

Aldermore Bank PLC

Financial Statements for the year ended 31 December 2010

Registered Number: 00947662

Company Information

Board of Directors

Non Executive Chairman

Sir David Arculus

Executive Directors

Phillip Monks - Chief Executive

Mark Stephens - Deputy CEO

Paul Myers - Chief Operating Officer

Stephen Barry - Risk Director

John Baines – Chief Financial Officer

Ian Wilkins - Group Managing Director - Commercial Finance

Non Executive Directors

John Callender

Finlay McFadyen

Peter Cartwright

Jayne Almond

Secretary

Dionne Baldwin

Registered Office

1st Floor, Block B

Western House

Lynch Wood

Peterborough PE2 6FZ

Auditors

KPMG Audit Plc

1 The Embankment

Neville Street

Leeds

LS1 4DW

Registered No

00947662

www.aldermore.co.uk

Authorised and regulated by the Financial Services Authority.

Member of British Bankers Association.

Member of Finance and Leasing Association.

Member of Asset Based Finance Association.

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CHAIRMAN'S OVERVIEW

EXPERTISE. APPLIED.

Aldermore is a new name in British Banking.

The Governor of the Bank of England recently recognised that, despite improved credit conditions, the large banks continue to have negative net lending, and that people running small and medium sized businesses are under great pressure. So when I was invited to take on the role of Chairman of Aldermore Bank, I was pleased to be associated with a dynamic new name in British Banking, where a small well capitalised bank, with excellent liquidity and a total absence of the problems of the large incumbents, would be able to lend to small and medium sized businesses and homeowners, and be involved in helping UK plc get back on its feet.

I am delighted to tell you that after four months in the role, I believe this is the reality of what we have in Aldermore.

The Bank manages to principles which underpin everything we do:

- We adhere to our chosen service lines by offering real expertise and value in niches.
- We adopt outstanding and reliable Risk Management and Governance procedures.
- We recruit exceptional Banking professionals, and seasoned non-executive directors.
- We will always remain properly capitalised.
- We strive to be efficient, straightforward, expert and dynamic.

In 2010, in a transformational year, the Bank has again demonstrated its commitment to these principles:

In our **Mortgages Division**, a Residential Mortgage business has been built from scratch and launched in May, offering home loans to credit worthy customers, increasingly focused on niches which the large established mortgage providers are ignoring; for example first time buyers, the armed forces and other key workers. The Bank has also established a strong presence in the buy-to-let market.

The Commercial Mortgage business continues its resurgence, and deservedly won industry awards – both as the “Best Commercial Lender in 2010”, and “Best Specialist Lender 2010”. It is developing very attractive propositions for the professional Residential Investment segment, with bespoke, expert underwriting skills applied to the mainstream commercial segments. The business is also providing desperately needed capital finance to SMEs to be able to purchase their own trading premises.

Within our **Commercial Finance Division**, the most mature business in the Bank, Invoice Finance, has flourished under Aldermore's ownership. It is a highly service-led business, which operates at the heart of the business communities up and down the country. The Invoice Finance business offers significant sector expertise to a vast array of businesses including those operating in manufacturing, precision engineering and road haulage and was recently commended as “Best Factoring and Invoice Discounting Provider” in the Business Moneyfacts Awards.

The Asset Finance business has also been building scale and strength in its leasing products, using its highly skilled underwriters to tailor deals for SMEs. We are now building out in a number of industry sectors, with highly expert staff tailoring solutions to Materials Handling, Construction and Professionals, as well as a successful Broker Based SME business. The integration of product offerings between Asset Finance, Invoice Finance, and Commercial Mortgages, is flourishing and new customers have already been secured by delivering a combination of all three products. Aldermore is the answer to many business problems, where we are seen as real industry experts, with a product set to match.

The **Deposits** business continues to leverage our highly-automated servicing platform to deliver a consistently good return for the UK saver. Competitive interest rates and simple and transparent products, backed by our friendly and efficient customer service, have proved a winning combination in growing the business. Indeed, our customer retention has been high and feedback overwhelmingly positive so it was no surprise that we were Highly Commended as "Fixed Rate Account Provider" in the 2010 Moneyfacts Awards and that we won the Moneyfacts "Best ISA Provider 2011" award, as voted by consumers. All of this is clearly an extraordinary achievement for a "new" Bank.

Being regulated by the UK Financial Services Authority, Aldermore's depositors benefit from the Financial Services Compensation Scheme which guarantees deposits up to £85,000. But it is clear that what is really bringing deposit customers to the Bank is good value for money, and straightforward uncomplicated products. The customer feedback has been fantastic on a service which allows customers to deal with us in a way which suits them. Also our no-nonsense products, with no hidden terms or conditions, have been a huge success.

And whilst the Financial Services Compensation Scheme is of real reassurance to many of our customers, it is of course the directors' mission to ensure it is never required. The Board diligently manages the business of the Bank, applying sophisticated techniques and standards, despite our size. We continue to lend within our risk appetite, and loan portfolios continue to perform better than our expectations.

Indeed, when it comes to regulation, we have adopted a number of principles which the larger banks are asked to implement – notably in the area of compensation where all employees with variable compensation have risk metrics attached to their performance objectives and those very few employees with variable pay in excess of 33% of their compensation have part of their compensation deferred over several years.

All of the Executive Management and some other senior staff have their compensation substantially tied to the long term fortunes of the bank, and thus are incentivized to make sure that they are prepared to live with the consequences of decisions they make now, well into the future. This helps underpin a risk management culture at the most senior level of the bank, which provides the ultimate protection to our depositors.

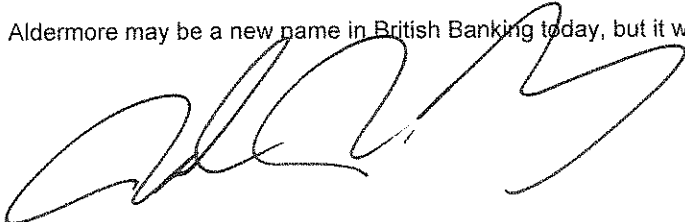
The Board has been further strengthened in 2011 with the addition of Jayne Almond as a non-executive director. With Jayne's experience of retail banking, we now have experienced high quality non-executive directors reflecting all of our business lines, to provide both challenge and support to the Board.

Under the leadership of Phillip Monks, 2010 has been a year of significant achievement, driving the balance sheet to over £750m. These accounts demonstrate success in building up our business, but still only provide a glimpse of the true capability and ambition of the Bank. The sustainability of the Bank is never far from our minds, and manifests itself in a number of ways:

- Our technology platform is state of the art, delivering great customer service but also cost efficiency which allows us to deliver keen pricing to customers.
- We are building a digital banking platform which allows customers to find us, talk to us, and transact with us.
- We value service and expertise because we know our customers want it.
- We do not have the legacy issues of the large banks - no toxic assets, no old inflexible systems, no outdated sales practices, and no pricing structures which prevent us from offering both existing and new customers the best deals in the market.
- Our business is truly being built with sustainability at its core.

Finally, I turn to the most important ingredient of our success – the people who work for us and who are experts in their field. This team of experienced executives, managers and staff brings expertise, strategic vision and a strong risk management ethic which prevails throughout the DNA of Aldermore. It is also very satisfying to be creating many new jobs, as we continue to build the skills and capability which will allow the Bank to continue to grow safely in the future.

Aldermore may be a new name in British Banking today, but it will be a great name in British Banking in years to come.

A large, stylized handwritten signature in black ink, appearing to read 'DAVID ARCULUS'.

Sir David Arculus

Chairman

DIRECTORS' REPORT

For the year ended 31 December 2010.

Financial Statements

The Directors present their report and the financial statements of Aldermore Bank PLC ('Aldermore') for the year ended 31 December 2010.

Capital injections

AC Acquisitions Limited is the ultimate holding company of the group containing Aldermore. During 2010 capital injections were made by AnaCap Financial Partners L.P., AnaCap Financial Partners II L.P. and AnaCap Derby Co-Investment (No. 1) L.P. During the year ended 31 December 2010 a total of £48.3million was invested in Aldermore by AC Acquisitions Limited via subscription of equity share capital in the intermediate holding company Aldermore Holdings Ltd which in turn invested in equity share capital of Aldermore.

On 21 February 2011 AnaCap Financial Partners L.P., AnaCap Financial Partners II L.P. and AnaCap Derby Co-Investment (No. 1) L.P. invested a further £16.4m in the ultimate parent AC Acquisitions Limited. This in turn has been invested in Aldermore Bank PLC via a subscription of ordinary share capital.

At the balance sheet date, the Bank has included in "prepayments and accrued income" £1.0m spent on external fees in relation to costs incurred in 2010 as part of a capital raising exercise, which began in September 2010. The process involved appointing external advisors to manage the capital raising process to conclusion. All directly incremental costs to issuing the capital would normally be debited to share premium when the capital is raised, but the process has yet to conclude. Based on the strong interest in investing in the Bank, and the advanced stages which the process has got to, the directors are of the opinion that the Bank will be successful in raising further capital and will at that time transfer these incremental costs to share premium against the capital raised. The process is expected to conclude in the first half of 2011.

Principal Activities and Business Review

Aldermore is authorized to accept deposits under the Financial Services & Markets Act 2000 and the principal activities of Aldermore during 2010 were the provision of banking and related services. The strategic objective of Aldermore is to be a provider of secured financial products to the SME and residential mortgage markets, funded by capital and retail deposits.

The operating loss before taxation for the year ended 31 December 2010 was £8.8m. The loss is a direct result of significant investment across the business in infrastructure, systems and recruitment to enable future growth and scale to be achieved. The number of employees at 31 December 2010 was 377, a significant increase on 31 December 2009 of 259.

Tier 1 and 2 capital at 31 December 2010 was £85m. The bank had a capital adequacy ratio of 116.4%

On 2 March 2010 Aldermore acquired the assets and employees of Heritable Asset Finance for £23m. On the 30 June 2010 Aldermore Bank PLC acquired a residential mortgage portfolio from Merrill Lynch International Bank Limited for £24.9m.

Liquidity

Year-end cash and government bills totaled £219.3m giving a liquidity ratio (Cash divided by Deposit balances) of 34.5%.

DIRECTORS' REPORT (continued)**Investment in the Business Systems and Support Structure**

Fixed asset additions in the year of £2.9m were mainly focused on new IT systems and infrastructure. This investment is ongoing and the business is forecast to spend over £4m during 2011 on enhancing the technology infrastructure further.

Commercial Finance Division

Asset Finance - During 2010, Aldermore grew its asset finance business through origination of leases to the public sector, professions, corporate and SME sectors. At present Aldermore sources new business from specialist brokers, but plans to seek vendor partnerships to help diversify distribution.

Invoice Finance - Aldermore provides working capital finance, with the principal product lines being invoice discounting and factoring products to UK SMEs.

Mortgages Division

Commercial Mortgages - Aldermore is now an established UK SME commercial mortgage lender offering specialist products and solutions via intermediaries. Aldermore has a conservative approach to underwriting commercial property loans, limiting underwriting to select customers with good credit quality and interest cover. Lending is first charge, low LTV, primarily against commercial/industrial premises, professionally managed residential buy to let, and retail premises.

Residential Mortgages – the Bank launched this new business in May 2010, using intermediary distribution, conservatively underwriting loans against owner occupied and buy to let properties, with low LTVs. Customers have good credit ratings and interest cover characteristics and the business is underpinned by a high quality technology platform.

Property Development and Bridging Finance - The Bank has decided to cease this type of lending in 2010 due to the operation being sub-scale. No further business is being written. Existing facilities have continued to draw down and the overall portfolio will begin to run off later in 2011.

Summary of lending asset values by Division

Division	As at 31 December 2010 £'000	As at 31 December 2009 £'000	Net Change £'000
Commercial Finance	169,197	101,887	67,310
Mortgages	305,755	58,687	247,068
Total	474,952	160,574	314,378

Other Assets

Aldermore has a small portfolio of asset backed securities. These investments are in AAA rated bonds secured on UK originated assets. All investments are in Sterling; no foreign currency bonds were bought. As at 31 December 2010 the book value of these investments was £35.8m. The portfolio has a significant level of credit enhancement, providing substantial principal protection against losses.

DIRECTORS' REPORT (continued)

Customer Deposits

The primary source of funding for Aldermore is from retail deposits. Retail deposit products are offered to the general public via the internet, post, and telephone. The recent growth in assets has been funded through the deposits base. Deposit balances have increased from £229.6m at 31 December 2009 to £634m at 31 December 2010.

Going Concern

As referred to in Note 1(b), the Directors have made a full assessment of the current state of the balance sheet of Aldermore and the longer term strategy of the business. Capital and liquidity plans have been reviewed and subject to stressed assumptions. Although loss making during the year ended 31 December 2010, the Directors believe that Aldermore has sufficient resources, both actual and committed, to continue lending and deposit taking throughout 2011 and to continue its expansion. Aldermore has firm backing from its investors to enable it to maintain the regulatory capital requirements as set out by the Financial Services Authority, and strong interest in contributing further capital continues to be shown by potential new investors.

Aldermore is forecasting to become profit making in the second half of 2011.

Principal Risks and Uncertainties

A core objective for Aldermore is the effective management of risk. Given the nature of the activities undertaken, the principal risks faced are credit risk, market risk, liquidity risk, interest rate risk and operational risk. Each risk has a detailed documented policy and is overseen by a robust governance process including regular and detailed management information. Aldermore has a Chief Risk Officer who is responsible for ensuring each risk is adequately monitored, managed and mitigated. A detailed analysis of all key risks has been documented in the Internal Capital Adequacy Assessment Process report, recently approved by the Board.

The Board has ultimate responsibility for setting the firm's strategy, risk appetite and control framework and key risks are reviewed at the monthly board meeting.

Aldermore has an Audit & Risk Committee which meets on a quarterly basis. The Committee monitors and considers the internal control environment focusing on operational risks, internal and external audits and compliance matters.

Credit Risk

Credit risk is the risk of principal loss arising from defaults and losses in the event of default under mortgage, lease and loan contracts. Credit risks are managed through the use of a detailed lending criteria, careful assessment and suitable product structures. The business has credit policies for each line of business which details the approach to lending. Each lending division has a Risk Director who is responsible for managing credit risk within the business lines and there is a dedicated team within each business which assesses credit risk. Group Risk has oversight of credit management and lending activities.

The Management Credit Committee is responsible for reviewing credit policy issues, such as provisioning and lending policies and recommending these to the Board or Board Credit Committee. To monitor key performance areas and asset quality, the Committee meets monthly and reviews credit management information, portfolio performance reports and provisioning analysis. The Management Credit Committee is responsible for approving credit proposals that have been presented to it by the business lines within its delegated authority.

DIRECTORS' REPORT (continued)

The Board Credit Committee meets on a quarterly basis to agree policy issues, such as provisioning and lending policies which have been proposed by the Management Credit Committee. The Committee also reviews management information and carefully monitors the portfolio performance and lending environment.

Market Risk

Aldermore does not carry out proprietary trading or hold any positions that would require to be marked to market, nor does it have any intention in the foreseeable future. Any investments in assets or equity are not actively traded.

Interest Rate Risk

Interest rate risk is the risk of loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates. Where possible the Bank seeks to match the interest rate structure of assets with liabilities, or deposits, creating a natural hedge. Where this is not possible Aldermore will enter into swap agreements to convert fixed interest rate liabilities into variable rate liabilities, which are then matched with variable interest rate assets.

Liquidity Risk

Liquidity risk is the risk that Aldermore is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. Aldermore maintains a liquidity buffer of UK Government Treasury Bills, which is monitored on a regular basis to ensure there are sufficient liquid assets at all times to cover cash flow imbalances and fluctuations in funding and to enable the Bank to meet all financial obligations and support the asset growth. The Asset & Liability Committee meets on a monthly basis to consider market, interest rate and liquidity risks, and to ensure that the firm adheres to the interest rate risk and liquidity policies and objectives set down by the Board. It also has responsibility for ensuring that the policies that are implemented are adequate to meet operational, prudential and regulatory requirements.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk includes IT, information security, project, outsourcing, tax, legal, fraud and compliance risks. Aldermore aims to accept a low level of operational risk. Through the establishment and investment in sound systems, controls and audit functions, the Bank minimises operational failures. The Operating Committee meets monthly to ensure that a quality and robust IT, operations and compliance service are delivered at all times and is capable of supporting the changing business requirements of Aldermore. It has responsibility for monitoring all the key operational risks facing the organisation, including compliance and operational risks. As part of the Group Risk function, the bank has an Operational Risk Manager who has specific responsibility for managing operational risks.

Other Risks

To manage business, operational and regulatory risks, Aldermore has a sound risk management framework and governance structure in place. Committees have been established to monitor operational performance, credit risk and also audit and risk matters. The Compliance and Internal Audit departments also help to review and monitor operational and regulatory issues to help ensure the Bank is operating in accordance with internal policies and procedures and provide assurance to the Board. The Bank has a business continuity plan in place.

Further information on risk management is contained within note 33.

DIRECTORS' REPORT (continued)

Performance Analysis based on Key Performance Indicators

The following metrics represent the core key performance indicators for the Bank, comparatives are not shown due to the material change in the business in the period:

Total Capital Adequacy Ratio at 31 December 2010	116.4%
Client Asset growth between 31 December 2009 and 31 December 2010	195% (£314.4m)
Retail Deposit growth between 31 December 2009 and 31 December 2010	176% (£405.1m)
Liquidity ratio at 31 December 2010	34.5%
Loss for year ended 31 December 2010	£8.8m

Results and Dividends

The results for the year are set out in the profit and loss account on page 15.

No dividends are paid or payable in respect of the year ended 31 December 2010 (year ended 31 December 2009: nil).

Payment Policy

It is Aldermore's policy to pay suppliers as they fall due, in accordance with the negotiated terms of business. Aldermore had trade creditors at 31 December 2010 of £1,562,000 (31 December 2009: £2,019,000). The trade creditor days figure was 35 at 31 December 2010.

Equal Opportunities for Disabled People

Aldermore is committed to ensuring that disabled people are afforded equality of opportunity in respect of entering and continuing employment within the business. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development.

Staff Communication

Aldermore provides regular updates to all employees and in 2010 held a conference for all staff. The multi-media communication framework continues to evolve and staff meetings regularly take place.

DIRECTORS' REPORT (continued)

Directors

The Directors during the year ended to 31 December 2010 were as follows:

Phillip Monks

Mark Stephens

Peter Cartwright

Finlay McFadyen

John Callender

Paul Myers

Stephen Barry

Sir David Arculus (appointed 19 October 2010)

John Baines (appointed 12 October 2010)

Ian Wilkins (appointed 12 November 2010)

JR Rhodes (resigned 20 April 2010)

Mark Molyneux (resigned 19 October 2010)

Certain Directors benefited from qualifying third party indemnity provisions in place during the year ended 31 December 2010 and at the date of this report.

Political and Charitable Donations

Aldermore made no political or charitable donations in the year ended 31 December 2010 (period ended 31 December 2009: Nil).

Statement of Director's responsibilities in respect of the Director's report and financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

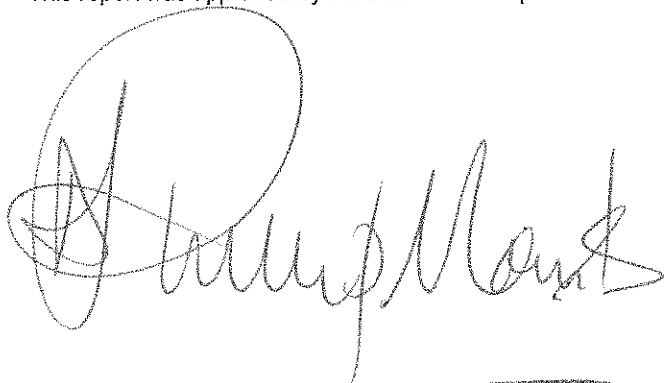
Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This report was approved by the Board on 20 April 2011 and was signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Phillip Monks', written over a horizontal line.

Phillip Monks
CEO

Independent Auditor's report to the members of Aldermore Bank PLC

We have audited the financial statements of Aldermore Bank PLC for the year ended 31 December 2010 set out on pages 15 to 42. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

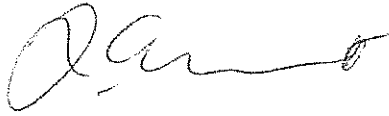
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Aldermore Bank PLC

Financial Statements for the year ended 31 December 2010

Independent Auditor's report to the members of Aldermore Bank PLC (continued)



JL Ellacott (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

1 The Embankment
Neville Street
Leeds
LS1 4DW

20 April 2011

Profit and loss account

For the year ended 31 December 2010

	Notes	Year ended 31 December 2010	Nine months ended 31 December 2009
		£'000	£'000
Interest receivable	3	24,474	5,975
Interest payable	4	<u>(12,497)</u>	<u>(4,060)</u>
Net interest income		11,977	1,915
Fees and commissions receivable	5	12,264	1,446
Fees and commissions payable	6	(3,075)	(192)
Other operating income	7	<u>7,080</u>	<u>895</u>
Operating income		28,246	4,064
Administrative expenses	11	(34,295)	(11,865)
Depreciation and amortisation	12	(1,267)	(459)
Provision for bad and doubtful debts	16	<u>(1,490)</u>	<u>(4,636)</u>
Loss on ordinary activities before taxation	13	(8,806)	(12,896)
Taxation on loss on ordinary activities	14	<u>-</u>	<u>(82)</u>
Loss on ordinary activities after taxation		<u>(8,806)</u>	<u>(12,978)</u>

The notes and information on pages 18 to 42 form part of these financial statements

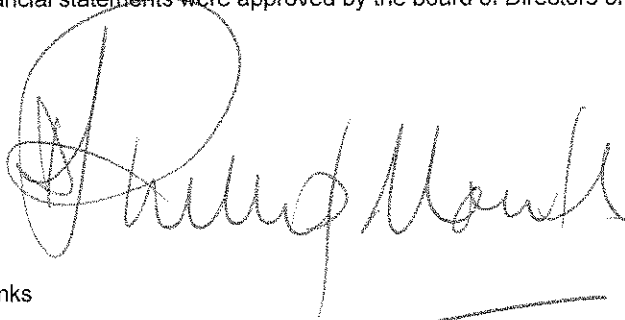
There are no recognised gains and losses other than the loss for the year.

Balance Sheet

As at 31 December 2010

	Notes	31 December 2010	31 December 2009
		£'000	£'000
Assets:			
Loans and advances to banks			
Repayable on demand	15	149,522	51,886
With agreed maturity dates or notice periods	15	69,824	31,600
		<u>219,346</u>	<u>83,486</u>
Loans and advances to customers	16	474,952	160,574
Asset backed securities	17	35,803	37,361
Tangible fixed assets	19	3,781	1,950
Intangible assets	20	8,361	7,633
Other assets	21	4,318	1,173
Prepayments and accrued income	22	5,771	2,542
		<u>752,332</u>	<u>294,719</u>
Total assets			
Liabilities:			
Customers accounts			
Repayable on demand	23	25,976	442
With agreed maturity dates or notice periods	23	608,743	229,138
		<u>634,719</u>	<u>229,580</u>
Other liabilities	24	7,881	7,035
Accruals and deferred income	25	18,105	5,002
		<u>660,705</u>	<u>241,617</u>
Total Liabilities			
Called up share capital	26	3,300	3,300
Share premium account	27	94,725	47,394
Profit and loss account	27	(6,398)	2,408
		<u>91,627</u>	<u>53,102</u>
Equity shareholders' funds	28		
		<u>752,332</u>	<u>294,719</u>
Total liabilities and equity shareholders' funds			
Memorandum items			
Contingent liabilities	30	-	-
Commitments	30	148,088	21,191

These financial statements were approved by the board of Directors on 20 April 2011 and were signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Phillip Monks', written over a horizontal line.

Phillip Monks

CEO

Registered Number: 00947662

The notes and information on pages 18 to 42 form part of the financial statements

Notes to the Financial Statements

1 Accounting policies

a) *Accounting basis*

The financial statements are prepared under the historical cost convention and are in accordance with applicable United Kingdom law, Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and relevant British Banker's Association and Finance and Leasing Association Statements of Recommended Practice, which have been applied consistently.

b) *Going concern*

The financial statements have been prepared on a going concern basis. The Directors believe that they have a reasonable expectation that Aldermore has adequate resources to continue trade at current levels for the 12 months from the date these financial statements are approved. Aldermore has a robust balance sheet, a strong platform for growth and is actively supported by its investors. On this basis the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

c) *Finance leases and hire purchase agreements*

Interest receivable from finance leases and hire purchase agreements is credited to the profit and loss account to give a constant periodic rate of return on the net cash investment.

Investments in finance leases and hire purchase agreements are shown in the balance sheet as assets and represent the total rentals receivable less the income allocated to future periods.

d) *Loan agreements*

Interest receivable from fixed profile loan agreements is credited to the profit and loss account to give a constant periodic rate of return on the net cash investment over the life of the loan agreement. Interest from revolving loans is credited on an accrued basis.

Loan assets in the balance sheet represent the amount of total repayments receivable less the income allocated to future periods.

e) *Invoice financing*

Income comprises the fair value receivable for the provision of invoice financing services, net of value-added tax, and is recognised as follows:

i) *Interest income*

Aldermore charges its clients interest each day on the balance of their outstanding loan. This interest income is recognised in the profit and loss account as it is added to the clients' borrowings. Interest recognition is normally suspended once a customer's loan is impaired and/or three months or greater in arrears.

ii) *Fee and related income*

Aldermore charges its clients a factoring fee for managing their sales ledgers. This fee is recognised on a straight line basis over the period in which the ledger management service is provided. Other fee income, which includes disbursements, is credited to the profit and loss account when the service has been provided or the disbursement expenditure incurred.

iii) *Other payables*

Other payables primarily relate to a liability for cash receipts from non-debtors, which are held on the company's balance sheet until the expiry of the six-year period during which the party making the receipt can seek reimbursement. Any unclaimed receipts subsequent to the expiry date are recognised as income.

Notes to the Financial Statements (continued)**1 Accounting policies (continued)***f) Provisions for loan losses*

Provisions for finance agreements and loan losses are based on a year end appraisal of recoverability of all advances.

Specific provision is made against exposures which have been identified as bad or doubtful to reduce the carrying amount, including interest in arrears. A discount is also applied to the estimated realisable value following a forced sale. Bad debts are written-off in part or in whole when the extent of loss has been confirmed and there is no realistic prospect of recovery.

A general provision has been applied to loan balances not specifically provided for. Potential exposures are provided for against the clean book based the expected losses of each relevant line of business. The losses are provided for as a percentage for of the loan book. This percentage is reviewed and adjusted accordingly as experience and economic and market conditions change.

g) Consolidation

Aldermore has taken advantage of the exemption, allowed under section 400 of the Companies Act 2006, not to prepare group accounts as it is wholly owned subsidiary of Aldermore Bank Holdings Limited a company incorporated in England and Wales and is included in the consolidated accounts of the ultimate parent AC Acquisitions Limited.

h) Tangible fixed assets and depreciation

Tangible fixed assets, other than freehold land, are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than equipment held for use in operating leases, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Fixtures, fittings and equipment	-	5 years
Computers	-	4 years
Motor vehicles	-	5 years
Freehold buildings	-	50 years

Equipment held for use in operating leases is written down to its estimated residual value on a straight-line basis over the period of the underlying lease agreement.

i) Fees and commissions receivable and payable

Fees and commissions receivable and payable directly incremental to a loan are amortised over the period of the loan to a maximum of five years.

j) Rentals receivable under operating leases

Rental income from operating leases is recognised on a straight line basis over the lease term of the relevant lease.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

k) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Assets and liabilities held at the balance sheet date are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange differences are charged or credited to the profit and loss account.

l) Taxation

Corporate tax payable is provided on taxable profits at the current rate, as reduced by losses surrendered by group undertakings at nil cost.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date. Timing differences are differences between Aldermore's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future of the underlying timing differences can be deducted. To date, no deferred tax asset has been recognised as there is insufficient certainty over the ability to use the amounts in the future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

m) Pension costs

The cost of providing retirement pensions is charged to the profit and loss account at the amount of the defined contributions payable for each year. Differences between contributions payable and those actually paid are shown as accruals or prepayments. The Company has no defined benefit pension scheme.

n) Segmental information

In the opinion of the Directors, Aldermore has two main lines of business in a variety of geographical locations within the UK. The performance of the Mortgages and Commercial Finance divisions is shown in note 2.

o) Equity shares and asset backed securities

Shares and securities intended for use on a continuing basis in Aldermore's activities are classified as investment securities. Such shares and securities are stated at cost less provision for any impairment in value.

Asset backed securities are investments held to maturity. Where they have been purchased at a discount the discount is accreted in line with the capital payments received. A fair value review is undertaken periodically to ensure that the assets are shown at their correct value. The amortisation of premium and discounts is included in interest income.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

p) Impairment of assets

The carrying amounts of the Group's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless it arises on a previously revalued fixed asset. An impairment loss on a revalued fixed asset is recognised in the profit and loss account if it is caused by a clear consumption of economic benefits. Otherwise impairments are recognised in the statement of total recognised gains and losses until the carrying amount reaches the asset's depreciated historic cost.

Impairment losses recognised in respect of income-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units, then to any capitalised intangible asset and finally to the carrying amount of the tangible assets in the unit on a pro rata or more appropriate basis. An income generating unit is the smallest identifiable group of assets that generates income that is largely independent of the income streams from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed on intangible assets and goodwill only if subsequent external events reverse the effect of the original event which caused the recognition of the impairment or the loss arose on an intangible asset with a readily ascertainable market value and that market value has increased above the impaired carrying amount. For other fixed assets where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss should be recognised in the current period.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

q) Goodwill

Goodwill arising on acquisitions prior to 31 December 1997 was set off directly against reserves. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS 10.

Positive goodwill arising on acquisitions since 1 January 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

r) Fair value adjustments on acquisition

The fair value adjustment arising on acquisition is unwound in the profit and loss account within interest receivable over the expected remaining life of the instrument to which it relates. At each reporting date, an assessment is made as to whether there is any indication that the amount of adjustment unwound is inappropriate given the expected remaining life any potential impairment.

s) Leasing – as lessee

Leases of property, plant and equipment where Aldermore has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases or hire purchase contracts are capitalised on inception of the agreement at an amount equal to their fair value or, if lower, the present value of the minimum lease payments. The interest element of the lease cost is charged to the profit and loss account, within other operating expenses, over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Liabilities under finance leases and hire purchase contracts are included within other liabilities in the balance sheet.

Property, plant and equipment acquired under finance leases or hire purchase contracts is depreciated over the shorter of the period of the agreement and the estimated useful lives of the assets.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the profit and loss account, within other operating expenses or staff costs (in case of company cars), on a straight line basis over the period of the lease.

t) Cash flow

Aldermore has taken advantage of the exemption in Financial Reporting Standard No. 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent of the voting rights are controlled within the Group.

u) Derivatives

Derivatives are entered into which are solely interest rate swaps. Derivatives are entered into for the purpose of hedging risk from potential movements in interest rates inherent in the company's non-trading assets and liabilities. A derivative is designated as non-trading where there is an offset between the effects of potential movements in market rates of the derivative and the designated asset or liability being hedged. Non-trading derivatives are reviewed regularly for their effectiveness as hedges. Non-trading derivatives are accounted for on an accruals basis, consistent with the asset or liability being hedged. Income and expenses on non-trading derivatives are recognised as they crystallise as an adjustment to interest.

Notes to the Financial Statements (continued)

2 Segmental information

	Commercial Finance £'000	Mortgages £'000	Other £'000	Total £'000
Net interest income	9,392	3,684	(1,099)	11,977
Net fees and other income	15,729	603	(63)	16,269
Operating income	25,121	4,287	(1,162)	28,246
Costs	(19,617)	(8,813)	(8,622)	(37,052)
Segmental profit/(loss) before taxation	5,504	(4,526)	(9,784)	(8,806)
Loans and advances to customers	169,197	305,755	-	474,952

During the 2010 the business was restructured into two main segments – Commercial Finance and Mortgages. Commercial Finance consists of asset finance and invoice finance business lines with the Mortgages Division comprises of residential and commercial lending. The remainder of the business, mainly central support functions is included in 'Other'. Segmental information is provided for 2010 only. In 2009 costs were not apportioned in a similar way to allow for a comparison. Costs include depreciation charges and provision for bad and doubtful debts.

3 Interest Receivable

	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
Loans to customers	23,531	5,507
Deposit interest	943	468
	<u>24,474</u>	<u>5,975</u>

Notes to the Financial Statements (continued)

4 Interest Payable

	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
Retail deposits	12,490	4,060
Other	7	-
	<u>12,497</u>	<u>4,060</u>

5 Fees and Commissions receivable

	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
Invoice finance fees	10,761	1,170
Mortgage arrangement fees	551	137
Other	952	139
	<u>12,264</u>	<u>1,446</u>

6 Fees and Commissions payable

	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
Broker commissions	1,519	192
Other	1,556	-
	<u>3,075</u>	<u>192</u>

7 Other operating income

	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
Other invoice finance income	7,080	895
	<u>7,080</u>	<u>895</u>

Notes to the Financial Statements (continued)

8 Staff costs

	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
Wages and salaries	16,791	3,444
Social security costs	1,779	461
Other pension costs	404	104
	<u>18,974</u>	<u>4,009</u>

The average number of persons employed by the company during the year, including non-executive Directors, was 318 (period ended 31 December 2009: 72).

9 Directors' emoluments

	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
The remuneration of the Directors of the company was:		
Emoluments (including benefits in kind)	1,312	889
Bank contributions to Directors' individual personal pension plans	10	12
Share incentives	-	123
	<u>1,322</u>	<u>1,024</u>

The company made payments to one Director's individual personal pension plan during the period (year ended 31 December 2009: 4)

During 2009 certain Directors were given the option to purchase shares at a discount to market value. These discounted shares vested immediately giving rise to a charge of £123k. DP Monks received 1,415,897 shares at a discount.

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director as follows:

	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
Emoluments	312	169
Bank contributions to Director's individual personal pension plan	10	11
	<u>322</u>	<u>180</u>

10 Pension and other post-retirement benefit commitments

Defined Contributions

Aldermore operates two defined contribution pension schemes. The assets of the schemes are held separately from those of Aldermore in independently administered funds. Pension contributions of £403,617 (nine months ended 31 December 2009: £103,243) were charged to the profit and loss account during the period in respect of these schemes. Aldermore made payments amounting to £19,061 (period ended 31 December 2009: £20,342) to certain employees' individual personal pension plans during the period. There were outstanding contributions of £76,609 at the yearend (31 December 2009: £24,706).

Notes to the Financial Statements (continued)

11 Administrative expenses	Year ended 31 December 2010	Nine months ended 31 December 2009
	£'000	£'000
Staff costs	18,974	4,009
Office costs	2,132	494
Information technology	2,126	933
Legal and professional and other services	5,230	3,694
Other	5,833	2,735
	<u>34,295</u>	<u>11,865</u>
12 Depreciation and amortisation	Year ended 31 December 2010	Nine months ended 31 December 2009
	£'000	£'000
Depreciation	810	315
Amortisation of goodwill	457	144
	<u>1,267</u>	<u>459</u>
13 Loss on ordinary activities before taxation	Year ended 31 December 2010	Nine months ended 31 December 2009
	£'000	£'000
This is arrived at after charging/(crediting):		
Operating lease rentals	429	118
Profit on sale of fixed assets	-	(5)
Interest payable on		
- deposits by banks	(7)	4
- customer accounts	12,504	4,056
Fees payable to the company's auditors for audit services	159	151
Fees payable to the company's auditors for tax services	42	38
Fees payable to the company's auditors for other services	84	58
Exchange differences	(40)	(10)
Loss on sale of assets to former director	-	131
	<u> </u>	<u> </u>

Notes to the Financial Statements (continued)

14 Taxation	Year ended 31 December 2010	Nine months ended 31 December 2009
	£'000	£'000
(i) Analysis of tax charge on ordinary activities:		
Current tax on profits of the year	-	-
Total current tax (credit)/charge	-	-
Deferred tax:		
Origination and reversal of timing differences	-	82
Taxation on (loss) on ordinary activities	-	82

(ii) Factors affecting tax charge for the current year:

The tax assessed for the year is different to that resulting from applying the standard rate of corporation tax in the UK of 28% (December 2009: 28%). The differences are explained below:

	Year ended 31 December 2010	Nine months ended 31 December 2009
	£'000	£'000
(Loss) on ordinary activities before tax	(8,806)	(12,896)
Tax at 28% thereon	(2,465)	(3,611)
Effects of:		
Movements on provisions	227	387
Expenses not deductible for tax purposes	185	145
Capital allowances less than depreciation	56	95
Losses carried forward	1,997	7,314
Deferred tax assets transferred in	-	(4,479)
Depreciation written back	-	149
Current tax (credit)/charge for year	-	-

Notes to the Financial Statements (continued)

14 Taxation (continued)

(iii) Deferred tax asset	Year ended 31 December 2010	Nine months ended 31 December 2009
	£'000	£'000
Movement on deferred taxation balance in the year		
Opening balance	-	82
(Charge)/credit to profit and loss account	-	(82)
Closing balance	-	-

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future of the underlying timing differences can be deducted. To date, no deferred tax asset has been recognised as there is insufficient certainty over the ability to use the amounts in the future.

(iv) Analysis of recognised deferred tax balance	Year ended 31 December 2010	Nine months ended 31 December 2009
	£'000	£'000
Capital allowances less than depreciation	-	-
Short term timing differences	-	-
Closing balance	-	-

(v) Analysis of unrecognised deferred tax balance	Year ended 31 December 2010	Nine months ended 31 December 2009
	£'000	£'000
Capital allowances less than depreciation	266	210
Other timing differences	615	388
Losses carried forward	9,311	7,314
Closing balance not recognised	10,192	7,912

Notes to the Financial Statements (continued)

15 Loans and advances to banks	31 December 2010 £'000	31 December 2009 £'000
Repayable on demand	149,522	51,886
Repayable in not more than three months	69,824	31,600
	<u>219,346</u>	<u>83,486</u>

There were no general or specific doubtful debt provisions against deposits with banks.

16 Loans and advances to customers	31 December 2010 £'000	31 December 2009 £'000
Repayable in not more than three months	137,423	109,810
Repayable in more than three months but not more than one year	40,350	15,799
Repayable in more than one year but not more than five years	70,180	16,193
Repayable in more than five years	241,563	30,468
Specific and general doubtful debt provisions	(14,564)	(11,696)
	<u>474,952</u>	<u>160,574</u>

Amounts include:

Repayable on demand or at short notice	<u>136,302</u>	<u>104,348</u>
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Non-performing loans and advances to customers:

- loans and advances before provisions	<u>22,489</u>	<u>25,376</u>
- loans and advances after provisions	<u>10,015</u>	<u>14,615</u>

Specific and general doubtful debt provisions

Year ended 31 December 2010	Specific £'000	General £'000	Total £'000
31 December 2009	10,761	935	11,696
Purchases as part of acquisition	3,410	-	3,410
Written off	(2,032)	-	(2,032)
Charge to profit and loss account	335	1,155	1,490
31 December 2010	<u>12,474</u>	<u>2,090</u>	<u>14,564</u>

Notes to the Financial Statements (continued)

16 Loans and advances to customers (continued)

	Specific £'000	General £'000	Total £'000
Period ended 31 December 2009			
31 March 2009	3,595	-	3,595
Purchases as part of acquisition	7,103	255	7,358
Written off	(3,893)	-	(3,893)
Charge to profit and loss account	3,956	680	4,636
31 December 2009	<u>10,761</u>	<u>935</u>	<u>11,696</u>
		31 December 2010 £'000	31 December 2009 £'000
Loans and advances to customers comprise:			
Invoice financing		104,264	79,712
Investment in finance leases		64,933	8,542
Investment in hire purchase agreements		-	10,108
		<u>169,197</u>	<u>98,362</u>
Secured loans		305,755	62,212
		<u>474,952</u>	<u>160,574</u>

Loans include residential mortgage balances that were acquired from Merrill Lynch on 30 June 2010. The value of loans acquired was £31,241,480. As at 31 December 2010 a fair value adjustment reducing these assets by £4,315,638 had been recognised in these financial statements. Investment in finance leases include balances that were acquired from Heritable on 2 March 2010. The value of loans acquired was £25,673,090. As at 31 December 2010 a fair value adjustment reducing these assets by £1,334,436 had been recognised in these financial statements.

In respect of finance leases and hire purchase agreements, details of the original cost of assets acquired during the period and the gross amount of rentals receivable in the period are analysed as follows:

	Assets purchased		Rentals receivable	
	31 December 2010 £'000	31 December 2009 £'000	31 December 2010 £'000	31 December 2009 £'000
Finance leases	18,212	9,935	11,574	1,322
Hire purchase agreements	46,132	6,280	27,890	1,645
	<u>64,344</u>	<u>16,215</u>	<u>39,464</u>	<u>2,967</u>

There is no residual value in relation to these leases.

Notes to the Financial Statements (continued)

17 Asset backed securities	31 December 2010	31 December 2009
	£'000	£'000
Asset backed securities at cost		
Cost		
1 January	42,679	-
Additions	13,512	46,953
Capital repayments	(15,271)	(4,274)
31 December	<u>40,920</u>	<u>42,679</u>
Discount on purchase		
1 January	5,318	-
Additions to discount on purchase	1,139	5,792
Accretion of discount on purchase	(1,340)	(474)
31 December	<u>5,117</u>	<u>5,318</u>
Book value		
31 December	<u>35,803</u>	<u>37,361</u>

18 Investment in subsidiaries

Holdings of more than 20%

Aldermore holds more than 20% of the share capital of the following companies. They are all dormant subsidiaries.

Company	Principal activity	Country of Incorporation	Shares Held	%
Principal subsidiary undertakings are as follows:				
Absolute Invoice Finance Holdings Limited	Dormant	England & Wales	Ordinary	100
Base Commercial Mortgages Holdings Limited	Dormant	England & Wales	Ordinary	100
Aldermore Nominees Limited (formerly Ruffler Bank Nominees Limited)	Dormant	England & Wales	Ordinary	100

Notes to the Financial Statements (continued)

19 Tangible fixed assets

	Fixtures fittings and equipment £'000	Computers £'000	Motor vehicles £'000	Total £'000
Cost or valuation				
1 January 2010	832	1,681	230	2,743
Additions	381	2,473	-	2,854
Disposals	-	-	(207)	(207)
31 December 2010	<u>1,213</u>	<u>4,154</u>	<u>23</u>	<u>5,390</u>
Depreciation				
1 January 2010	407	366	20	793
Disposals	-	-	6	6
Charge for the period	210	603	(3)	810
31 December 2010	<u>617</u>	<u>969</u>	<u>23</u>	<u>1,609</u>
Net book value				
31 December 2010	<u>596</u>	<u>3,185</u>	<u>-</u>	<u>3,781</u>
31 December 2009	<u>425</u>	<u>1,315</u>	<u>210</u>	<u>1,950</u>

Future capital expenditure

At 31 December 2010 there was £4,500,000 capital expenditure authorised but not contracted for or contracted but not provided for (31 December 2009: £2,100,000).

Notes to the Financial Statements (continued)

20 Intangible assets	Goodwill Year ended 31 December 2010 £'000
Cost:	
At 1 January 2010	7,777
Hindsight adjustment	<u>1,185</u>
At 31 December 2010	<u>8,962</u>
Amortisation:	
At 1 January 2010	144
Provided during the period	<u>457</u>
At 31 December 2010	<u>601</u>
Net book value at 31 December 2010	<u>8,361</u>
Net book value at 31 December 2009	<u>7,633</u>

Goodwill arising on the acquisition of Base Commercial Mortgages Holdings Limited and goodwill arising on the acquisition of Absolute Invoice Finance Holdings Limited is being amortised evenly over their presumed useful economic life of 20 years.

The hindsight adjustments to the fair value of net assets acquired on 17 November 2009 of Absolute Invoice Finance (Holdings) Limited are as follows:

	Provisional fair value to the Company 2009 £000	Hindsight period adjustments 2010 £000	Fair value to the Company 2010 £000
Fixed assets	115	-	115
Debtors	82,970	(1,052)	81,918
Cash	10,560	-	10,560
Creditors falling due within one year	(71,420)	(133)	(71,553)
Net assets	<u>22,225</u>	<u>(1,185)</u>	<u>21,040</u>
Consideration	25,442	-	25,442
Goodwill	<u>3,217</u>	<u>1,185</u>	<u>4,402</u>

Notes to the Financial Statements (continued)

20 Intangible assets (continued)

The hindsight adjustments to the goodwill are in respect of the net assets of Absolute Invoice Finance Holdings Limited at acquisition. The adjustments reflect greater information that has come to light during the year as regards the recoverability of loans and the tax position.

21 Other assets	31 December 2010	31 December 2009
	£'000	£'000
Corporation tax	343	343
Other	3,975	830
	<u>4,318</u>	<u>1,173</u>

22 Prepayments and accrued income	31 December 2010	31 December 2009
	£'000	£'000
Accrued income	2,270	1,027
Prepaid broker fees	2,404	519
Other prepayments	1,097	996
	<u>5,771</u>	<u>2,542</u>

23 Customer accounts	31 December 2010	31 December 2009
	£'000	£'000
Repayable on demand	25,976	442
Repayable in not more than three months but not on demand	42,991	42,907
Repayable in more than three months but not more than one year	243,507	39,068
Repayable in more than one year but not more than five years	322,245	147,163
	<u>608,743</u>	<u>229,138</u>
	<u>634,719</u>	<u>229,580</u>

Notes to the Financial Statements (continued)

24 Other liabilities	31 December 2010 £'000	31 December 2009 £'000
Trade creditors	1,562	2,019
Other taxation and social security costs	557	1,060
Fee creditors	467	139
Obligations under finance leases	-	233
Unallocated cash	2,277	1,448
Other	3,018	2,136
	<u>7,881</u>	<u>7,035</u>

25 Accruals and deferred income	31 December 2010 £'000	31 December 2009 £'000
Accrued interest payable to deposit holders	5,741	1,447
Prepaid arrangement fees	3,716	464
FSCS provision	426	128
Accruals	8,222	2,963
	<u>18,105</u>	<u>5,002</u>

26 Share capital	31 December 2010 £'000	31 December 2009 £'000
<i>Authorised share capital</i>		
Ordinary shares of £1 each		
At 1 January 2010	5,000	5,000
Issued during the period	<u>-</u>	<u>-</u>
Total	<u>5,000</u>	<u>5,000</u>

There is one class of share, ordinary shares.

Notes to the Financial Statements (continued)

26 Share capital (continued)	31 December 2010 £'000	31 December 2009 £'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each		
At 1 January 2010	3,300	2,500
Issued during the period	-	800
	<u>3,300</u>	<u>3,300</u>
Total	<u>3,300</u>	<u>3,300</u>

During the year three £1 ordinary shares were issued for £16,099,047 each creating £48,297,139 share premium. At 31st December 2010 allotted, called up and fully paid shares totalled 3,300,003.

27 Reconciliation of movements in reserves

	Share premium account £'000	Profit and loss account £'000
1 January 2010	47,394	2,408
Loss for the period	-	(8,806)
Share issued during period	48,297	-
Capital raising costs	(966)	-
31 December 2010	<u>94,725</u>	<u>(6,398)</u>

28 Reconciliation of movements in shareholders' funds

	Year ended 31 December 2010 £'000	Nine months ended 31 December 2009 £'000
Loss for the period	(8,806)	(12,978)
Shares issued in the period	-	800
Share premium	48,297	47,394
Capital raising costs	(966)	-
Net additions/(deductions) to shareholders' funds	<u>38,525</u>	<u>35,216</u>
Opening shareholders' funds	53,102	17,886
Closing shareholders' funds	<u>91,627</u>	<u>53,102</u>

Notes to the Financial Statements (continued)

29 Financial commitments

At 31 December 2010 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2010.

	Land and Buildings	
	Year ended 31 December 2010	Nine months ended 31 December 2009
	£'000	£'000
Land and buildings		
Operating leases which expire:		
In less than one year	32	24
Between two and five years	449	369
In over five years	523	209
	<u>1,004</u>	<u>602</u>

At the year ended 31 December 2010 Aldermore had 91 cars under lease. The majority of these leases are due to expire in 2014.

30 Memorandum items

At 31 December 2010 Aldermore had contingent liabilities of £Nil (December 2009: £Nil).

At 31 December 2010 Aldermore had undrawn commitments of £148,088,451 (December 2009: £21,191,000). These relate to irrevocable lines of credit granted to customers.

31 Assets and liabilities denominated in foreign currency

As at 31 December 2010, there were assets of £34,957 (December 2009: £989,809) and liabilities of £589,328 (December 2009: £1,752,000) denominated in Euros. There were assets of £211,654 (December 2009: £101,765) and liabilities of £652,087 (December 2009 : nil) denominated in US Dollars. There were no other foreign currency assets or liabilities at the balance sheet date.

32 Related parties

Aldermore has taken advantage of the exemption conferred by Financial Reporting Standards 8 'Related Party Disclosures' not to disclose transactions with members of the group headed by AC Acquisitions Limited on the grounds that at least 90% of the voting rights are controlled within that group and the company is included in consolidated financial statements.

Certain Directors and shareholders of the immediate parent undertaking and Directors of the company, in their capacities as individuals, trustees, Directors of other companies or members of pension schemes, are interested in deposit and loan account with and fees paid to the company; such accounts and services have been operated by the company on commercial terms and conditions.

The company is ultimately controlled by AnaCap Financial Partners LP and AnaCap Financial Partners II LP who are the main shareholders. The following agreements are in place with companies under their common control.

Notes to the Financial Statements (continued)

32 Related parties (continued)

Aldermore Bank PLC provides a £5m Block Discounting facility to Syscap Limited. The facility commenced on the 14 September 2009 is secured by underlying blocks of short term loans primarily to solicitor's practices which are funded at a discount to the face value of the loans. The facility is priced at 5% over 6 month Libor and committed over a 1 year period with appropriate conditions relating to performance, non-performing deal substitution rights and default provisions.

Third party business is introduced to Aldermore Bank PLC by Syscap Limited, under various Programme Agreements, including a Wholesale Funding Facility entered into on 28 September 2009 but these do not result in any lending by Aldermore Bank PLC to Syscap Limited.

33 Financial instruments

Aldermore's financial instruments comprise borrowings from banks, customer deposits, loans to customers and cash held at banks. All these arise as a result of Aldermore's normal operations. Aldermore does not enter transactions for speculative purposes and accordingly a note of instruments held for trading has not been provided. From time to time, Aldermore may use interest rate derivatives such as swaps to manage part of its interest rate risk.

The main risks arising from Aldermore's financial instruments are credit risk, liquidity risk and interest rate risk. The Directors review and agree policies for managing each of these risks and these are summarised as follows.

Credit risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk is the principal risk encountered by Aldermore. Credit risk principally arises from lending activities, but can also arise from other on and off balance sheet activities such as the issue of guarantees. Aldermore manages its credit risk by limiting its exposure to certain sectors of business, by carrying out appropriate checks on its customers and taking appropriate security to protect itself in the event of a default. All exposures are allocated a risk grading which are revised quarterly by the Board in conjunction with a review of specific provisions. Should any event occur between these reviews which indicates a provision is clearly needed then a provision will be made without waiting for the quarterly review process.

Liquidity risk

Liquidity risk is the risk that an entity encounters difficulty in realising assets or otherwise raising funds to meet commitments associated with liabilities or financial obligations. There is a requirement to keep a balance between the funding maturity profile and the funding requirements derived from the run off of the loans receivable. Although Aldermore is significantly funded from shareholder's funds, the gap between the deposit maturity profile and the loanbook maturity profile is kept to within agreed limits. Aldermore has uncommitted overdraft facilities. Aldermore has always met its own and FSA requirements with significant headroom. Aldermore monitors closely the profile of deposits and has the flexibility to quickly amend the interest rates on offer to rebalance the profile of deposits in the prevailing market conditions.

Fair Value Disclosure

Aldermore does not trade in financial instruments. Set out below is a comparison of book values and fair values of Aldermore's financial liabilities and non-trading derivatives used for hedging and funding purposes.

Notes to the Financial Statements (continued)

33 Financial Instruments (continued)

Asset	<i>Book Value 31 December 2010 £'000</i>	<i>Fair Value 31 December 2010 £'000</i>	<i>Book Value 31 December 2009 £'000</i>	<i>Fair Value 31 December 2009 £'000</i>
On balance sheet instruments				
Asset Backed Securities	35,803	37,100	37,361	38,509
Off balance sheet instruments				
Interest rate swaps	2,087	4,504	-	1,032
Total	37,890	41,604	37,361	39,541

Gains and losses arising from derivatives used to hedge financial risks are not recognised within interest receivable until the exposure that is being hedged is itself recognised. Unrealised gains arising from derivatives and the movements therein are shown in the table below. There were no unrealised losses during the period.

	Unrecognised gains £000
Unrecognised at the start of the period	1,032
Gains arising during the year	3,472
Gains recognised during the year	<u>(2,087)</u>
Unrecognised gains at the end of year	<u>2,417</u>
Expected to be realised in the year ending 31 December 2011	741
Expected to be realised after 31 December 2011	<u>1,676</u>
	<u>2,417</u>

The sterling nominal value of interest rate swaps at 31 December 2010 totalled £646 million (31 December 2009: £124 million). The swap maturities match the maturity of the instruments being hedged with a maximum maturity of 5 years.

Market values have been used to determine the fair value of all swaps. The fair values of all other items have been calculated by discounting expected future cash flows at prevailing interest rates.

Notes to the Financial Statements (continued)

33 Financial Instruments (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Aldermore finances its loan book from its capital base and customer deposits. At present a minority of Aldermore's lending to customers is at fixed rates or subject to a minimum fixed rate (set with reference to the market at the time the loan is made) whilst in excess of 87% of customer's deposits are at fixed rates. At present Aldermore has a deposit base with an average maturity in excess of 2 years, and has a minimal level of controlled maturity mismatching. The table below summarises the repricing mismatches on Aldermore's non-trading book as at 31 December 2010. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

The table below summarises the repricing mismatches on Aldermore's non-trading book as at 31 December 2010.

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non- interest bearing £'000	Total £'000
31 December 2010							
Loans & advances to banks	219,346	-	-	-	-	-	219,346
Asset backed securities	35,803	-	-	-	-	-	35,803
Loans & advances to customers	309,555	71,591	19,346	73,840	620	-	474,952
Other assets	-	-	-	-	-	22,231	22,231
Total assets	564,704	71,591	19,346	73,840	620	22,231	752,332
Customer accounts	67,967	30,888	212,619	322,246	999	-	634,719
Other liabilities	-	-	-	-	-	25,986	25,986
Shareholders funds	-	-	-	-	-	91,627	91,627
Total liabilities	67,967	30,888	212,619	322,246	999	117,613	752,332
Off balance sheet items	(494,780)	17,000	218,000	259,780	-	-	-
Interest rate sensitivity gap	1,957	57,703	24,727	11,374	(379)	(95,382)	-
Cumulative gap	1,957	59,660	84,387	95,761	95,382	-	-

Notes to the Financial Statements (continued)

33 Financial Instruments (continued)

The table below summarises the repricing mismatches on Aldermore's non-trading book as at 31 December 2009.

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non- interest bearing £'000	Total £'000
31 December 2009	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans & advances to banks	83,486	-	-	-	-	-	83,486
Asset backed securities	37,361	-	-	-	-	-	37,361
Loans & advances to customers	136,594	8,816	4,425	10,695	44	-	160,574
Other assets	-	-	-	-	-	13,298	13,298
Total assets	257,441	8,816	4,425	10,695	44	13,298	294,719
Customer accounts	43,347	3,641	35,428	147,164	-	-	229,580
Other liabilities	-	-	-	-	-	12,037	12,037
Shareholders funds	-	-	-	-	-	53,102	53,102
Total liabilities	43,347	3,641	35,428	147,164	-	65,139	294,719
Off balance sheet items	-	-	-	-	-	-	-
Interest rate sensitivity gap	214,094	5,175	(31,003)	(136,469)	44	(51,841)	-
Cumulative gap	214,094	219,269	188,266	51,797	51,841	-	-

A positive interest rate sensitivity gap exists when more assets than liabilities reprice during a given period. A positive gap position tends to benefit net interest income in an environment where interest rates are rising. However, the actual effect will depend on a number of factors including actual repayment dates and interest rate sensitivities within the banding periods.

34 Ultimate parent undertaking

The ultimate parent company is AC Acquisitions Limited, a private limited company incorporated in England and Wales. This company is controlled by AnaCap Derby co-investment (No.1) L.P. (35%) – which is an investment of Morgan Stanley, AnaCap Financial Partners II LP (30%) and AnaCap Financial Partners L.P. (33%). The immediate parent undertaking is Aldermore Holdings Limited, a private limited company incorporated in England and Wales. Consolidated accounts are produced by AC Acquisitions Limited and copies are available to the public from the company's registered office at Stamford House, 27A Floral Street, London, WC2E 9EZ or Companies House, London.

Notes to the Financial Statements (continued)

35 Post balance sheet events

On the 28 February 2011 AnaCap Derby Co-Investment (No. 1) L.P. and Anacap Financial Partners II L.P. invested a further £16.3m in the ultimate parent AC Acquisitions Limited. This has been invested in Aldermore Bank PLC via a subscription of ordinary share capital.