

Aldermore Bank PLC

Financial statements for the year ended 31 December 2011

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 – Chief Risk Officer

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 number

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

A year ago, I said that for Aldermore, 2010 was a transformational year. Now, after my first full year as Chairman, I can report that there has been no pause in Aldermore's astonishing progress.

Aldermore has established itself as the champion of British savers, British SME's and British homeowners. Aldermore is backing Britain with a straightforward and reliable service that brings together our expertise and dynamic approach to life.

2011 has been marked by a series of important milestones. In June, the Bank broke even for the first time two months ahead of forecast and has been profitable each quarter since. Given that the Bank launched in May 2009, this was a great achievement in a short period of time. This was rapidly followed in July by the announcement that gross assets had exceeded £1 billion.

In September, Aldermore was successful in raising a further £62 million of capital from a consortium of blue chip investors, underpinning the Bank's mission to lend to small and medium sized enterprises (SMEs), and householders.

The Bank's liquidity position also remains excellent, as we continue to provide simple, good value and gimmick-free products to savers. Despite the current, and planned, tightening of the regulatory, capital and liquidity environment, the Bank is extremely well placed to meet these requirements without any need to modify our business model.

Aldermore's **Commercial Finance** division continues to thrive despite a difficult economy. It has doubled in size during 2011.

Asset finance is focused on medium term lending against assets through hire purchase and leasing products. Asset finance continues to grow in its specialist sectors including, materials handling, construction, professional practices, and wholesale finance.

Invoice finance provides finance for early growth trading, refinancing, acquisitions, turnaround finance and post-insolvency trading to British SMEs, secured against the borrower's sales receivables. In 2011 the Bank's invoice finance division launched 'Aldermore Business Confidence' offering businesses with a turnover of up to £500,000 a fixed fee funding facility. We also created a Structured Finance team, to specifically assist businesses requiring asset and invoice finance, as well as a commercial mortgage or any combination of these SME services. We strive to make it easy and straightforward to do business with Aldermore - a great demonstration of acting as SME champion.

Aldermore continued to make excellent progress in its **Mortgage Division**. It, too, has more than doubled in size in 2011.

The residential mortgage business was launched in May 2010 and has fully proved its innovative, leading-edge technology platform, delivering quick decision making and allowing skilled underwriters to ensure that creditworthy customers' needs can be met. Over a dozen new mortgage products were launched to market, providing much needed support to those seeking a mortgage for their home or an investment property. Aldermore's Family Guarantee Mortgage is unique in the market and sets out to provide much needed help to first time buyers making that difficult first step on to the housing ladder.

These achievements are recognised in our marketplace and the mortgage business won the prestigious Financial Adviser 5 Star Service Award and in addition to this, four other national mortgage awards, as well as being highly commended twice. In a very short period of time our residential mortgage business has become a force to be reckoned with.

The commercial mortgage business goes from strength to strength and in 2011 we became sponsor of the National Association of Commercial Finance Brokers (NACFB) and launched our new state-of-the-art commercial mortgage processing system. The

CHAIRMAN'S OVERVIEW (continued)

system was designed and launched in less than a year and places our entire mortgage division on the same operational platform taking service levels to be amongst the best in the industry. Use of leading edge technology in this way really differentiates us in the marketplace and provides unparalleled customer service, with fast decision making, and a totally on-line broker service, making Aldermore straightforward and efficient to do business with.

It was rewarding to be recognised as Best Specialist Lender for Commercial Mortgages for the second consecutive year, and in 2011 we provided our 1,000th commercial mortgage. Our Mortgage Division 'came of age' in 2011 and the foundations are now laid for further growth in 2012 supporting home owners, residential and commercial property investments and businesses throughout the UK.

Our **UK Savings** business continues to provide good value, with simple products. Over 50,000 depositors have trusted us with more than £1 billion of their hard earned savings.

Our savings products regularly appear in the national media's best buy tables and we pride ourselves on offering no tricks or gimmicks on any of our savings accounts, just consistently good value and efficient, reliable service. This has resonated with our customers and Aldermore won the highly acclaimed Consumer Moneyfacts Best ISA Provider for 2011, which is voted on by the public. Savers can sign-up online in approximately 10 minutes, or over the phone or by post, and our bespoke system enables the customer to scan in their verification documents, eradicating errors, as well as offering a dynamic and straightforward service.

Aldermore is regulated by the UK Financial Services Authority and so Aldermore's depositors benefit from the Financial Services Compensation Scheme which guarantees deposits up to £85,000 or twice that for joint accounts. 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. Our no-nonsense products, with no hidden terms or conditions, have been a huge success.

While 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. We continue to lend within our risk appetite, and loan portfolios continue to perform better than our expectations.

In line with current Government thinking, all of the Executive Management team and some other senior staff have their compensation tied to the long term fortunes of the Bank, and thus are incentivised to make sure that they are prepared to live with the consequences of decisions they make now, and 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. Our shareholders have always had a seat on our Remuneration Committee, to help ensure the long term interests of the Bank are protected.

Finally, I turn to the most important ingredient of our success – the people who work for us 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.

Sir David Arculus

Chairman

DIRECTORS' REPORT

The directors present their report and the financial statements of Aldermore Bank PLC ('the Bank') for the year ended 31 December 2011.

Results and Dividends

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

The directors do not recommend the payment of a dividend (2010: £nil).

Principal Activities and Business Review

The Bank is authorised to accept deposits under the Financial Services & Markets Act 2000 and the Bank's principal activities during 2011 were the provision of banking and related services. The strategic objective of the Bank is to be a provider of secured financial products to the SME and residential mortgage markets, funded by capital and retail deposits.

The loss before taxation for the year ended 31 December 2011 was £0.9m (2010: £8.8m). As at 31 December 2011 the Bank had 445 employees (2010: 377). As the Bank invested in its infrastructure and people and built out its capabilities, 2011 saw a loss-making first half with the Bank achieving profitability in both the 3rd and 4th quarters. Significant releases of provisions taken in prior years were made, as detailed in note 16 to the financial statements, as the credit performance of acquired portfolios was much better than expected.

The Bank had Tier 1 capital at 31 December 2011 of £158.2m (2010: £83.3m) and a Tier 1 capital ratio of 18.5% (2010: 19.0%).

Capital Injections

The Bank's ultimate holding company is AC Acquisitions Limited. During 2011 capital injections were made by AnaCap Financial Partners, L.P., AnaCap Financial Partners II, L.P., AnaCap Derby Co-Investment (No. 1) L.P. and AnaCap Derby Co-Investment (No.2) L.P. in the share capital of AC Acquisitions Limited. During 2011 £77.9 million was invested in the Bank by AC Acquisitions Limited via subscription of equity share capital in the intermediate holding company Aldermore Holdings Limited which in turn invested in equity share capital of the Bank.

Liquidity

At 31 December 2011, the Bank held a 19.8% liquidity buffer (liquid assets excluding encumbered cash as a % of total deposits). Based on the available buffer, the Bank has sufficient liquidity to meet its liabilities when they are due, and sufficient liquidity under a 91-day liquidity stress for both the internal and FSA BIPRU 12 stress requirements. As at the reporting date, the Bank complied with its liquidity risk limits and risk appetite, and BIPRU 12.

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

Fixed asset additions in the year of £5.0m were mainly focused on new IT systems and infrastructure. This investment is ongoing and the business is forecast to spend over £4.5m during 2012 on enhancing the technology infrastructure further.

Commercial Finance Division

Asset Finance - during 2011, the Bank saw a significant level of demand for its asset finance services and the business grew significantly through the provision of funding to the corporate and SME sectors as well as to the public sector and professional firms. The Bank sources new business from specialist brokers and vendor partnerships.

Invoice Finance – the Bank's Invoice Finance division provides working capital funding to SME businesses throughout the UK. 2011 saw a significant increase in demand for these services with the Bank being one of the fastest growing providers in the UK invoice finance market.

Mortgages Division

Commercial Mortgages - the Bank is now an established UK SME commercial mortgage lender offering residential investment and commercial mortgages products and solutions via intermediaries. Lending is first charge, low loan-to-value, primarily against commercial/industrial premises, professionally managed residential buy to let, and retail premises.

Residential Mortgages – the Bank offers residential owner occupied and buy-to-let mortgage products via intermediaries.

Property Development - the Bank has decided to re-commence lending in the property development sector. The Bank will focus on residential development lending.

Summary of lending asset values by Division

Division	As at 31 December 2011 £'000	As at 31 December 2010 £'000	Net Change £'000
Commercial Finance	341,303	169,197	172,106
Mortgages	819,132	305,755	513,377
Total	1,160,435	474,952	685,483

Investment Securities

The Bank has increased its investment securities holdings from £35.8m at December 2010 to £61.1m at December 2011, primarily via asset backed securities. The additional investments were made to increase the level of liquidity in the Bank, whilst achieving a reasonable return on such assets. The investment assets are primarily residential mortgage asset backed securities, AAA/AA rated bonds, where adequate loss cover is available to absorb high default rates before the bond itself defaults.

DIRECTORS' REPORT (continued)

Customer Deposits

The primary source of funding for the Bank is 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 £635m at 31 December 2010 to £1,347m at 31 December 2011.

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 the Bank and the longer term strategy of the business. Capital and liquidity plans have been reviewed by the directors and are reported against at least monthly, including stress tests. The directors believe that the Bank has sufficient resources to continue lending and deposit taking throughout 2012 and to continue its expansion. The Bank has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Financial Services Authority, has firm backing from its current investors, and one new investor has signed a commitment letter relating to a capital injection of over £30m, subject to FSA approval.

Principal Risks and Uncertainties

A core objective for the Bank 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. The Bank 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, and approved by the board.

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

The Bank 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 or fraud relating to mortgage, lease and loan contracts. Credit risks are managed through the use of a detailed lending criteria, careful assessment and suitable product structures. The Bank 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.

Forbearance

On occasions, borrowers experience difficulties which impact on their ability to meet their mortgage or commercial finance obligations. The Bank identifies borrowers whose mortgages or commercial finance loans have gone into arrears and consults with them in order to ascertain the reason for the arrears, and to establish what course of action can be taken to bring the account up to date.

In certain circumstances where the borrower is experiencing significant financial distress, the Bank uses forbearance measures to assist them. These are all considered on a case by case basis and must be in the best interest of the customer. The forbearance measures are undertaken in order to achieve a reduction in long term arrears and allow the best outcome for both the customer and the Bank by dealing with arrears at an early stage.

The most widely used methods of forbearance are reduced monthly payments, loan term extension and a temporary or permanent transfer to interest only payments to reduce the borrowers' financial pressures. Where the arrangement is temporary, the borrowers are expected to resume normal payments within six months. Since July 2011, the Bank undertook forbearance measures as follows:

	Mortgages Division			Commercial Finance Division			Total	
	Number	Loan Balance £'000	Yearend arrears £'000	Number	Loan Balance £'000	Yearend arrears £'000	Number	Loan Balance £'000
Capitalisation	0	0	0	1	989	2	1	989
Temporary or permanent switch to interest only	11	1,860	0	0	0	0	11	1,860
Reduced monthly payments	1	70	7	3	318	8	4	388
Loan term extension	0	0	0	7	290	8	7	290
Total	12	1,930	7	11	1,597	18	23	3,527

Total forborne*		0.24%			0.47%			0.30%
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* as a percentage of the total divisional lending book

General provision	7	1		7	1		14	2
Specific provision	5	4		4	274		9	278
	12	5		11	275		23	280

The provisions against forborne cases in the Mortgages Division are not significant given the nature of the forbearance arrangements. The measures undertaken relate to a change in the contractual cash flows which have eased the borrower's financial stress to enable them to continue to repay their mortgage in line with the arrangement. Forbearance arrangements have been considered in conjunction with other loan characteristics when performing the impairment review.

DIRECTORS' REPORT (continued)

There are relatively higher provisions against the Commercial Finance division in respect of forbore cases. Whilst the use of forbearance measures has been modest, the measures undertaken include a limited level of arrears capitalisation and loan term extensions.

Market Risk

The Bank does not carry out proprietary trading or hold any positions that would require to be marked to market, nor does it have any intention to do so 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, the Bank 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 the Bank is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. The Bank maintains a liquidity buffer of eligible liquid assets such as 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 Bank 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. The Bank 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 is delivered at all times and is capable of supporting the changing business requirements of the Bank. 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, the Bank has a sound risk management framework and governance structure in place and applies a standard three lines of defence model. 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:

	31 December 2011	31 December 2010
Tier 1 capital ratio	18.5%	19.0%
Annual growth in loans and advances to customers	144.3% (£685.5m)	195% (£314.4m)
Annual growth in retail deposits	112.3% (£712.7m)	176% (£405.1m)
Liquidity buffer (as a % of total deposits)	19.8%	34.5%
Loss for the year	£0.9m	£8.8m

Payment Policy

It is the Bank's policy to pay suppliers as they fall due, in accordance with the negotiated terms of business. The Bank had trade creditors at 31 December 2011 of £0.8m (2010: £1.6m). Trade creditors' days at 31 December 2011 was 19 days (2010: 35 days).

Equal Opportunities for Disabled People

The Bank 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

The Bank provides regular updates to all employees using face to face meetings, conference calls, email and the intranet.

Two staff feedback surveys were conducted in 2011 and management communicated the findings to staff, together with action plans to address issues identified in the survey. The multi-media communication framework continues to evolve and has been embraced by staff and management alike.

DIRECTORS' REPORT (continued)

Directors

The directors who held office during the year were as follows:

Phillip Monks
Mark Stephens
Peter Cartwright
Finlay McFadyen
John Callender
Paul Myers
Stephen Barry
Sir David Arculus
John Baines
Ian Wilkins
Jayne Almond (appointed 4 April 2011)

Certain directors benefited from qualifying third party indemnity provisions in place during the year ended 31 December 2011 and at the date of this report.

Political and Charitable Donations

The Bank made no political or charitable donations during the year (2010: Nil).

Disclosure of Information to Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Bank is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Phillip Monks

Director and Chief Executive Officer

Western House
Lynch Wood
Peterborough
PE2 6FZ
28 March 2012

Statement of Directors' responsibilities in respect of the Directors' report and the 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 Bank and of the profit or loss of the Bank 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 Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank 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 Bank 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 Bank'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 28 March 2012 and was signed on its behalf by:

Phillip Monks

Director and Chief Executive Officer

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 2011 set out on pages 15 to 40. 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 2011 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.

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

J L Ellacott (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

1 The Embankment

Neville Street

Leeds

LS1 4DW

28 March 2012

Profit and loss account**For the year ended 31 December 2011**

	Note	2011 £'000	2010 £'000
Interest receivable	3	53,190	24,474
Interest payable	4	(30,555)	(12,497)
Net interest income		22,635	11,977
Fees and commissions receivable	5	18,184	12,264
Fees and commissions payable	6	(6,656)	(3,075)
Other operating income	7	8,476	7,080
Net operating income		42,639	28,246
Administrative expenses	11	(40,681)	(34,295)
Depreciation and amortisation	12	(1,852)	(1,267)
Provision for bad and doubtful debts	16	(1,005)	(1,490)
Loss on ordinary activities before taxation	13	(899)	(8,806)
Taxation on loss on ordinary activities	14	7	-
Loss on ordinary activities after taxation		(892)	(8,806)

The notes and information on pages 17 to 40 form part of these financial statements.

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

The result for the year is derived entirely from continuing activities.

Aldermore Bank PLC

Financial statements for the year ended 31 December 2011

**Balance Sheet
At 31 December 2011**

	Note	2011 £'000	2010 £'000
Assets			
Cash and balances at central banks		125	-
Loans and advances to banks	15	123,122	219,346
Loans and advances to customers	16	1,160,435	474,952
Debt securities	17	227,958	35,803
Intangible assets	19	7,915	8,361
Tangible fixed assets	20	7,367	3,781
Other assets	21	14,311	4,318
Prepayments and accrued income	22	12,894	5,771
Total assets		1,554,127	752,332
Liabilities			
Customers accounts	23	1,347,470	634,719
Other liabilities	24	8,448	7,881
Accruals and deferred income	25	32,066	18,105
Total Liabilities		1,387,984	660,705
Called up share capital	26	3,300	3,300
Share premium account	27	170,133	94,725
Profit and loss account	27	(7,290)	(6,398)
Shareholders' funds	28	166,143	91,627
Total liabilities and shareholders' funds		1,554,127	752,332
		£'000	£'000
Contingent liabilities	30	-	-
Commitments	30	190,555	148,088

These financial statements were approved by the board of directors on 28 March 2012 and were signed on its behalf by:

Phillip Monks

Director and Chief Executive Officer

Registered number: 00947662

The notes and information on pages 17 to 40 form part of the financial statements.

Notes to the Financial Statements

1 Accounting policies

a) Accounting basis

The financial statements have been 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 Bankers' 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 have made a full assessment of the current state of the balance sheet of the Bank and the longer term strategy of the business. Capital and liquidity plans have been reviewed by the directors and are reported against at least monthly, including stress tests. The directors believe that the Bank has sufficient resources to continue lending and deposit taking throughout 2012, and for the 12 months from the date these financial statements are approved. The Bank has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Financial Services Authority, has firm backing from its current investors, and one new investor has signed a commitment letter relating to a capital injection of over £30m, subject to FSA approval. 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 after tax on the net cash investment. Investments in finance leases and hire purchase agreements are shown in the balance sheet as assets within loans and receivables, 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, net of provisions for bad and doubtful debts.

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

The Bank 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.

ii) Fee and related income

The Bank charges its clients a factoring fee for managing their sales ledgers. This fee is recognised 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.

Notes to the Financial Statements (continued)**1 Accounting policies (continued)***e) Invoice financing (continued)**iii) Unallocated cash*

This relates to a liability for receipts of unallocated cash, which are held on the Bank's balance sheet until the expiry of the six-year period. Any unclaimed receipts subsequent to the expiry date are recognised as income.

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. The Bank estimates the ultimate net realisable value and incorporates a forced sale discount into that valuation. Bad debts are written-off in part or in full 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 (those that are impaired at the balance sheet date but are not individually identified) are provided for against the clean book based on the incurred losses of each relevant line of business. The losses are provided for as a percentage of the loan book. This percentage is reviewed and adjusted accordingly as experience and economic and market conditions change.

Interest recognition is normally suspended once a customer's loan is impaired and/or three months or more in arrears.

g) Consolidation

The Bank 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 AC Acquisitions Limited a company incorporated in England and is included in the consolidated accounts of AC Acquisitions Limited.

h) Cashflow statement

Under Financial Reporting Standard 1 the Bank is exempt from the requirement to prepare a cashflow statement on the grounds that its ultimate parent company, AC Acquisitions Limited, includes the Bank in its own published consolidated financial statements.

i) 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
Computer systems	-	1 to 5 years
Motor vehicles	-	5 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.

j) 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.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

k) 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.

l) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary 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.

m) Taxation

Corporation 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 the Bank'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.

n) 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 Bank has no defined benefit pension scheme.

o) Segmental information

In the opinion of the directors, the Bank 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.

p) Securities

Securities intended for use on a continuing basis in the Bank's activities are classified as investment securities and stated at cost less provision for any permanent diminution in value.

Asset backed securities: where purchased at a discount the discount is amortised through the profit and loss account on an effective yield basis, which is a change in accounting estimate from the prior period. This is considered more appropriate as the

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

p) Securities (continued)

discount is now recognised to give a constant rate of return on the underlying assets. This has resulted in an additional £0.6m of income being recognised in the profit and loss account in the current year.

Other debt securities: where other investment securities have been purchased at a premium or discount these premiums and discounts are amortised through the profit and loss account from the date of purchase over the remaining life of the investment.

An impairment review is undertaken periodically to assess whether there has been any permanent diminution in value.

The amortisation of premium and discounts is included within interest income.

q) Impairment of assets

The carrying amounts of the Bank'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 they arise 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.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

r) Goodwill

Positive goodwill arising on acquisitions 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.

s) 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 and any potential impairment.

t) Leasing – as lessee

Leases of property, plant and equipment where the Bank 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.

u) Off-balance sheet financial derivatives

Off-balance sheet financial derivatives are entered into by the Bank for hedging purposes to reduce the risks arising on transactions entered into in the normal course of business. The income and expense arising from off-balance sheet financial derivatives entered into for hedging purposes is recognised in the accounts in accordance with the accounting treatments of the underlying transactions or transactions being hedged. All off-balance sheet financial derivatives are held for the period in which the underlying hedged items mature, and are not closed out before maturity.

v) Capital raising costs

Cost directly incremental to the raising of share capital are netted against the share premium account.

Notes to the Financial Statements (continued)

2 Segmental information

2011	Commercial Finance £'000	Mortgages £'000	Other £'000	Total £'000
Net interest income	11,214	10,692	729	22,635
Net fees and other income	17,781	2,115	108	20,004
Net operating income	28,995	12,807	837	42,639
Operating costs	(23,384)	(15,977)	(4,177)	(43,538)
Segmental profit/(loss) before taxation	5,611	(3,170)	(3,340)	(899)
Assets	341,303	819,132	393,692	1,554,127
Liabilities	-	-	(1,387,984)	(1,387,984)
Net assets	341,303	819,132	(994,292)	166,143
2010	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
Net operating income	25,121	4,287	(1,162)	28,246
Operating costs	(19,617)	(8,813)	(8,622)	(37,052)
Segmental profit/(loss) before taxation	5,504	(4,526)	(9,784)	(8,806)
Assets	169,197	305,755	277,379	752,332
Liabilities	-	-	(660,705)	(660,705)
Net assets	169,197	305,755	(383,326)	91,627

The Bank is structured into two main segments – Commercial Finance and Mortgages. Commercial Finance consists of asset finance and invoice finance business lines while Mortgages comprises residential and commercial lending. The remainder of the Bank's business, mainly central support functions, is included in 'Other'. Operating costs include depreciation charges and provision for bad and doubtful debts.

Notes to the Financial Statements (continued)**3 Interest receivable**

	2011	2010
	£'000	£'000
Bank deposits and treasury bills	993	944
Debt securities	3,112	1,836
Loans and advances secured on property	18,346	6,662
Loans and advances to commercial finance customers	27,180	11,843
Amortisation of discounts on acquired portfolios	3,559	3,189
	<u>53,190</u>	<u>24,474</u>

4 Interest payable

	2011	2010
	£'000	£'000
Customer deposits	33,125	15,347
Net income on derivative financial instruments	(2,570)	(2,850)
	<u>30,555</u>	<u>12,497</u>

5 Fees and commissions receivable

	2011	2010
	£'000	£'000
Invoice finance fees	13,142	10,761
Mortgage arrangement fees	4,465	551
Other	577	952
	<u>18,184</u>	<u>12,264</u>

6 Fees and commissions payable

	2011	2010
	£'000	£'000
Introducer commissions	3,591	1,389
Legal and valuation fees	1,282	858
Credit protection and insurance charges	588	468
Company searches and other fees	1,195	360
	<u>6,656</u>	<u>3,075</u>

Notes to the financial statements (continued)

7 Other operating income

	2011	2010
	£'000	£'000
Disbursements, collect out and other invoice finance income	8,476	7,080
	<u>8,476</u>	<u>7,080</u>

8 Staff costs

	2011	2010
	£'000	£'000
Wages and salaries	21,740	16,791
Social security costs	2,753	1,779
Other pension costs	493	404
	<u>24,986</u>	<u>18,974</u>

The average number of persons employed by the Bank during the year, including non-executive directors, was 415 (2010: 318).

9 Remuneration of directors

	2011	2010
	£'000	£'000
Directors' emoluments	2,164	1,280
Bank contributions to money purchase schemes	61	42
	<u>2,225</u>	<u>1,322</u>

The Bank made payments of £21,000 to two directors' individual personal pension plans during the year (2010: £19,000).

During 2011 certain directors were given the option to purchase B ordinary shares of £0.10 in the ultimate parent company, AC Acquisitions Limited, at a discount to market value. 557,813 discounted B ordinary shares were purchased (2010: nil). These shares give rise to a benefit of £97,000 (2010: £nil), of which the current year charge is £33,000 (2010: £nil).

Directors' emoluments includes £122,000 of deferred bonus (2010: £nil)

Highest paid director

The above amounts include the following in respect of the highest paid director:

	2011	2010
	£'000	£'000
Emoluments	430	312
Bank contributions to money purchase scheme	13	10
	<u>443</u>	<u>322</u>

During 2011, the highest paid director purchased 360,272 B Ordinary shares in AC Acquisitions Limited at a discount to market value, giving rise to a benefit of £69,532 (2010: £nil).

Notes to the financial statements (continued)**10 Pension and other post-retirement benefit commitments****Defined Contributions**

The Bank operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Bank in independently administered funds. Pension contributions of £492,000 (2010: £404,000) were charged to the profit and loss account during the year in respect of these schemes. The Bank made payments amounting to £21,000 (2010: £19,000) to certain employees' individual personal pension plans during the period. There were outstanding contributions of £78,000 at the year end (2010: £77,000).

11 Administrative expenses

	2011	2010
	£'000	£'000
Staff costs (see note 8)	24,986	18,974
Office costs	2,770	2,132
Information technology	2,484	2,126
Legal and professional and other services	5,769	5,230
Other	4,672	5,833
	<u>40,681</u>	<u>34,295</u>

12 Depreciation and amortisation

	2011	2010
	£'000	£'000
Depreciation	1,406	810
Amortisation of goodwill	446	457
	<u>1,852</u>	<u>1,267</u>

13 Loss on ordinary activities before taxation

	£'000	£'000
The loss on ordinary activities is arrived at after charging/(crediting):		
Operating lease rentals – land and buildings	1,014	768
Operating lease rentals – plant and equipment	443	443
Foreign exchange gain	(13)	(40)
	<u>1,444</u>	<u>1,171</u>
	£'000	£'000
Fees payable to the Bank's auditors for the audit of the annual accounts (excluding VAT)	162	159
Fees payable to the Bank's auditors and its associates for other services (excluding VAT):		
Tax compliance services	30	42
Tax advisory services	18	84
Corporate finance services	425	-
Other assurance services	57	-
	<u>692</u>	<u>285</u>

Notes to the financial statements (continued)

14 Taxation

	2011	2010
	£'000	£'000
(i) Analysis of tax charge on ordinary activities:		
Current tax on profits of the year	-	-
Over provision in previous year	(7)	-
	-----	-----
Total current tax (credit)/charge	(7)	-
Deferred tax:		
Origination and reversal of timing differences	-	-
	-----	-----
	-	-
	-----	-----
Taxation (credit)/charge on loss on ordinary activities	<u>(7)</u>	<u>-</u>

(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 26.5% (2010: 28%). The differences are explained below:

	2011	2010
	£'000	£'000
Loss on ordinary activities before tax	(899)	(8,806)
	-----	-----
Tax at 26.5% (2010: 28%) thereon	(238)	(2,465)
Effects of:		
Movements on provisions	(25)	227
Expenses not deductible for tax purposes	209	185
Capital allowances less than depreciation	(156)	56
Losses carried forward and not recognised	210	1,997
Deferred tax assets transferred in	-	-
Depreciation written back	-	-
Over provision in previous year	(7)	-
	-----	-----
Current tax (credit)/charge for year	<u>(7)</u>	<u>-</u>

Notes to the financial statements (continued)

14 Taxation (continued)

(iii) Deferred tax asset

Movement on deferred taxation balance in the year

	2011 £'000	2010 £'000
Opening balance	-	-
(Charge)/credit to profit and loss account	-	-
	<hr/>	<hr/>
Closing balance	<u>-</u>	<u>-</u>

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.

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce from 26% to 22% by April 2014. A reduction in the UK corporation tax rate from 26% to 25% was initially enacted on 5 July 2011 and was expected to be effective from 1 April 2012. However, after the Budget on 21 March 2012 it was announced that the rate will decrease from 26% to 24% on 1 April 2012 instead; though this rate has not yet been enacted. This will reduce the Bank's future current tax charge accordingly. The tax disclosures for the period reflect the deferred tax at the 25% substantively enacted rate. It has not yet been possible to quantify the full anticipated effect of the further rate reductions, although this will further reduce the Bank's future tax charge and reduce the Bank's deferred tax assets / liabilities accordingly.

(iv) Analysis of recognised deferred tax balance

	2011 £'000	2010 £'000
Capital allowances less than depreciation	-	-
Short term timing differences	-	-
	<hr/>	<hr/>
Closing balance	<u>-</u>	<u>-</u>

(v) Analysis of unrecognised deferred tax balance

	£'000	£'000
Capital allowances less than depreciation	165	266
Other timing differences	679	615
Losses carried forward	6,916	9,311
	<hr/>	<hr/>
Closing balance not recognised	<u>7,760</u>	<u>10,192</u>

Notes to the financial statements (continued)

15 Loans and advances to banks

	2011	2010
	£'000	£'000
Repayable on demand	28,284	149,522
Repayable in three months or less	94,838	69,824
	<u>123,122</u>	<u>219,346</u>

There were no general or specific doubtful debt provisions against loans and advances to banks.

16 Loans and advances to customers

	2011	2010
	£'000	£'000
Repayable in not more than three months	194,119	137,423
Repayable in more than three months but not more than one year	67,938	40,350
Repayable in more than one year but not more than five years	161,532	70,180
Repayable in more than five years	748,069	241,563
Specific and general doubtful debt provisions	(11,223)	(14,564)
	<u>1,160,435</u>	<u>474,952</u>

Amounts include:

Repayable on demand or at short notice	<u>177,018</u>	<u>136,302</u>
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Non-performing loans and advances to customers:

- loans and advances before provisions	<u>28,611</u>	<u>22,489</u>
- loans and advances after provisions	<u>18,762</u>	<u>10,015</u>

Specific and general doubtful debt provisions

	Specific	General	Total
	£'000	£'000	£'000
2011			
1 January 2011	12,474	2,090	14,564
Write off in year net of recoveries	(4,346)	-	(4,346)
Charge /(credit) to profit and loss account	1,721	(716)	1,005
31 December 2011	<u>9,849</u>	<u>1,374</u>	<u>11,223</u>

The general provision on an acquired portfolio was reduced by £0.8m in the Mortgages Division, while a reduction was made in the Commercial Finance Division of £0.2m to reflect lower incurred losses and better performance than expected.

Notes to the financial statements (continued)

16 Loans and advances to customers (continued)

	Specific £'000	General £'000	Total £'000
2010			
1 January 2010	10,761	935	11,696
Purchases as part of acquisition	3,410	-	3,410
Write off in year net of recoveries	(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>

Loans and advances to customers comprise:

	2011 £'000	2010 £'000
Gross finance receivables	218,657	71,858
Less unearned finance charges	(26,990)	(6,925)
	<u>191,667</u>	<u>64,933</u>
Invoice financing	149,636	104,264
Mortgage loans	819,132	305,755
	<u>1,160,435</u>	<u>474,952</u>

17 Debt securities

	Asset backed securities		Other debt securities		Total	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cost						
1 January	40,920	42,679	-	-	40,920	42,679
Additions	41,550	13,512	167,375	-	208,925	13,512
Capital repayments	(12,062)	(15,271)	-	-	(12,062)	(15,271)
31 December	<u>70,408</u>	<u>40,920</u>	<u>167,375</u>	<u>-</u>	<u>237,783</u>	<u>40,920</u>
Discount/(premium) on purchase						
1 January	5,117	5,318	-	-	5,117	5,318
Additions	6,421	1,139	496	-	6,917	1,139
Amortisation of (discount)/premium	(2,224)	(1,340)	15	-	(2,209)	(1,340)
31 December	<u>9,314</u>	<u>5,117</u>	<u>511</u>	<u>-</u>	<u>9,825</u>	<u>5,117</u>
Book value						
31 December	<u>61,094</u>	<u>35,803</u>	<u>166,864</u>	<u>-</u>	<u>227,958</u>	<u>35,803</u>

Notes to the financial statements (continued)

18 Investment in subsidiaries

Holdings of more than 20%

The Bank 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:				
Aldermore Invoice Finance (Holdings) Limited	Dormant	England	Ordinary	100
Base Commercial Mortgages Holdings Limited	Dormant	England	Ordinary	100
Aldermore Bank Nominees Limited	Dormant	England	Ordinary	100

19 Intangible assets

	Goodwill 2011 £'000
Cost:	
At 31 December 2010 and 31 December 2011	8,962
Amortisation:	
At 1 January 2011	601
Amortisation for the year	446
At 31 December 2011	1,047
Net book value at 31 December 2011	7,915
Net book value at 31 December 2010	8,361

Goodwill arising on the acquisition and hive up of Base Commercial Mortgages Holdings Limited and goodwill arising on the acquisition and hive up of Aldermore Invoice Finance (Holdings) Limited are being amortised evenly over their presumed useful economic lives of 20 years.

Notes to the financial statements (continued)

20 Tangible fixed assets

	Fixtures, fittings and equipment	Computer systems	Motor vehicles	Total
	£'000	£'000	£'000	£'000
01 January 2011	1,213	4,154	23	5,390
Additions	171	4,821	-	4,992
Disposals	-	-	-	-
	<u>1,384</u>	<u>8,975</u>	<u>23</u>	<u>10,382</u>
Depreciation				
01 January 2011	617	969	23	1,609
Disposals	-	-	-	-
Charge for the period	235	1,171	-	1,406
	<u>852</u>	<u>2,140</u>	<u>23</u>	<u>3,015</u>
Net book value				
31 December 2011	<u>532</u>	<u>6,835</u>	<u>-</u>	<u>7,367</u>
31 December 2010	<u>596</u>	<u>3,185</u>	<u>-</u>	<u>3,781</u>

Future capital expenditure

At 31 December 2011 there was £4.5m capital expenditure authorised but not contracted for or contracted but not provided for (31 December 2010: £4.5m).

21 Other assets

	2011	2010
	£'000	£'000
Corporation tax	-	343
Cash collateral on derivatives	12,857	-
Other	1,454	3,975
	<u>14,311</u>	<u>4,318</u>

22 Prepayments and accrued income

	2011	2010
	£'000	£'000
Accrued income	5,018	2,270
Prepaid broker fees	6,477	2,404
Other prepayments	1,399	1,097
	<u>12,894</u>	<u>5,771</u>

Notes to the financial statements (continued)**23 Customer accounts**

	2011	2010
	£'000	£'000
Repayable on demand	137,800	25,976
Repayable in not more than three months but not on demand	129,542	42,991
Repayable in more than three months but not more than one year	739,091	243,507
Repayable in more than one year but not more than five years	341,037	322,245
	<u>1,347,470</u>	<u>634,719</u>

Customer accounts repayable on demand include £1.0 million payable to the immediate parent company, Aldermore Holdings Limited (2010: £1.0 million).

24 Other liabilities

	2011	2010
	£'000	£'000
Amounts payable to Invoice Finance customers	2,549	2,477
Unallocated cash	2,438	2,277
Other taxation and social security costs	2,580	1,498
Trade creditors	818	1,562
Other payables	63	67
	<u>8,448</u>	<u>7,881</u>

Unallocated cash primarily relates to a liability for unclaimed cash receipts, which are held on the Bank's balance sheet until the expiry of the six-year period. Any unclaimed receipts subsequent to the expiry date are recognised as income. It is not possible to provide a maturity analysis of this liability due to the uncertainty surrounding any reimbursements.

Notes to the financial statements (continued)

25 Accruals and deferred income

	2011	2010
	£'000	£'000
Accrued interest payable to customers	12,335	5,742
Prepaid arrangement fees	8,635	3,290
Accruals	8,968	8,081
Provisions (see note below)	1,012	426
Amount payable to parent company	588	-
Fee creditors	336	467
Deferred income	192	99
	<u>32,066</u>	<u>18,105</u>

Provisions:

Financial Services Compensation Scheme

	2011	2010
	£'000	£'000
1 January	426	128
Utilised during the year	(75)	(65)
Provided during the year	661	363
31 December	<u>1,012</u>	<u>426</u>

In common with all regulated UK deposit takers, the Bank pays levies to the Financial Services Compensation Scheme ('FSCS') to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer & Friedlander Ltd, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

The FSCS provision at 31 December 2011 represents management expense levies for the scheme years triggered but not yet invoiced and the £1m provision at that date is an estimate of the levy for the scheme years 2011/2012 and 2012/2013. The management expenses levy for scheme year 2011/2012 has been calculated using the agreed funding rate of 12 months LIBOR + 30bps while the management expenses levy for scheme years 2012/2013 has been calculated using the agreed funding rate of 12 months LIBOR + 100bps.

Furthermore, on 8 March 2012 HM Treasury and the FSCS announced that additional levies will be made on industry participants in order to recover expected capital shortfalls on loans made to failed institutions by the FSCS. The current estimate of the shortfall to be recovered is £802m and this will be recovered in three approximately equal instalments beginning in scheme year 2013/2014. As a result of this an increased provision for FSCS levies is likely to exist in the financial statements for the year ending 31 December 2012.

Notes to the financial statements (continued)

26 Share capital

	2011	2010
	£'000	£'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each		
At 1 January	3,300	3,300
Issued during the year	-	-
	<u>3,300</u>	<u>3,300</u>
At 31 December	<u>3,300</u>	<u>3,300</u>

During the year six ordinary shares of £1 each were issued for a total of £77,934,926 creating £77,934,920 share premium.
At 31 December 2011 allotted, called up and fully paid shares totalled 3,300,009.

27 Reconciliation of movements in shareholders' funds

	Share premium	Profit and
	account	loss account
	£'000	£'000
1 January 2011	94,725	(6,398)
Loss for the year	-	(892)
Premium on shares issued during the year	77,935	-
Capital raising costs	(2,527)	-
31 December 2011	<u>170,133</u>	<u>(7,290)</u>

28 Reconciliation of movements in shareholders' funds

	2011	2010
	£'000	£'000
Loss for the year	(892)	(8,806)
Shares issued during the year	-	-
Premium on shares issued during the year	77,935	48,297
Capital raising costs	(2,527)	(966)
	<u>74,516</u>	<u>38,525</u>
Net additions to shareholders' funds	74,516	38,525
Opening shareholders' funds	91,627	53,102
	<u>166,143</u>	<u>91,627</u>
Closing shareholders' funds	166,143	91,627

Notes to the financial statements (continued)**29 Financial commitments**

At 31 December 2011 the Bank was committed to making the following payments under non-cancellable operating leases:

Land and buildings

Operating leases which expire:	2011 £'000	2010 £'000
In less than one year	196	32
Between two and five years	828	449
In over five years	-	523
	<u>1,024</u>	<u>1,004</u>

Plant and equipment

Operating leases which expire:	2011 £'000	2010 £'000
In less than one year	-	-
Between two and five years	437	445
In over five years	-	-
	<u>437</u>	<u>445</u>

At 31 December 2011 the majority of plant and equipment related to 82 cars that the Bank held under lease (2010: 91). The majority of these leases are due to expire in 2014.

30 Memorandum items

At 31 December 2011 the Bank had contingent liabilities of £Nil (2010: £Nil).

At 31 December 2011 the Bank had undrawn commitments of £190.6m (2010: £148.1m). These relate mostly to irrevocable lines of credit granted to customers.

31 Assets and liabilities denominated in foreign currency

As at 31 December 2011, there were assets of £1,851,000 (2010: £35,000) and liabilities of £84,000 (2010: £589,000) denominated in Euros. There were assets of £725,000 (2010: £212,000) and liabilities of £Nil (2010: £652,000) denominated in US Dollars. There were no other foreign currency assets or liabilities at the balance sheet date.

32 Related parties

The Bank has taken advantage under Financial Reporting Standard 8 'Related Party Disclosures' not to disclose transactions with members of the AC Acquisitions Limited group on the grounds that the Bank is a 100% subsidiary of AC Acquisitions Limited and the Bank is included in consolidated financial statements published by AC Acquisitions Limited.

Certain directors and shareholders of the ultimate parent company and certain directors of the Bank, in their capacities as individuals, trustees, directors of other companies or members of pension schemes, have deposits and loans with, and fees from, the Bank. All deposit arrangements have been operated by the Bank on normal commercial terms and conditions. Directors' loans at 31 December 2011 were £39,465 (2010: £nil).

Notes to the financial statements (continued)**32 Related parties (continued)**

Phillip Monks, a director of the Bank, received a loan during the year totalling £36,157 (2010: £Nil) for the purposes of enabling him to satisfy his personal tax liability in respect of shares issued. Interest was charged at a rate of 2.38% p.a. with the total amount outstanding at the year end being £36,328 (2010: £Nil) and no repayments were made during the year.

Paul Myers, a director of the Bank, received a loan during the year totalling £3,122 (2010: £Nil) for the purposes of enabling him to satisfy his personal tax liability in respect of shares issued. Interest was charged at a rate of 2.38% p.a. with the total amount outstanding at the year end being £3,137 (2010: £Nil) and no repayments were made during the year.

The Bank is controlled by AnaCap Derby Co-Investment (No.1) L.P. (27%), AnaCap Derby Co-Investment (No.2) L.P. (23%), AnaCap Financial Partners, II L.P. (25%) and AnaCap Financial Partners, L.P. (23%) who are the main shareholders of AC Acquisitions Limited. The following agreements are in place with a company under their common control:

The Bank provides a £5m Block Discounting facility to Syscap Limited. The facility commenced in September 2009 and is secured by underlying blocks of short term loans primarily to solicitors' 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 the Bank 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 the Bank to Syscap Limited.

During the year Syscap Limited introduced business of £49.2m (2010: £43.5m) and received commission of £0.4m (2010: £0.3m) of which £nil is outstanding at year end (2010: £nil).

In addition the group has been charged investment monitoring fees and capital raising costs by AnaCap Financial Partners of £825,000 for the year (2010: £971,000) of which £75,000 is outstanding at the year end (2010: £150,000).

33 Financial instruments

The Bank's financial instruments comprise borrowings from banks, customer deposits, loans to customers, debt and government securities and cash held at banks. All these arise as a result of the Bank's normal operations. The Bank does not enter transactions for speculative purposes and accordingly a note of instruments held for trading has not been provided. From time to time, the Bank may use interest rate derivatives such as swaps to manage part of its interest rate risk. The main risks arising from the Bank'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 the Bank. 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. The Bank manages its credit risk by limiting its exposure to certain sectors of business and counterparties, by carrying out appropriate checks 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.

The Bank has no direct exposure to any distressed Eurozone countries.

Notes to the financial statements (continued)**33 Financial instruments (continued)***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 the Bank is primarily funded from retail deposits, the gap between the deposit maturity profile and the lending assets maturity profile is kept within agreed limits. The Bank has always met its own and the FSA liquidity requirements as defined by BIPRU 12. The Bank monitors closely the profile of deposits and has the flexibility to quickly amend the deposit rates on offer to rebalance the profile of deposits in the prevailing market conditions.

Fair Value Disclosure

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

	Book Value 2011 £'000	Fair Value 2011 £'000	Book Value 2010 £'000	Fair Value 2010 £'000
On balance sheet instruments				
Asset Backed Securities	61,094	60,875	35,803	37,100
Corporate bonds	5,473	5,473	-	-
UK Government debt securities	60,102	65,190	-	-
Supranational bonds	101,289	109,392	-	-
Off balance sheet instruments				
Interest rate swaps	1,880	(12,803)	2,087	4,504
Other off balance sheet	-	22	-	-
Total	229,838	228,149	37,890	41,604

Interest rate related contracts represent interest rate swap transactions which generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts.

Derivatives contracts are used for hedging purposes only and are executed with Bank counterparties for whom volume and settlement limits have been approved. Under the Bank's current treasury policy, derivatives contracts are restricted to interest rate swaps, currency swaps and forward rate agreements.

At 31 December 2011, there were 75 swaps outstanding (2010: 47). There were unrealised losses outstanding at year end of £10.9m, of which £1.7m is expected to be realised in the year ending 31 December 2012.

Notes to the financial statements (continued)

33 Financial instruments (continued)

2011	Interest rate swaps		Others	
	Notional values	Fair values	Notional values	Fair values
	£m	£'000	£m	£'000
Maturity				
1 year or less	710.0	1,659	2.5	41
5 years or less but over 1 year	308.8	4,647	20.0	(19)
More than 5 years	93.1	(19,109)	-	-
	<u>1,111.9</u>	<u>(12,803)</u>	<u>22.5</u>	<u>22</u>

2010	Interest rate swaps		Others	
	Notional values	Fair values	Notional values	Fair values
	£'million	£'000	£'million	£'000
Maturity				
1 year or less	385.0	741	-	-
5 years or less but over 1 year	259.8	3,771	-	-
More than 5 years	1.7	(8)	-	-
	<u>646.5</u>	<u>4,504</u>	<u>-</u>	<u>-</u>

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.

The Bank finances its loan book from its capital base and customer deposits. At present a minority of the Bank'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 85% of customers' deposits are at fixed rates. At present the Bank has a minimal level of repricing mismatches. The table below summarises the repricing mismatches on the Bank's non-trading book as at 31 December 2011. 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 the Bank's non-trading book as at 31 December 2011. 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.

Notes to the financial statements (continued)

33 Financial instruments (continued)

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Non- interest bearing	Total
31 December 2011	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balances with UK central banks	-	-	-	-	-	125	125
Loans & advances to banks	115,774	-	-	-	-	7,348	123,122
Debt securities	130,908	5,000	-	10,000	91,875	(9,825)	227,958
Loans & advances to customers	757,184	20,046	51,239	345,712	4,328	(18,074)	1,160,435
Other assets	12,857	-	-	-	-	29,630	42,487
Total assets	1,016,723	25,046	51,239	355,712	96,203	9,204	1,554,127
Customer accounts	263,846	181,050	558,045	341,032	-	3,497	1,347,470
Other liabilities	-	-	-	-	-	40,514	40,514
Shareholders' funds	-	-	-	-	-	166,143	166,143
Total liabilities	263,846	181,050	558,045	341,032	-	210,154	1,554,127
Off balance sheet items	(616,755)	182,943	521,887	3,976	(92,051)	-	-
Interest rate sensitivity gap	136,122	26,939	15,081	18,656	4,152	(200,950)	-
Cumulative gap	136,122	163,061	178,142	196,798	200,950	-	-

Notes to the financial statements (continued)

33 Financial instruments (continued)

	Less than 3 months £'000	3 to 6 months £'000	6 months to 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Non- interest bearing £'000	Total £'000
31 December 2010							
Loans & advances to banks	219,346	-	-	-	-	-	219,346
Debt 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	-	-

34 Ultimate parent company

The ultimate parent company is AC Acquisitions Limited, a private limited company incorporated in England. AC Acquisitions Limited is controlled by AnaCap Derby Co-Investment (No.1) L.P. (27%), AnaCap Derby Co-Investment (No.2) L.P.(23%), AnaCap Financial Partners, II LP (25%) and AnaCap Financial Partners, L.P. (23%).

The immediate parent company is Aldermore Holdings Limited, a private limited company incorporated in England.

Consolidated accounts are prepared by AC Acquisitions Limited and copies are available to the public from AC Acquisitions Limited's registered office c/o Aldermore Bank PLC, Fourth Floor, Apex Plaza, Forbury Road, Reading, Berkshire, RG1 1AX.