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as “**FATCA**”, a “**foreign financial institution**” (as defined by FATCA) may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer) . However, if additional Notes (as described under Condition 16) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Noteholders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event that any withholding were to be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person would be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

The Manager has, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 26 October 2016, agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of their principal amount less a combined structuring, management and underwriting commission, subject to the provisions of the Subscription Agreement. The Issuer will also reimburse the Manager in respect of certain of its expenses, and has agreed to indemnify the Manager against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

Selling restrictions

United States

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

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

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

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

United Kingdom

The Manager has represented and agreed that:

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

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

GENERAL INFORMATION

Authorisation

The issue of the Notes was duly authorised by resolutions of the Board of Directors of the Issuer passed on 18 July 2016 and resolutions of a committee of the Board of Directors of the Issuer passed on 20 October 2016.

Listing

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

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

Indication of Yield

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

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1507529144 and the Common Code is 150752914.

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

No significant change

There has been no significant change in the financial or trading position of the Group since 30 June 2016 and no material adverse change in the financial position or prospects of the Issuer since 31 December 2015.

Litigation

Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have had in the recent past, significant effects on the financial position or profitability of the Issuer or the Group.

Auditors

The consolidated financial statements of the Group for the years ended 31 December 2014 and 31 December 2015 have been prepared in accordance with IFRS and have been reported on without qualification by KPMG LLP.

KPMG LLP is the auditor appointed by the Issuer for the purposes of auditing its consolidated financial statements.

Documents available

Physical copies of the following documents will be available while the Notes remain outstanding at the registered office of the Issuer and the Principal Paying Agent during normal business hours on any weekday:

- the constitutional documents of the Issuer;
- the Agency Agreement and the Trust Deed (which includes the form of the Global Certificate);
- the audited consolidated financial statements of the Group for the years ended 31 December 2014 and 31 December 2015 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2016; and
- this Prospectus together with any supplement to this Prospectus.

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

Incorporation of Issuer

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

Conflicts of Interest

The Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. The Manager and its affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

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

ISSUER

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