



**Indiabulls**

**Indiabulls Housing Finance acquires 40% stake in  
OakNorth Bank of UK**



# Contents

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	<u>Pg. No.</u>
1. Highlights of the Transaction	4
2. Case Studies of UK Banks	11
3. OakNorth Bank	14

## Background: OakNorth Bank

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- Licensed full service bank
- Founded by UK based finance professionals with a proven entrepreneurial track
- Top management was responsible for setting up of Copal Partners a 3,000 strong financial analytics firm
  - Acquired by Moody's in 2014 for approx. USD 700 Mn.
- Bank's management team includes Lord Adair Turner, Ex-Chairman, UK's Financial Services Authority (FSA)
- Synergistic move, as IBHFL has expertise in LAP lending to small businesses

# The Transaction

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- In a first for an Indian company, IBHFL to acquire stake in a UK Bank
- Indiabulls Housing Finance Limited (IBHFL) invests USD 100 Mn. in OakNorth, a Commercial UK Bank, for 40% stake
  - Investment of USD 100 Mn. represents 6.4% of IBHFL net worth of USD 1.6 Bn. as on 30th Sep 2015
- Net worth of the Bank post investment stands at USD 131 Mn.
- Shawbrook and Aldermore had a net worth of USD 240 Mn. and USD 236 Mn. respectively before going public in 2015  
(Refer slide no. 11-13 for detailed case study of these 2 banks)

## Four Regulatory Approvals

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- India: Approved by both the Reserve Bank of India (RBI) and the National Housing Bank (NHB)
  - Testament to IBHFL's institutional depth, corporate governance, compliance standards and regulatory comfort
- UK: Approved by Prudential Regulation Authority (PRA) of the Bank of England and the Financial Conduct Authority (FCA) of UK
  - Approvals granted after a thorough 'Fit and Proper' due diligence
  - Endorsement of IBHFL capabilities and value addition potential

# First of its Kind Move for an Indian Company

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- In a first for an Indian company, IBHFL acquires stake in an overseas bank in the UK
- With its 40% stake, IBHFL becomes the largest single shareholder in the bank
- As part of the deal, IBHFL gets significant board representation
  - 1 seat on the Board of the holding company
  - 2 seats on the Board of OakNorth Bank

# Unique Proposition

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- The bank is primarily focused on lending to SMEs
  - Cash flow based lending for business growth
  - Support growth in UK, by addressing this traditionally ignored segment
- High quality professional management team, with proven track record, and a distinguished Board
- Synergy with IBHFL's strength in cash flow based lending to small businesses in the domestic Indian market
  - Knowledge sharing on product development, technology, credit decision making, digital marketing etc.
  - Value accretive in the long run, for both IBHFL and OakNorth





OakNorth  
Bank



# Business Model

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- Licensed as a full service universal bank
- Launched deposit acceptance franchise
  - Retail deposits up to GBP 75,000 are insured by UK's deposit insurance guarantee agency (UK Government)
    - *Enables new banks to build a low cost liability base by collecting a large pool of deposits through online channels*
- Core model: a perfect blend of fintech and 'Challenger' banking model
  - Online deposit raising
  - Offline loan disbursements
  - Loan sell down through an online participation platform

# Snapshot of the Bank

A full service universal bank with a successful deposit franchise

## Products

- Business Lending Finance
- Property Loans

## Business Model

- Funding growth SMEs
- Online deposit raising and cash flow based lending
- Ticket size: USD 0.75 Mn. To USD 7.5 Mn.

## Medium Term Objectives

- 350-450 bps net spread
- Loan book of USD 1.5 Bn. in next 2 years
- Target RoE of 20%+

## USP

Addressing funding gap for growth SME segment, traditionally ignored by high street banks



# **Case Studies of 2 banks that have started in the last 5-6 years**

- Both these banks went Public in 2015**



Excellence in Research and Analytics

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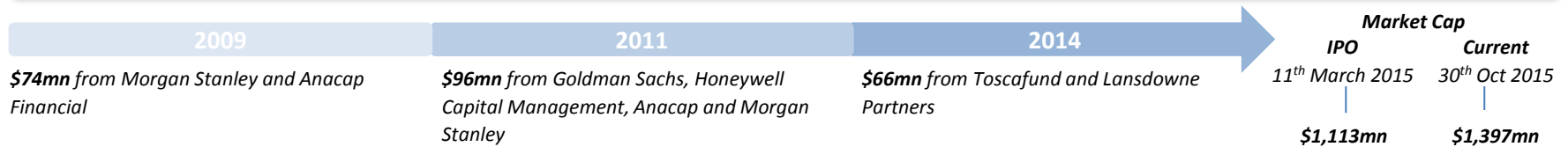
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# Aldermore Group PLC

\$236m raised from inception to IPO, with a pre-money IPO value of c. \$1bn

6 year period from inception (May 2009) to IPO (March 2015)



	P/ E <sup>1</sup> (x)	P/ BV <sup>1</sup> (x)		2014	2H 2014
At IPO (11 <sup>th</sup> March 2015)	17.2x	2.4x	ROE	15.1%	18.5%

Significant scale achieved in short timeframe i.e. 19x growth in deposits

All figures in US\$m

## Customer deposit strategy



- Nearly all deposits sourced through online channel (~80%)
- Government guarantee of all deposits up to \$115K, makes depositors indifferent to putting deposits with a new bank vs a major UK bank
- Average balance per account of \$52k all these savers are fully covered by FSCS
- 62% of retail book and 56% of SME book fixed in nature (December 2014)
- 50% of retail book and 45% of SME book are for a period of 1-5 years
- Reducing retail deposit cost by tactically using "Best Buy" Tables, actively managing back book and retention rates (average 68% for period from Jan 2012-Dec 2014)

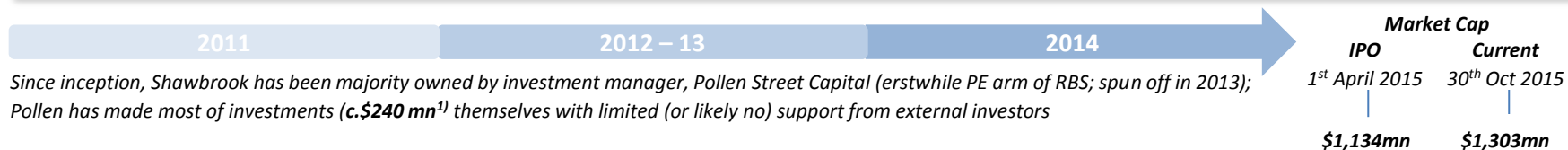
Note 1: Pre IPO Financials used i.e. for the year ended December 31, 2014; Note 2: Became profitable in 2012

Note: Spot exchange rate used for "as of date" financials and average exchange rate used for "for the period financials"

# Shawbrook Group PLC

\$240m raised from inception to IPO, with a pre-money IPO value of c. \$1bn

4 year period from inception (January 2011) to IPO (April 2015)



Shawbrook has attained critical scale with \$3.8bn in deposits

All figures in US\$m

Customer deposit strategy



- Most deposits sourced online
- Well covered by FSCS; average size of deposits of \$60k for term deposits and \$81k for notice accounts
- 85% deposits more than 90 days; 43% deposits between 1-5 years; average contractual maturity of accounts was 14 months
- Transparent pricing, competitive rates, clear communication, and diversity in product range are highlighted as primary selling point for retail customers

Note 1: Capital infusion is estimated from share capita and share premium difference. Note 2 - Pre IPO Financials used i.e. for the year ended December 31, 2014. Note 3: Became profitable in 2013; Note: Spot exchange rate used for "as of date" financials and average exchange rate used for "for the period financials"



OakNorth  
Bank

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# OakNorth Bank

## The Bank for Entrepreneurs

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# Our motivation

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## The current issue:

- Entrepreneurs and business owners have the ambition and see opportunity but struggle to obtain non dilutive sources of capital
- Traditional banks have stifled lending demand and poorly served small businesses – they lack breadth of mandate
- Growth companies provide half of all employment growth in Britain, but neglected by banks in favour of big business

## The challenges with traditional banks:

- Slow, bureaucratic and inflexible
- Difficulties in securing loans without real estate for collateral
- Property based security less relevant for today's small businesses
- Uncertain outcomes; “computer says no”.
- Owners and entrepreneurs have been told no too often – they have stopped asking
- Length of process is too extended
- Businesses often have to revert to more costly sources of finance or fail to find the funding they need
- Growing problem of good businesses failing because of a lack of affordable, relevant financial support
- Lending is a viable/preferable source of finance to equity for small business
- Other countries have significantly higher debt penetration than UK

**Key message: The status quo is not good enough; debt funding penetration can and should be higher**

# Our solution

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**OakNorth was created with a single vision in mind - to empower entrepreneurs to grow their businesses:**

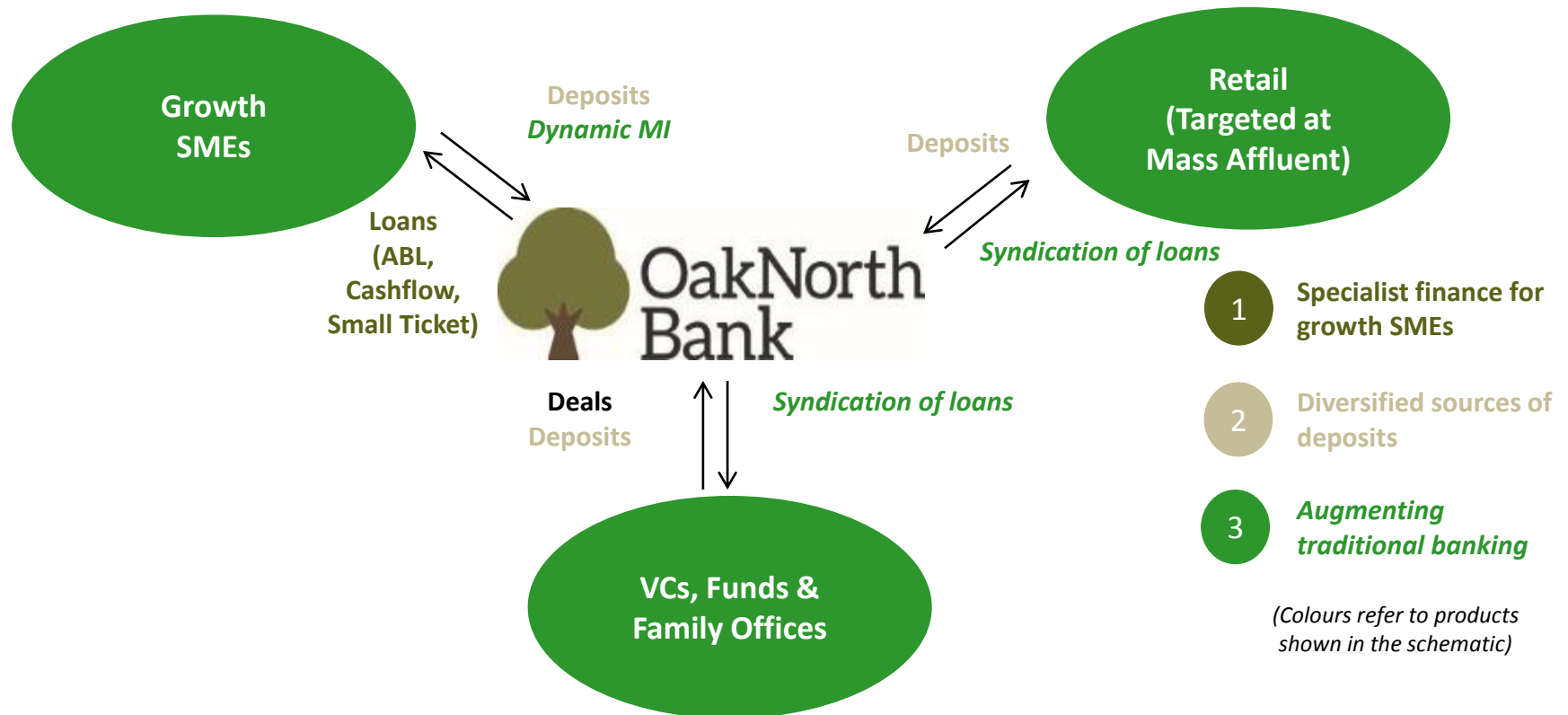
- Born out of the experience of its founders
- Adopts a fresh look at traditional banking
- Clear aim to support growth SMEs through innovative and insightful approaches to business lending

## **How we operate and the benefits we offer:**

- OakNorth is funded by a capital injection from founders as well as savings deposited by our customers
- OakNorth uses this liquidity to provide loans to SMEs
  - Minimum loan of GBP 500k and maximum loan currently circa GBP 5 Mn.
  - Target to grow loan book to GBP 1 Bn. within 3-5 years
- British businesses can expand through OakNorth's provision of accessible, flexible and financial solutions
- Savers benefit from strong returns on deposits as well as contributing to the growth of British businesses



# Being at the heart of the Growth SME community



## Key differentiators:

- Only UK bank focused on Growth SMEs & surrounding community, with a deep understanding of client needs
- Reduced origination cost over time from natural deal flow by position at heart of specialist community
- Improved risk via multi-deal relationship with key SME sponsors / investors
- Deeply specialised front office & credit risk staff, & data feed of client financial MI
- Syndication capability to distribute risk, but underwritten & % of risk retained by OakNorth

# Why OakNorth?

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**OakNorth understands business needs, and can offer financial solutions to help businesses grow:**

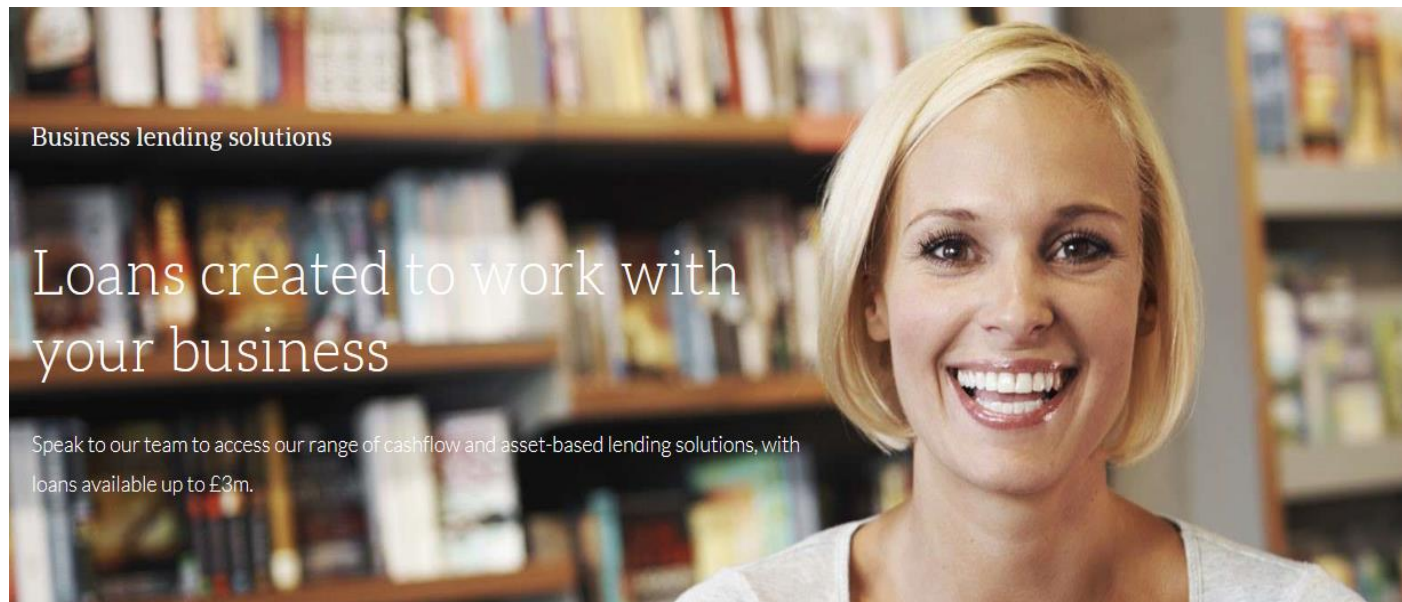
- **Flexible** – structures, solutions, types of security
- **Open minded, positive attitude** – think outside the box
- **Fast, transparent service** - decision making and credit process
- **Empowered, capable and candid specialists** - assured excellent service, sector agnostic
- **Improved customer experience** – marrying digital, modern systems with traditional banking
- **Healthy partnerships with our clients** – clients invited to meet and present to credit committee



# Our aims and values

## Our Five Targets:

- **10x** - Transformative approach: aim to do everything at least an order of magnitude better than “market standard” or “best practice”
- **Right Ambition** – To empower entrepreneurs to grow their businesses
- **One Team** – Our proactive experts are prepared to go out of their way to enhance customer experience
- **Say it how it is** – To communicate clearly, honestly and with empathy with customers
- **Momentum** – Focused on prompt response and service





OakNorth  
Bank

**Indiabulls**  
HOME LOANS

# Great leadership

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# OakNorth Non Executive Directors



## **Cyrus Ardalan, Independent Chairman**

- Over 40 years experience in the private and public sector
- 2000-2011, Vice Chairman of Barclays Bank and Member of the Barclays Senior Leadership Group
- Current head of the British Banking Association Strategy Group and alternate Board member
- Current Chairman of the Board, International Capital Markets Association (ICMA)
- Experience analysing the structure of the SME market in the UK, assessing the funding and risk management needs of different types of SME's, evaluation the alternative sources of financing available to growth SME 's.
- Lead engagement on a broad array of policy initiatives including Banking Reform Bill (Vickers), Financial Services Bill, Review of Banking Standards, Capital Requirements Directive (CRDIV), European Market infrastructure Directive (EMIR), Markets in Financial Instruments Directive (MiFID), bank structural reform (Liikanen), Banking Union and Capital Markets Union



## **Lord Turner, Senior Independent Non Executive Director**

- Chairman of the Financial Services Authority (FSA – UK Financial Regulator) from 2009 until 2013
- In 2008, he was appointed Chairman of the UK Government's nascent Committee on Climate Change
- Non-executive Director and member of Audit and Risk Committee, Standard Chartered plc from 2006-2008
- Vice Chairman (Europe), Merrill Lynch from 2000-2006
- Director-General of the Confederation of British Industry (CBI) from 1995-1999
- Became a Director of McKinsey & Co in 1994 after joining in 1982
- Worked for Chase Manhattan Bank from 1979-82



## **Robert Burgess, Independent Non Executive Director**

- 25 years senior Banking experience across retail and SME lending
- Held approved person status in a number of controlled functions (incl CF3 & CF1) along with Board & ExCo experience
- Business & regulatory governance in both large & small firms, P&L and Balance sheet management, strategy development & execution, operational delivery & transformation
- Set up as Co-founder & CEO, Exchange Associates, a start-up FS business in the challenger lender sector of "peer to peer"
- At LTSB Scotland full accountability and responsible for all operational, regulatory and financial aspects of the Retail/SME business
- As Regional Director, London & South East (Lloyds), full accountability and responsible for all operational, regulatory and financial performance of the business but in a matrix management model in line with the operating model at that time

# OakNorth Senior Management



## **Rishi Khosla, CEO and Co-Founder**

- Former Co-Founder, Chairman & CEO, Copal Amba, a 3,000 employee profitable financial research & credit analytics outsourcer.
- Built the business from scratch and the maximum amount of capital ever utilised was GBP 40,000. Revenues in 2014 were circa USD 120m
- Led the sale of the business to Moody's Corporation, which closed in December 2014. Investors included Deutsche Bank, Citigroup and Bank of America Merrill Lynch
- Early stage investor behind two multi billion dollar financial services sector entrants (PayPal & India Bulls). Previously led the PE venture investing activities in Lakshmi Mittal's family office
- Previously GE Capital and ABN Amro
- BA Economics, UCL and MSc Accounting & Finance, LSE



## **Joel Perlman, Chief Strategy Officer and Co-Founder**

- Former Co-Founder and President, Copal Amba, most recently led the integration of Copal Partners & Amba Research
- Previously managed Copal operations; built the management team & core operating processes / divisions of Copal Partners, & established the company's centres across the world
- Significant experience building management teams and creating corporate culture
- Previously at McKinsey & Co with focus on banking & media sectors
- MSc Accounting & Finance, LSE, Major in Finance and Minor in Philosophy, Georgetown University



## **Tom Woolgrove, Deputy CEO**

- Former Interim CEO of Flood Re, the new industry led, Government enabled, reinsurance vehicle for safeguarding affordable UK flood insurance, developed in partnership with HM Government
- Previously, member of Direct Line Group Executive Committee, led the UK Personal Lines, the largest business unit and responsible for majority of Group profits. Contributed significantly to the successful Direct Line Group IPO in 2012, including road shows and ongoing engagement with investors and analysts
- Immediate past, was President of the Chartered Insurance Institute and member of the ABI's GI Committee
- Various Managing Director roles within Insurance and Financial Services at HBOS and Lloyds Banking Group, and Strategy consulting with Cap Gemini



## **Murali Reddy, Chief Financial Officer**

- Experienced finance professional with over 20 years of experience across both financial services and practice
- Currently the Finance Director at BCS Financial. Prior to this a Financial Controller for RBS Corporate & Institutional Banking
- Spent 4 years as Finance Director at Renaissance Capital – CF 28. Prior to this joined Deutsche Bank as a Director, Group Audit following 15 years in practice with PWC, BDO & E&Y
- Qualified ICAA- ACA in 1997. BA Business, Accounting & Finance University of Technology, Sydney



# Senior Management team (cont.)



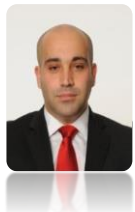
## **James Cashmore, Chief Risk Officer**

- Senior banking professional with specialism in risk and strategy.
- Led credit risk sanctioning and risk policy/risk appetite development teams, and as COO for W&G Risk, oversaw the risk agenda from credit to operational risk, and led a radical re-design of the function to be appropriate for an innovative challenger bank.
- Head of Strategy for RBS UK, led an internal consulting team which developed new customer propositions.
- Client lead with McKinsey in developing the post-financial crisis long-term strategy for RBS Corporate in the UK
- Winner of the CEO's Leadership award in 2012 for work as CAO in thought leadership



## **Neil Evans, Head of Credit**

- More than 30 years of experience in credit risk, including all forms of credit analysis and underwriting in the SME/Corporate arena with personal Lending Authority to £20million
- Until November 2014, Senior Manager - Head of Lending Related Policies, Corporate Banking Risk, RBS
- Senior Manager Head of Policy, Risk Appetite and Assurance, Corporate Banking Risk, RBS
- Various Underwriter/Analyst and other roles at RBS since 1983
- Associate of Chartered Institute of Bankers (ACIB)



## **Ben Barbanel, Head of BD**

- Regional Director - Business Development, Santander UK Corporate & Commercial Banking, leading the business development activities of SCCB across London and South East
- Promoted into the Deputy Regional Director role after strong performance in the London team and initially tasked with line management responsibility to the up to £25m revenue team in London
- Previously, Partner - Business Banking, Clydesdale Bank
- Prior to this, worked as Manager - Commercial Banking at RBS
- BA (hons), Economics, FSA registered

[www.oaknorth.com](http://www.oaknorth.com)

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