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SEVEN STARS LEGAL FUNDING LIMITED

CORPORATE GOVERNANCE STATEMENT



Seven Stars Legal Funding Limited (“**Seven Stars**”) believes that strong governance principles provide the foundation for sustainable growth, ethical practices, and the fulfilment of our responsibilities to our investors, borrowing firms, and the legal and legal funding industries.

Seven Stars combines an experienced and efficient internal management and administration team with this bespoke and subject-specific corporate governance structure, which includes our Advisory Panel, which provides oversight and verification of law firms and legal sectors. Given the diversity of the sector, case types, and prevailing law, the Advisory Panel includes an experienced Solicitor Advocate, the former CFO of a top UK University, and a leading barrister (King’s Counsel) to provide a broad and authoritative review of legal sectors.

This governance statement outlines our fundamental governance framework and practices we follow when making lending decisions.

LEVELS OF GOVERNANCE

Seven Stars has two layers of governance in place, namely:

- Our Board of Directors, and
- Our Advisory Panel

COMPANY MANAGEMENT

The Operational Directors of the Company are Andrew Neal, Duncan Webster, and John Walls.

Andrew Neal

Andrew spent 15 years working in finance roles for Unilever before becoming CFO and COO for Lancaster University, where he oversaw one of the biggest investment programs in the Higher Education sector, redefining the Lancaster University Financial Strategy.

As part of a small senior group, Andrew led strategy development for the University, helping to establish Lancaster in the top 10 universities in the UK. Andrew has a deep working knowledge of complex organisations in both the private and not-for-profit sectors. He has been involved in the legal and legal funding sectors since 2012 and has been a Director of Lawthority Ltd since 2015.

Duncan Webster

Duncan has worked in tax structuring, fundraising, and finance-related activities since 2001 and has varied commercial interests in businesses he has invested in, from media to medical research. Aside from experiences gained from investing, he has gained experience from assisting clients in structuring their investments across various asset classes and has developed a network of individuals and corporate contacts through his activities.

Over the past five years, Duncan has arranged or made investments in various industries in the Central European region, including industrials, renewable power, and financial services. Across his career, he has fundraised over \$100mn for medical research and \$100mn for media investments. He has also worked as a risk management analyst in Eastern Power & Energy Trading (TXU Europe). He holds an Economics degree from University College London and has directorships and former directorships in various other companies, generally as a professional director assisting with corporate governance, restructuring, or capital raising.

Mr John Walls DIP IP, PFA, CeMap

With over 30 years' experience in financial services as an independent financial advisor and managing director of the company, John has raised millions of pounds in enterprise investment schemes and litigation funding, as well as advising and arranging investments. John sits on several boards in an advisory capacity using his qualifications, knowledge, and experience in a personal capacity as an investor for the benefit of his clients, assisting the board in exploring marketing, product design, and investment opportunities. John appears on the FCA register with the reference JAW00028 and has held the functions of SMF3, SMF16 and SMF17 during his career, although he is now retired as an IFA.

SEVEN STARS ADVISORY PANEL

The Advisory Panel currently comprises John Walls (also a Director), Stephen Chinnery, and Louis Doyle.

Mr Stephen Chinnery

Stephen is a qualified Solicitor Advocate who routinely acts as a litigator and advocate in County Court, High Court, and Tribunal disputes. He has 20 years of experience in dealing with complex commercial cases. Stephen deals with all aspects of contentious insolvency, including claims against directors, bankruptcy issues, and directors' disqualification.

Stephen also specialises in Tax Disputes: he routinely pursues appeals in the Tax Tribunals and Judicial Review against HMRC in the High Court. Stephen appears on the SRA Register with number 293538 and is a member of the UK Law Society.

Mr Louis Doyle KC

Louis Doyle KC is a commercial silk. He was admitted as a solicitor in England & Wales in 1994 before being called to the Bar in 1996, where he now practices from Kings Chambers, Manchester and 9, Stone Buildings, Lincoln's Inn. Louis has extensive experience in commercial litigation, especially that with an insolvency or company law angle – he is the co-author of Doyle, Keay and Curl: Annotated Insolvency Legislation (LexisNexis), now in its 11th edition – as well as all manner of financial disputes.

His practice also extends to advisory work and assisting, alone or as part of a team, in the drafting of bespoke commercial documents. He has appeared in about forty reported cases in his field and is also a contributing editor to the leading looseleaf, Gore-Browne on Companies. He has also been admitted to the Bar of the Eastern Caribbean Supreme Court, British Virgin Islands Circuit.



ABOUT OUR PROCESS

What we do

Seven Stars provides funding to qualified Law Firms or regulated marketing companies helping such Law Firms ("Funding Partners") to acquire cases for case acquisition, reports & expert witness statements, court fees, and other disbursements as required to run a case through to settlement or judgment. Funds are lent at a set annual interest rate that is competitive for the sector and may also benefit from a preset share of the Solicitor's income as an additional profit element. Seven Stars targets small individual precedent-based claims against large liquid entities. By diversifying across a range of small claims, we are able to spread the risk of unsuccessful claims and reduce the impact of any settlement delays.

Seven Stars has established a team of advisors to oversee the funding requests received from law firms and an established lending due diligence process prior to lending, during funding requests, and at regular intervals throughout the loan period. The evaluation and onboarding team consists of Kevin Prior and Stephen Matthewman.

Kevin Prior

Kevin has spent the last five years sourcing funding for regulated Law Firms and was responsible for securing the finance line required for the upcoming Plevin GLO. During this time, he was able to assist law firms in representing over 15,000 individual claimants. Before this, Kevin created and piloted a regulated crowdfunding firm and a specialist US property fund. His background in economics and vast commercial experience allows him to make clear assessments of potential borrower firms from the outset of the process.

Stephen Matthewman

Steve worked for 14 years in large UK financial and insurance institutions, including Halifax Building Society, Legal and General, and Standard Life. Following this, Steve worked as an IFA for six years, with FPC 1, 2 and 3 qualifications. At that time, the regulatory body was FIMBRA, then controlled by the Securities and Investment Board (SIB). He specifically worked providing regulated advice to Solicitor and Accountants clients.

The onboarding team is responsible for compiling the due diligence files and supporting data room on each firm and

securing, where possible, Counsel opinion on the merits of each case type and the borrowing law firm's business proposal.

Our CFO, Andrew Neal, conducts significant due diligence reviews on the law firm's financial stability and the viability of the cases seeking funding before presenting a proposal note on qualifying borrowers to the Advisory Panel for review and consideration. If approved by our Advisory Panel, we complete a Deed of Assignment over the cases and, where possible, take a debenture over the law firm's assets as part of our security arrangements.

In the event of fraud by a legal firm, we could make a claim under the Solicitors Regulation Authority (SRA) Indemnity Fund or the mandated Professional Indemnity (PI) insurance of each Solicitor, which they are obliged to hold.

How we mitigate debt security risk

Where possible, Seven Stars Legal takes a charge over the assets of all Funding Partners and the cases being funded. The Funding Partners are charged an interest rate, arrangement fee and sometimes a contractual share of their success fees for winning the cases. In most cases, the potential gains from winning a case must be at least twice the amount spent pursuing the case. Losing a case results in usually losing only the sums invested in pursuing the case, most of which can be covered by After The Event (ATE) insurance. This difference between the potential gains and the potential losses (covered by ATE insurance) provides an element of security and capital protection.

The Funding Partner enters into either a Deed of Assignment of funded assets or a general Debenture with the lender. The assignment covers all no-win, no-fee (i.e. not profit costs) income due to the Funding Partner, both disbursements and the contingency fee, so it will generally be of greater value than borrowings.

Seven Stars aims to provide a minimum level of debt cover of 1.5 times the borrowed amount. In practice, it is closer to twice the borrowed amount on most cases funded but can go as high as four times on Financial Ombudsman Service (FOS) or Financial Services Compensation Scheme (FSCS) claims as a result of



our lending evaluation process on these case types. In the event of solicitor default, Seven Stars holds the right to reassign the cases to another firm.

About After The Event insurance

ATE insurance must be in place for all cases funded by Seven Stars where a risk of costs or adverse costs exists. ATE policies cover the cost of 'own disbursements' (the funds spent on that case) on funded cases in the event that a case is lost; in this scenario, it also covers the other party's costs.

It is not a capital insurance for the investment, and Seven Stars is not a beneficiary; however, it does provide some assurance that the borrowing law firm will receive funds it can use to cover indebtedness.

All firms and cases are actively monitored to provide details of the progress of funded cases. The law firm must repay the funding provided or replace any cases with the agreement of Seven Stars.

Seven Stars also reserves the right to request that Funding Partners have rated paper underwriting, such as an A-rated underwritten ATE policy. If this is required, Kevin Prior, Seven Stars' Chief Commercial Officer, will request and discuss it with the Funding Partner and agreements are written such that this is easily applied as a condition of lending. Equally, lending agreements are not an obligation to fund, and Seven Stars retains the right to cease a funding line should they believe they have reason to do so.

How we underwrite selected cases

Seven Stars also applies its own underwriting model to specific case types to both minimise risk and maximise potential returns.

The following representative example outlines how Seven Stars would deal with a Funding Partner looking to draw down funding for Financial Ombudsman Service or Financial Services Compensation Scheme claims for pension mis-selling:

- Funding Partner provides its case book to Seven Stars, showing a book value of £1,000,000.00.

- Seven Stars would write this down to 50% - 65% of the book value.
- If Seven Stars writes a book value of £650,000.00, the maximum funding provided would be between 50% and 60%, or £325,000.00 and £390,000.00.

In addition to only providing funds for cases with a preset minimum value, the process above ensures that Seven Stars can adequately protect itself and investors' interests and realise maximum value from its lending activities.

The lending lifecycle

The remainder of this statement outlines our lending and due diligence processes and our broader lending lifecycle in detail.

1. Approach and interview

Following an initial approach and expression of interest in receiving funding, an interview is conducted with the directors of the prospective Funding Partner by Kevin Prior, Seven Stars' Chief Commercial Officer, and Steve Matthewman of the onboarding team, to understand the company's funding needs, history, and current business position. File notes are taken and retained.

2. Due diligence procedures

Subject to completion of a satisfactory interview indicating the suitability of the Law Firm or regulated marketing company and the cases they run being eligible to receive funding, due diligence procedures are conducted by Steve Matthewman, Seven Stars' Commercial Assistant.

At this stage, Seven Stars sends the prospective Funding Partner a comprehensive Due Diligence Questionnaire and Checklist for completion. Upon receipt of this and additional data, Seven Stars compiles a Data Room to hold the information gathered from the prospective Funding Partner, which includes but is not limited to:

- The prospective Funding Partner's policies and procedures, including data protection, disaster recovery and general IT.
- Copies of all template Client retainer documents.

- Relevant insurance policies, including After The Event (ATE) Insurance, if applicable to the case types the prospective Funding Partner is looking to fund.
- Cash flow projections and analysis, to ensure capacity to repay.
- Assessment of case acceptance procedures.
- Review of last filed accounts.
- SRA verification of the Solicitor and firm.
- Complete identification, anti-money laundering, and credit checks on the prospective Funding Partner's company directors.

3. Initial review and request for funding proposal

Upon satisfactory completion and outcomes of the Due Diligence Questionnaire and Checklist and the relevant checks on the prospective Funding Partner and its company directors, Seven Stars Director Andrew Neal reviews all the gathered information.

After verifying that all necessary information and data are present and acceptable, Seven Stars requests prospective Funding Partners complete a Funding Proposal document. To ensure consistency in each Funding Proposal, Seven Stars provides its own Funding Proposal document template to prospective Funding Partners and instructions on the information required.

4. Final review and file note

Upon receipt of a completed Funding Proposal, Andrew Neal conducts a further review, checking that the file is complete while also deciding whether Seven Stars wishes to proceed. If the Funding Proposal is for a case type not previously funded, Seven Stars will also seek independent opinions from third-party solicitors about the viability and prospects of success for the case type in question.

If Seven Stars wishes to proceed, a file note containing all the documents, data, and information gathered during the Due Diligence and Funding Proposal process is completed and sent to Seven Stars' Advisory Panel.

Seven Stars' Management undertakes a strict tick-box review process before proposing a firm or sector to the Advisory Panel. Only after a firm and case type have been fully reviewed and a file specifically prepared is it submitted to the Advisory Panel for review and verification.

5. Advisory Panel review

When a file has been sent to the Advisory Panel, it is under the assumption that the prospective Funding Partner's proposal represents a good opportunity for Seven Stars

to realise a return. Therefore, Seven Stars' Advisory Panel operates with a "fail list policy," i.e. looking for reasons not to lend to the prospective Funding Partner.

Whilst the Panel will not act as a de facto Investment Committee, the oversight capacity will allow the Advisory Panel to raise flags on any funding opportunity.

6. Advisory Panel approval and closing documents

Should the Advisory Panel approve the file for the prospective Funding Partner, it returns the file to Andrew Neal.

Andrew then issues the following documents, in addition to any others as required:

- Closing documents
- Deed of Assignment or Debenture
- Funding Agreement
- Funding Guarantee, if applicable

If Seven Stars is using a Debenture, this must be placed within 15 days for the Funding Agreement to proceed.

7. How Funding Partners access funds

Seven Stars follows a consistent and strict procedure when Funding Partners wish to draw down funds.

- Funding Partner sends a funding request detailing a list of cases they would like to fund, including the amount they wish to draw down, case type, volume, and expected returns from the cases in question.
- Seven Stars reviews the case files for which the Funding Partner is seeking funding, including:
 - Randomly sampling claimant files for retainer and all legal documents, including anti-money laundering verification.
 - Verification of After The Event Insurance policy, if applicable, for the case type being funded.
 - Verification of case and claimant details.

Seven Stars also conducts random update sampling on previous funding tranches, audits of the Funding Partner's case book and case files, and how the claims we're funding are progressing.

These checks also enable Seven Stars to gather data for internal use to understand the overall business position and when returns may be realised. This data can subsequently be communicated to investors and used to inform future lending decisions with existing and prospective Funding Partners.