

Aldermore Bank PLC

Financial statements for the year ended 31 December 2012

Registered number: 00947662

Aldermore Bank PLCFinancial statements for the year ended 31 December 2012

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

Non-Executive Directors

John Callender

David Soskin

Peter Cartwright

Jayne Almond

Secretary

Dionne Simpson

Registered Office1st Floor, Block B

Western House

Lynch Wood

Peterborough

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Auditors

KPMG Audit Plc

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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

Our prime objective during 2012 has been to transform Aldermore into the Number One 'Challenger Bank' in the United Kingdom, with low cost technically sophisticated infrastructure, providing short and medium term financing to Small and Medium enterprises (SMEs) and to those owning property and homes. We have seen expansion across all areas of the Bank. Our proven ability to raise deposits has enabled us to achieve strong balance sheet growth through Commercial Mortgages, Invoice Finance, Asset Finance and Residential and Buy to Let Mortgages.

We always strive to deliver a personal service, underpinned as a deposit funded UK regulated Bank, by our determination to be Reliable, Expert, Dynamic and Straightforward (REDS). During the year we passed the milestone of reaching £1bn of lending to SMEs, with a further £1bn lent to homeowners. Our total balance sheet reached £2.5bn by the end of the year and was almost £1bn higher than that of 12 months previously. In May the Bank announced that it had successfully raised a further £36m of capital to fund further growth. Throughout this year of growth, our progress has been nurtured, encouraged and challenged by our lead investor and sponsor, AnaCap.

Aldermore's senior leadership team has worked closely with the Financial Services Authority, HM Treasury, and Politicians, to initiate changes which will enable us to provide more lending into the British Economy. We have embraced various Government schemes, participating in the National Loan Guarantee Scheme and the Funding for Lending Scheme (FLS). Figures released by the Bank of England showed that Aldermore was in the top six net lenders for the second half of 2012, thus providing the UK SME and housing market with much needed new finance. The Government's NewBuy Scheme was launched during 2012 to stimulate the residential housing market. Aldermore was pleased to announce that it was the first of the 'Challenger Banks' to join the scheme, with Housing Minister Grant Shapps publicly supporting our involvement, a clear indication that Government recognises our dynamic approach and understands what the Bank is striving to achieve. I was also delighted to welcome the Chancellor of the Exchequer, George Osborne, to our Cheshire offices in 2012, which further served to demonstrate the Bank's importance in the eyes of the UK Government.

Looking now in detail at the Bank's operations:

Lending to SMEs*Commercial Mortgages*

The level of lending in Commercial Mortgages has increased by 59% this year and we now have over 1,600 customers, helping SMEs expand their growth by offering an extensive commercial mortgage range. Our dynamic state-of-the-art processing system is cited time and again by intermediaries as an excellent operational platform, significantly expediting the application procedure from inception to conclusion. This provides exceptional customer service and makes Aldermore straightforward and easy to do business with at every level.

The Commercial Mortgage Division can offer an end to end reliable service in the Buy to Let market. Whether a customer is a first time landlord or has an extensive portfolio, Aldermore is able to provide a funding facility to meet a specific need.

Invoice Finance

The Invoice Finance Division provides working capital through 11 regional offices across the UK and grew its client base to more than 1,000, with invoices of over £1.8 billion funded during 2012. Recognising the need for SMEs to be able to budget reliably, the Bank offers the Aldermore Business Confidence (ABC), a fixed fee and straightforward factoring package. ABC enables small businesses with a turnover of up to £500,000 to immediately access and utilise cash tied-up in unpaid invoices. There are no set-up or administration charges and both the servicing and discounting fees are fixed for two years from inception.

During 2012, we launched an innovative funding package through our Fuel Card to help commercial transport companies across the UK to manage cash flow and ease the cost of fuel – this means firms can release cash tied-up in unpaid invoices, as well as receive up to 14 days free credit on all their fuel purchases.

Chairman's overview (continued)

Lending to SMEs (continued)

Asset Finance

The Asset Finance Division provides cash flow against hard assets, as well as a range of lease funding facilities. Contract Hire, Hire Purchase and Lease Finance all reduce the need for capital expenditure, thus providing SMEs with working capital which is not tied up in equipment, but can be used to grow their business.

We grew our customer base to more than 5,500 through 2012 as Aldermore accelerated its growth plans to take account of the withdrawal of a major UK leasing company from the asset finance sector. We continue to work closely with our intermediaries and we have expanded our panel extensively during this past year. Our asset finance team are experts in sectors important for Britain's growth, such as manufacturing and materials handling. Next year the team's expertise will be widened to encompass other markets which will further support SMEs and help to stimulate the economy.

Lending to Homeowners and Buy To Let

Following its launch in 2010, Aldermore's Residential Mortgage Division has continued to grow, with mortgages more than doubled from 2011's figure of £465m to £961m in 2012, with more than 7,000 customers.

Residential Mortgages was built from scratch enabling Aldermore to introduce leading edge technology which enables a quick decision, as well as the ability for the intermediary or broker to track the progress of their client's application. Most banks depend solely on the use of credit scoring, however, at Aldermore every application is reviewed by an expert underwriter, who will take a pragmatic approach to creditworthy homeowners.

In 2012 Aldermore was one of the first to announce an increase in its loan-to-value on Buy-to-Let, rising from 75 per cent to 80 per cent, with the majority of the market subsequently following us. In addition to developing a range of innovative Buy-to-Let products, to suit the needs of SMEs and consumers, whom we recognised as being underserved, Aldermore has launched many innovative consumer mortgage products. We have been recognised in the consumer and mortgage industry with numerous awards throughout 2012, including the prestigious 'FT Financial Adviser Five Star Award' for the second consecutive year.

Savings

Our UK savings business has continued to provide straightforward products which, with no bonuses or gimmicks, are reliable saving vehicles for the consumer. The retail funds that come in from the consumer are all lent out to British SMEs and homeowners. We offer consistently good value and service on our range of retail products. For the third year running, Aldermore's Cash ISA was voted as 'Best Consumer Cash ISA' in the MoneyFacts Awards.

2012 saw the launch of Business Savings, with the first of our SME Business Savings Accounts coming to the market in May. After much research into this market, Aldermore recognised that business savings were poorly served, with a general perception of too much effort for too little reward. The SME Business Savings product from Aldermore not only offers a great rate, but it is the only genuine online account which can be opened and funded within 15 minutes, a clear demonstration of the Bank's dynamic approach to offering excellent customer service to the SME industry. There are now more than 80,000 accounts for retail and business customers.

Aldermore is regulated by the UK Financial Services Authority (FSA) and its successor bodies. The Bank's retail depositors benefit from the Financial Services Compensation Scheme, which protects and guarantees deposits of up to £85,000 per person, or twice that for joint accounts. Small businesses also benefit up to the £85,000 level of protection per business.

Chairman's overview (continued)

Effective Risk Management

Effective risk management is central to how the Bank operates. Our risk framework works well and is designed to help protect the Bank against risks beyond our risk appetite, but recognising we have to operate in a competitive environment. The Bank has adopted a "three lines of defence" model against key risks, such as credit, liquidity, operational and market risks. The first line is the core of our ability to manage risk, and this is where risk is considered and managed by everyone across the Bank working in a risk-aware way and using the policies and controls designed to protect the business. The second line is our governance structure, where the committees and Board oversee the Bank's activities. The third line is where we get independent assurance from our audit team that risk controls are effective.

The credit performance for 2012 was well within the Bank's overall risk appetite and the underlying trends on new origination remain very positive.

Building a Modern Bank

We have continued to invest in our technology and operating platforms. The lack of legacy infrastructure is a major benefit in terms of developing and expanding our business. During the year we completed the implementation of our banking platform which has enabled us to launch our highly innovative Business Savings offering for SMEs.

During the year, we have invested heavily in on-line marketing and have established a small team of digital experts. This has enabled us to drive the majority of our promotional spend online and improve our customer acquisition costs, especially in the Savings businesses. Our digital presence is growing in scale and sophistication; a 'Ratings and Reviews' capability is now live, along with 'Ask and Answer' which allows customers to pose questions directly to our own experts. We see on-line engagement with our SME customers, in particular, as a key area of focus in the coming year.

Our People

I want to end by thanking our over 500 people for their hard work and dedication, and the major part they have all played in helping to grow the Bank so successfully over the past year.

There are many obstacles to be overcome in building a truly innovative and dynamic Challenger Bank. We are fortunate to have a great team of people, ably led by Phillip Monks and his executive team. My thanks go to them, to our Non Executive Directors, and to our investors.

Our staff have risen magnificently to the task of building a new bank. With them lies Aldermore's success so far, and our prospects for further growth. We shall continue to be Reliable, Expert, Dynamic and Straightforward and to contribute further to the delivery of the aspirations of our customers and the success of UK Plc.

Sir David Arculus

Chairman

Aldermore Bank PLC

Chairman's overview (continued)

Our awards



In 2010 the business won 2 awards

In 2011 the business won 11 awards. Key highlights include:

- Specialist Lender of the Year by the National Association of Commercial Finance Brokers (NACFB)
- Consumer MoneyFacts Best ISA Provider
- FT Financial Advisor 5 Star Service Award.

In 2012 the business won 20 awards. Key highlights include:

- Commercial Mortgage Provider of the Year by the NACFB
- Three awards from MoneyFacts (Best Fixed Rate Savings account, Consumer MoneyFacts Best ISA Provider for the second year running and ISA Provider of the year)
- Best Specialist Lender at the Mortgage Strategy awards
- Personal Finance Award for Best Cash ISA
- FT Financial Advisor 5 Star Service award for the second year running.

Directors' report

The directors present their report and the financial statements of Aldermore Bank PLC ('the Bank') for the year ended 31 December 2012.

Results and Dividends

The results for the year are set out in the profit and loss account on page 16. The directors do not recommend the payment of a dividend (2011: £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 2012 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 small business and residential mortgage markets, funded by capital, retail and small business deposits.

The profit before taxation for the year ended 31 December 2012 was £0.8 million (2011 loss: £0.9 million). As at 31 December 2012 the Bank had 521 employees (2011: 445). The Bank continued to build out and improve its infrastructure throughout 2012; investing in its people and technology as well as driving for efficiencies.

The Bank had regulatory Tier 1 capital at 31 December 2012 of £162.7 million (2011: £158.2 million) and a Tier 1 capital ratio of 11.8% (2011: 18.5%).

Performance analysis based on Key Performance Indicators

The following metrics represent the core key performance indicators for the Bank:

	31 December 2012	31 December 2011
Tier 1 capital ratio	11.8%	18.5%
Annual growth in loans and advances to customers	77.4% (£899.2 million)	144.3% (£685.5 million)
Annual growth in retail deposits	58.9% (£793.7 million)	112.3% (£712.7 million)
Liquidity buffer (as a % of total deposits)	18.2%	19.8%
Profit/(loss) for the year	£0.8 million	(£0.9 million)

Capital Injections

The Bank's immediate parent company is Aldermore Holdings Limited. In March 2012 £1.7 million was invested in the Bank by Aldermore Holdings Limited via subscription of equity share capital.

Subordinated loan

In May 2012, the Bank issued a £40 million subordinated loan note at a discount to nominal value.

Funding for Lending Scheme

The Bank has made use of the Funding for Lending Scheme (FLS), a scheme launched by the Bank of England and HM Treasury in July 2012 which provides loans to banks and building societies at below market rates with the aim of stimulating lending within the economy. The Bank has pre-positioned £648 million of residential mortgages with the FLS, which are available for use as collateral for the Bank's participation in the FLS. At 31 December 2012 the Bank had FLS drawings of £205 million.

Directors' report (continued)**Liquidity**

At 31 December 2012, the Bank held a 18% liquidity buffer (liquid assets excluding encumbered cash as a percentage of total funding liabilities). 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 Financial Services Authority (FSA) stress requirements.

Investment in the Business Systems and Support Structure

Fixed asset additions in the year of £6.3 million were mainly focused on new IT systems and infrastructure.

Commercial Finance Division

Asset Finance – 2012 was a period of strong controlled growth in the key areas of vendor and broker introduced business. The asset finance business grew in balance sheet terms by 96%. The number of Small and Medium Sized Enterprise ('SME') customers that we serve grew by 46% and the business line increased overall market share, consolidating its position as one of the leading independent providers of asset finance.

Invoice Finance – the Bank's Invoice Finance division provides working capital funding to SME businesses throughout the UK. 2012 saw lending grow by 21% confirming the Bank's position as one of the fastest growing providers in the UK invoice finance market.

Mortgages Division

The Mortgages Division has gone from strength to strength during 2012 with asset balances increasing by 80% during the year.

Commercial Mortgages – the Bank has implemented a new mortgages processing system, which includes an industry leading broker portal. Lending remains first charge, low loan-to-value, primarily against commercial/industrial premises, professionally managed residential buy-to-let, and retail premises.

Residential Mortgages – the Bank continues to offer residential owner occupied and buy-to-let mortgage products via intermediaries, and in 2012 the Bank launched a direct to consumer proposition. During the year the Bank introduced a number of products which proved highly successful.

Property Development – the Bank's focus is on residential development lending since returning to this market at the start of the year.

Summary of lending asset values by Division

Division	As at 31 December 2012 £'000	As at 31 December 2011 £'000	Net Change £'000
Commercial Finance	554,116	341,303	212,813
Mortgages	1,505,487	819,132	686,355
Total	2,059,603	1,160,435	899,168

Performance Summary

Strong growth in assets across both business segments triggered growth in income levels. Income in both segments was suppressed due to unexpected changes in market rates (LIBOR/Swap), resulting in a higher cost of funds. The bank continued with its investment in terms of building out of the infrastructure, people and technology to support future growth.

Directors' report (continued)

Investment Securities

The Bank has increased its investment securities holdings from £228 million at December 2011 to £312 million at December 2012, primarily via liquid asset buffer securities comprising UK gilts and supranational bonds issued by multilateral development banks. The additional investments were made to increase the level of liquidity in the Bank, in line with its regulatory requirements.

Customer Deposits

The primary source of funding for the Bank is retail and growing small business deposits. Retail deposit products are offered to consumers and small businesses via the internet with telephone and postal support. The recent growth in assets has been funded through the deposits base. Deposit balances have increased from £1,347 million at 31 December 2011 to £2,141 million at 31 December 2012.

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 2013 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 FSA, and has firm backing from its current investors, one of whom has signed a commitment letter relating to a capital injection of £20 million.

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, interest rate risk, liquidity risk, regulatory risk, funding 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, which has been 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 Board meetings.

The Bank has an Audit and 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 non-payment of mortgage, lease and loan contracts. Credit risks are managed through the use of detailed lending criteria and suitable product and pricing 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, supported by a dedicated team within each business which assesses credit risk. Group Risk has oversight of credit management and lending activities.

The Management Credit Committee meets monthly and is responsible for monitoring portfolio performance and reviewing policy issues, such as provisioning and lending policies, and recommending these to the Board or Board Credit Committee. It is also responsible for approving credit proposals that have been presented to it by the business lines pursuant to its delegated authority.

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.

Directors' report (continued)*Forbearance*

On occasions, borrowers experience difficulties which impact on their ability to meet their mortgage or commercial finance obligations. The Bank seeks to identify borrowers who are experiencing financial difficulties as well as contacting borrowers whose loans have gone into arrears, consulting with them in order to ascertain the reason for the difficulties, and to establish the best course of action that can be taken to bring the account up to date.

In certain circumstances where the borrower is experiencing significant financial distress, the Bank may use 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 the best outcome for both the customer and the Bank by dealing with financial difficulties and 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. During 2012, the Bank undertook forbearance measures as follows:

	Mortgages Division			Commercial Finance Division			Total	
	Number	Loan Balance £'000	Year end arrears £'000	Number	Loan Balance £'000	Year end arrears £'000	Number	Loan Balance £'000
Capitalisation	-	-	-	5	260	-	5	260
Temporary or permanent switch to interest only	10	1,087	1	-	-	-	10	1,087
Reduced monthly payments	-	-	-	8	424	8	8	424
Loan term extension	1	307	-	11	1,026	20	12	1,333
Total	11	1,394	1	24	1,710	28	35	3,104

Total forborne*		0.09%			0.31%			0.15%
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* as a percentage of the total divisional lending book

The total loan balances in forbearance has decreased from £3,527,000 at 31 December 2011 to £3,104,000 at 31 December 2012.

Market risk

The impact of market risk is managed under the bank's liquidity risk, as the bank does not hold any positions that would require to be marked to market. The Bank does not carry out any proprietary trading. 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.

Directors' report (continued)*Liquidity risk*

Liquidity risk is the risk that the Bank is not able to meet its liabilities when they are due under normal conditions, and under a 91-day liquidity stress as defined by the Bank's internal stress requirements and FSA stress requirements, or can do so only at excessive cost. The Bank maintains a liquidity buffer of eligible liquid assets, such as UK government treasury bills, gilts, multinational development bank bonds and unencumbered cash. The Bank's liquidity buffer includes only sterling denominated instruments.

The Bank monitors the adequacy of its liquidity buffer on a regular basis to ensure it is sufficient at all times to meet the Bank's liquidity risk appetites as stated above. The Asset and Liability Committee (ALCo) 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.

At 31 December 2012, the Bank held a 18.2% liquidity buffer (liquid assets excluding encumbered cash as a percentage of total funding liabilities) which meets its risk appetites as defined above.

Regulatory risk

Regulatory risk is the risk that the Bank does not adhere to the changing regulatory environment in which it operates. Key changes on the horizon include the implementation of those recommendations made by the Independent Commission on Banking reforms which the UK government chooses to bring into law, the imminent implementation of the 'Twin Peaks' regulatory approach, the replacement of Basel II by CRD IV (Basel III) and the impact upon the Bank's capital base, the practical impact of the Retail Distribution Review and the Mortgage Market Review. The Bank has allocated resource to ensure continued compliance in these and other areas and the directors consider the Bank is well placed to meet the new requirements.

Funding risk

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. The Bank raises an appropriate retail and SME deposit mix to meet on-going asset creation and replacement of maturing deposits. The deposits raised are fit for purpose and meet all of the requirements as governed in the Bank's risk appetite framework, and go further to conform to forward looking early warning indicators as governed by the Bank's ALCo. 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.

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 works to a defined operational risk appetite, and operated within this appetite during the year. 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 a Senior Operational Risk Manager who has specific responsibility for managing operational risks.

Directors' report (continued)

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 financial instruments risk management is contained within note 35.

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 2012 of £0.2 million (2011: £0.8 million).

Trade creditors' days at 31 December 2012 was 4 days (2011: 19 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.

Employee Communication

In 2012 through a series of road shows and stakeholder interviews, the Bank learned that employees across the firm saw employee communications as having a leading role to play by articulating the vision, strategy, and values in a consistently memorable and compelling way. Since then, the Bank has implemented an Internal Communications framework, positioning employee communication as an integral function within Aldermore. The Bank established a Communications Steering Group and Communications Network which underpins the importance placed on two-way communication with employees. The results of the 2012 employee survey confirmed that employees understand the Bank, with 88% of people saying they receive regular information on how Aldermore is performing. Furthermore, our employees are even stronger advocates of Aldermore than previously, and are proud of, and confident in the Bank.

A Staff Conference in March brought together everyone across the Bank to learn about Aldermore's brand values and to understand how working together as 'One Aldermore' would deliver commercial advantage. In 2013 the focus will be on engaging and mobilising people towards greater loyalty, engagement, better ideas, and better products which will drive the growth of the Bank.

Directors' report (continued)

Directors

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

Phillip Monks

Jayne Almond

Sir David Arculus

John Baines (resigned 26 February 2013)

Stephen Barry

John Callender

Peter Cartwright

Finlay McFadyen (resigned 26 March 2012)

Paul Myers

David Soskin (appointed 7 June 2012)

Mark Stephens

Ian Wilkins (resigned 31 January 2013)

Certain directors benefited from qualifying third party indemnity provisions in place during the year ended 31 December 2012 and at the date of this report.

Political and Charitable Donations

The Bank made charitable donations of £5,000 in 2012 (2011: £1,000). The Bank made no political donations during the year (2011: £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 2013

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 2013 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 2012 set out on pages 16 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 14, 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 and of its profit 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.

John Ellacott (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

Leeds

28 March 2013

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

	Note	2012 £'000	2011 £'000
Interest receivable	3	103,004	53,190
Interest payable	4	(68,482)	(30,555)
Net interest income		34,522	22,635
Fees and commissions receivable	5	24,167	18,184
Fees and commissions payable	6	(10,238)	(6,656)
Other operating income	7	7,102	8,476
Net operating income		55,553	42,639
Administrative expenses	11	(50,614)	(40,681)
Depreciation and amortisation	12	(2,767)	(1,852)
Provision for bad and doubtful debts	16	(4,644)	(1,005)
Gains on disposal of debt securities	17	3,231	-
Profit/(loss) on ordinary activities before taxation	13	759	(899)
Taxation on profit/(loss) on ordinary activities	14	-	7
Profit / (loss) on ordinary activities after taxation		759	(892)

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

There were no recognised gains and losses other than the profit 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 2012

Balance Sheet**At 31 December**

	Note	2012 £'000	2011 £'000
Assets			
Cash and balances at central banks		1,654	125
Loans and advances to banks	15	83,086	123,122
Loans and advances to customers	16	2,059,603	1,160,435
Debt securities	17	312,156	227,958
Intangible assets	19	7,467	7,915
Tangible fixed assets	20	11,386	7,367
Other assets	21	22,395	14,311
Prepayments and accrued income	22	21,841	12,894
Total assets		2,519,588	1,554,127
Liabilities			
Due to banks	23	115,079	-
Customers accounts	24	2,141,198	1,347,470
Other liabilities	25	10,417	8,448
Accruals and deferred income	26	47,816	32,066
Subordinated notes	27	34,148	-
Total liabilities		2,348,658	1,387,984
Called up share capital	28	3,300	3,300
Share premium account	29	171,822	170,133
Capital contribution reserve	29	2,339	-
Profit and loss account	29	(6,531)	(7,290)
Shareholders' funds	30	170,930	166,143
Total liabilities and shareholders' funds		2,519,588	1,554,127
£'000			
Contingent liabilities	32	-	-
Commitments	32	213,639	190,555

These financial statements were approved by the Board of directors on 28 March 2013 and were signed on its behalf by:

Phillip Monks

Director and Chief Executive Officer

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 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 2013, 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 FSA, and has firm backing from its current investors, one of whom has signed a commitment letter relating to a capital injection of £20 million.

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 amount 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.

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.

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 regular 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 any appropriate 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 or economic 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 performing 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

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. Commissions receivable from the sale of third party insurance products is recognised on sale of the product with a provision for future repayment in the event of early termination by the customer.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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 debt securities and stated at cost less provision for any permanent diminution in value.

(i) Asset backed securities

Where asset backed securities are purchased at a discount, the discount is amortised through the profit and loss account on an effective yield basis to give a constant rate of return on the underlying assets.

(ii) Other debt securities

Other debt securities: where other debt 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 expected 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.

Notes to the financial statements (continued)**1 Accounting policies (continued)***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.

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.

Notes to the financial statements (continued)**1 Accounting policies (continued)***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.

v) Capital raising costs

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

w) Repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the balance sheet as the Bank retains substantially all the risks and rewards of ownership. The cash received is recognised in the balance sheet as an asset with the corresponding obligation to return it recognised as a liability within 'Due to banks'. Interest is accrued over the life of the agreement on a straight line basis.

x) Subordinated notes

Subordinated notes issued by the Bank are assessed to whether they should be treated as equity or financial liabilities. Where there is a contractual obligation to deliver cash or other financial assets they are treated as a financial liability and measured at amortised cost using the effective interest rate after taking account of any discount or premium on the issue and costs that are an integral part of the effective interest rate. The amount of any discount or premium is amortised over the period to the next call date. All subordinated notes issued by the Bank are classified as financial liabilities; however, the subordinated notes issued also included a share warrant to the holders of the subordinated notes for shares in AC Acquisitions Limited, the Bank's ultimate parent. Any amount of value attributable to this warrant is included as a capital contribution in reserves.

Notes to the financial statements (continued)**1 Accounting policies (continued)***y) Share-based payment transactions*

Employees (including senior executives) of the Bank receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments in the ultimate parent company ('equity-settled transactions'). The cost of these transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The expense recognised in the profit and loss account for the period represents the movement in cumulative expense recognised at the beginning and end of that period. Where the Bank's parent grants rights to its equity instruments to the Bank's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Bank accounts for these share-based payments as equity-settled.

2 Segmental information

2012	Commercial Finance	Mortgages	Other	Total
	£'000	£'000	£'000	£'000
Net interest income	16,342	16,849	1,331	34,522
Net fees and other income	17,045	4,045	(59)	21,031
Net operating income	33,387	20,894	1,272	55,553
Operating costs	(29,270)	(28,522)	(233)	(58,025)
Gain on sale of investment securities	-	-	3,231	3,231
Segmental profit/(loss) before taxation	4,117	(7,628)	4,270	759
Assets	554,116	1,505,487	459,985	2,519,588
Liabilities	-	-	(2,348,658)	(2,348,658)
Net assets	554,116	1,505,487	(1,888,673)	170,930
2011	Commercial Finance	Mortgages	Other	Total
	£'000	£'000	£'000	£'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	(22,852)	(20,626)	(60)	(43,538)
Segmental profit/(loss) before taxation	6,143	(7,819)	777	(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

Notes to the financial statements (continued)**2 Segmental information (continued)**

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 treasury is included in 'Other'. The method of allocation of costs has changed in 2012 and management information now allows for a more refined allocation to the two divisions. As such, the 2011 cost allocation has been restated to be on a comparable basis and has resulted in an increase in segmental profit for Commercial Finance of £532,000, an increased loss of £4,649,000 in the Mortgages division and corresponding change in 'Other' from a £3,340,000 loss to £777,000 profit.

3 Interest receivable

	2012	2011
	£'000	£'000
Loans and advances secured on property	56,661	27,180
Loans and advances to commercial finance customers	32,362	18,346
Debt Securities	11,251	3,112
Amortisation of discounts and premiums on acquired portfolios	2,099	3,559
Bank deposits and treasury bills	631	993
	<u>103,004</u>	<u>53,190</u>

4 Interest payable

	2012	2011
	£'000	£'000
Customer deposits	62,010	33,125
Issued debt	3,875	-
Net interest payable/(receivable) on derivative financial instruments	2,262	(2,570)
Securities lent and repurchase agreements	296	-
Other	39	-
	<u>68,482</u>	<u>30,555</u>

5 Fees and commissions receivable

	2012	2011
	£'000	£'000
Invoice finance fees	14,533	13,142
Mortgage arrangement fees	7,993	4,465
Insurance income receivable	767	-
Other	874	577
	<u>24,167</u>	<u>18,184</u>

Notes to the financial statements (continued)**6 Fees and commissions payable**

	2012	2011
	£'000	£'000
Introducer commissions	6,158	3,591
Legal and valuation fees	1,671	1,282
Company searches and other fees	1,598	1,195
Credit protection and insurance charges	469	588
Insurance commissions payable	342	-
	<u>10,238</u>	<u>6,656</u>

7 Other operating income

	2012	2011
	£'000	£'000
Disbursements, collect out and other invoice finance income	7,078	8,476
Other	24	-
	<u>7,102</u>	<u>8,476</u>

8 Staff costs

	2012	2011
	£'000	£'000
Wages and salaries	25,985	21,740
Social security costs	3,071	2,753
Other pension costs	705	493
	<u>29,761</u>	<u>24,986</u>

The average number of persons employed by the Bank during the year, including non-executive directors, was 492 (2011: 415).

9 Remuneration of directors

	2012	2011
	£'000	£'000
Directors' emoluments	2,072	2,164
Compensation for loss of office	348	-
Bank contributions to money purchase scheme	61	61
	<u>2,481</u>	<u>2,225</u>

Compensation for loss of office of £348,000 relates to one director and includes £75,000 pension plan contribution. In addition, the Bank's controlling party repurchased that director's shares in the Bank's ultimate parent undertaking for an amount £34,000 in excess of the initial purchase price.

The Bank made payments of £22,000 to two directors' individual personal pension plans during the year (2011: £21,000).

Notes to the financial statements (continued)**9 Remuneration of directors (continued)**

During 2012 five 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. 1,104,568 discounted B ordinary shares were purchased (2011: 557,813). The shares issued in the year give rise to a benefit of £174,000 (2011: £97,000). A charge of £139,000 has been recognised in the year in relation to the total share based payments amount. Directors' emoluments includes £nil of deferred bonus (2011: £122,000).

Highest paid director

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

	2012	2011
	£'000	£'000
Emoluments	418	430
Bank contributions to money purchase scheme	13	13
	<u>431</u>	<u>443</u>

During 2012, the highest paid director purchased 713,401 B Ordinary shares in AC Acquisitions Limited at a discount to market value, giving rise to a benefit of £127,913 (2011: £69,532).

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 £705,000 (2011: £492,000) were charged to the profit and loss account during the year in respect of these schemes. The Bank made payments amounting to £22,000 (2011: £21,000) to certain employees' individual personal pension plans during the period. There were outstanding contributions of £114,000 at the year end (2011: £78,000).

11 Administrative expenses

	2012	2011
	£'000	£'000
Staff costs (see note 8)	29,761	24,986
Legal and professional and other services	8,952	5,769
Information Technology	3,283	2,484
Office costs	2,956	2,770
Other	5,662	4,672
	<u>50,614</u>	<u>40,681</u>

12 Depreciation and amortisation

	2012	2011
	£'000	£'000
Depreciation (see note 20)	2,319	1,406
Amortisation of intangible assets (see note 19)	448	446
	<u>2,767</u>	<u>1,852</u>

Notes to the financial statements (continued)**13 Profit on ordinary activities before taxation**

The profit on ordinary activities is arrived after charging/(crediting):

	2012	2011
	£'000	£'000
Operating lease rentals – land and buildings	1,248	1,014
Operating lease rentals – plant and equipment	451	443
Foreign exchange gain	(3)	(13)
	<hr/>	<hr/>
Fees payable to the Bank's auditor for the audit of the annual accounts (excluding VAT)	185	162
Fees payable to the Bank's auditor and its associates for other services (excluding VAT)		
Taxation compliance services	22	30
Other taxation advisory services	4	18
Corporate finance services	-	425
Other assurance services	52	57
All other services	39	
	<hr/>	<hr/>
	302	692
	<hr/>	<hr/>

14 Taxation

(i) Analysis of tax charge on ordinary activities:

	2012	2011
	£'000	£'000
Current tax on profits of the year	-	-
Over provision in previous year	-	(7)
	<hr/>	<hr/>
Total current tax (credit)/charge	-	(7)
Deferred tax:		
Origination and reversal of timing differences	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Taxation on profit on ordinary activities	-	(7)
	<hr/>	<hr/>

Notes to the financial statements (continued)**14 Taxation (continued)**

(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 24.5% (2011: 26.5%). The differences are explained below:

	2012	2011
	£'000	£'000
Profit/(loss) on ordinary activities before tax	759	(899)
Tax at 24.5% (2011: 26.5%) thereon	186	(238)
Effects of:		
Movements on provisions	-	(25)
Expenses not deductible for tax purposes	152	209
Depreciation in excess of capital allowances	568	(156)
Losses utilised in the period	(816)	210
Over provision in previous year	-	(7)
Other short term timing differences	(90)	-
	<u>-</u>	<u>(7)</u>

(iii) Deferred tax asset

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 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the Bank's future current tax charge accordingly. The unrecognised deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction. Although this will further reduce the Bank's future current tax charge and reduce the Bank's deferred tax asset accordingly.

Analysis of unrecognised deferred tax balance:

	2012	2011
	£'000	£'000
Capital allowances less than depreciation	1,147	165
Other timing differences	61	679
Losses carried forward	5,646	6,916
Closing balance not recognised	<u>6,854</u>	<u>7,760</u>

Notes to the financial statements (continued)**15 Loan and advances to banks**

	2012	2011
	£'000	£'000
Repayable on demand	83,086	28,284
Repayable in three months or less	-	94,838
	<u>83,086</u>	<u>123,122</u>

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

16 Loans and advances to customers (Group)

	2012	2011
	£'000	£'000
Repayable in not more than three months	238,529	194,119
Repayable in more than three months but not more than one year	115,156	67,938
Repayable in more than one year but not more than five years	316,161	161,532
Repayable in more than five years	1,401,257	748,069
Specific and general doubtful debt provisions	(11,500)	(11,223)
	<u>2,059,603</u>	<u>1,160,435</u>

Amounts include:

Repayable on demand or at short notice	<u>202,694</u>	<u>177,018</u>
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Non-performing loans and advances to customers:

-loans and advances before provisions	<u>28,246</u>	<u>28,611</u>
-loans and advances after provisions	<u>18,805</u>	<u>18,762</u>

At 31 December 2012 loans and advances to customers of £648 million were pre-positioned with the Bank of England and HM Treasury Funding for Lending Scheme, and were available for use as collateral with the Scheme (2011: £nil).

Non-performing loans are a default position equivalent to three or more missed monthly repayments, loans where litigation proceedings have commenced, loans which are the subject of an insolvency event or fraud.

2012	Specific	General	Total
	£'000	£'000	£'000
1 January	9,849	1,374	11,223
Purchases as part of acquisition	150	-	150
Write off in year net of recoveries	(4,517)	-	(4,517)
Charge to profit and loss account	3,959	685	4,644
31 December	<u>9,441</u>	<u>2,059</u>	<u>11,500</u>

Notes to the financial statements (continued)

16 Loans and advances to customers (Group) (continued)

2011	Specific	General	Total
	£'000	£'000	£'000
1 January	12,474	2,090	14,564
Write off in year net of recoveries	(4,346)	-	(4,346)
Charge to profit and loss account	1,721	(716)	1,005
31 December	9,849	1,374	11,223
		2012	2011
		£'000	£'000
Gross finance receivables		424,950	218,657
Less unearned finance charges		(49,574)	(26,990)
		375,376	191,667
Invoice financing		178,740	149,636
Mortgage loans		1,505,487	819,132
		2,059,603	1,160,435

17 Debt securities

	Asset backed securities		Other debt securities		Total	
	2012	2011	2012	2011	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
1 January	70,408	40,920	167,375	-	237,783	40,920
Additions	54,920	41,550	95,115	167,375	150,035	208,925
Capital repayments	(20,707)	(12,062)	(15,500)	-	(36,207)	(12,062)
Disposals	(34,315)	-	-	-	(34,315)	-
31 December	70,306	70,408	246,990	167,375	317,296	237,783
Discount/(premium) on purchase						
1 January	9,314	5,117	511	-	9,825	5,117
Additions	4,645	6,421	(821)	496	3,824	6,917
Amortisation of (discount)/premium	(3,036)	(2,224)	139	15	(2,897)	(2,209)
Disposals	(5,612)	-	-	-	(5,612)	-
31 December	5,311	9,314	(171)	511	5,140	9,825
Book value						
31 December	64,995	61,094	247,161	166,864	312,156	227,958

During the year the Bank disposed of asset backed securities with a book value of £28.7 million, resulting in a gain of £3.2 million (2011: £nil).

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	Percentage
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
	2102
Cost:	£'000
At 31 December 2011 and 31 December 2012	8,962
Amortisation:	
At 1 January 2012	1,047
Amortisation for the year	448
At 31 December 2012	1,495
Net book value at 31 December 2012	7,467
Net book value at 31 December 2011	7,915

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
1 January 2012	1,384	8,975	23	10,382
Additions	504	5,834	-	6,338
Disposals	-	-	(23)	(23)
31 December 2012	<u>1,888</u>	<u>14,809</u>	<u>-</u>	<u>16,697</u>
Depreciation				
1 January 2012	852	2,140	23	3,015
Disposals	-	-	(23)	(23)
Charge for the period	189	2,130	-	2,319
31 December 2012	<u>1,041</u>	<u>4,270</u>	<u>-</u>	<u>5,311</u>
Net book value				
31 December 2012	<u>847</u>	<u>10,539</u>	<u>-</u>	<u>11,386</u>
31 December 2011	<u>532</u>	<u>6,835</u>	<u>-</u>	<u>7,367</u>

21 Other assets

	2012	2011
	£'000	£'000
Cash collateral on derivatives	21,830	12,857
Other	565	1,454
	<u>22,395</u>	<u>14,311</u>

22 Prepayments and accrued income

	2012	2011
	£'000	£'000
Prepaid broker fees	10,619	6,477
Accrued income	9,214	5,018
Other prepayments	2,008	1,399
	<u>21,841</u>	<u>12,894</u>

23 Due to banks

	2012	2011
	£'000	£'000
Due to banks – repurchase agreements	114,579	-
Due to banks – deposits	500	-
	<u>115,079</u>	<u>-</u>

Collateral given

The face values of securities sold under agreements to repurchase at 31 December 2012 was £115 million (2011: £nil) of which securities with a face value of £115 million (2011: £nil) were drawn down from the Bank of England under the terms of the Funding for Lending Scheme. The Bank conducts these transactions under the terms of applicable General Master Repurchase Agreement (GMRA) guidelines. Consideration given is accounted for as a financial liability.

Notes to the financial statements (continued)**24 Customer accounts**

	2012	2011
	£'000	£'000
Repayable on demand	449,713	137,800
Repayable in not more than three months but not on demand	379,110	129,542
Repayable in more than three months but not more than one year	1,037,395	739,091
Repayable in more than one year but not more than five years	274,980	341,037
	<u>2,141,198</u>	<u>1,347,470</u>

Customer accounts repayable on demand include £nil payable to the immediate parent company, Aldermore Holdings Limited (2011: £1.0 million).

25 Other liabilities

	2012	2011
	£'000	£'000
Other taxation and social security costs	4,508	2,580
Amounts payable to Invoice Finance customers	3,210	2,549
Unallocated cash	1,919	2,438
Trade creditors	211	818
Other payables	569	63
	<u>10,417</u>	<u>8,448</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.

26 Accruals and deferred income

	2012	2011
	£'000	£'000
Accrued interest payable to customers	20,536	12,335
Prepaid arrangement fees	13,640	8,635
Accruals	10,197	8,968
Provisions (see below)	1,944	1,012
Deferred income	976	192
Fee creditors	523	336
Amount payable to parent company	-	588
	<u>47,816</u>	<u>32,066</u>

Provisions:

	2012	2011
	£'000	£'000
Financial Services Compensation Scheme:		
1 January	1,012	426
Utilised during the year	(258)	(75)
Provided during the year	1,190	661
31 December	<u>1,944</u>	<u>1,012</u>

Notes to the financial statements (continued)**26 Accruals and deferred income (continued)**

In common with all regulated UK deposit takers, the Bank pays levies to the 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 2012 of £1,944,000 represents management expense levies for the scheme triggered but not yet invoiced, and includes an estimate of the levy for the scheme years 2012/2013 and 2013/2014. The management expenses levy has been calculated using the agreed funding rate of 12 months LIBOR + 100bps.

The provision includes the Bank's estimate of its share of the capital shortfalls on loans made to failed institutions by the FSCS. The current estimate of the industry shortfall to be recovered is £802 million and this will be recovered in three approximately equal instalments beginning in scheme year 2013/2014.

27 Subordinated notes

	2012	2011
	£'000	£'000
Subordinated notes	34,148	-

During the year the Bank issued £40 million subordinated 12.875% loan notes repayable in 2022, with an option for the Bank to redeem early after 5 years. The interest rate is fixed until May 2017. The loan notes were issued at a discount, and are carried in the balance sheet at amortised cost using the effective interest rate of 18.597%. In addition to the loan notes, a warrant was issued by the ultimate parent company, AC Acquisitions Limited, which is accounted for in the financial statements of that company. The warrant was valued at £2,200,000, and this was treated as a capital contribution to the Bank.

28 Share capital

	2012	2011
	£'000	£'000
Allotted, called up and fully paid		
Ordinary shares of 1 each		
At 1 January	3,300	3,300
Issued during the year	-	-
	<u>3,300</u>	<u>3,300</u>

During the year one ordinary share of £1 each was issued for a total of £1,700,001 creating £1,700,000 share premium.

At 31 December 2012 allotted, called up and fully paid shares totalled 3,300,010 (2011: 3,300,009).

Notes to the financial statements (continued)

29 Reconciliation of movements in shareholders' funds

	Capital contribution		Share premium account		Profit and loss account		Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	2012	2011	2012	2011	2012	2011	2012	2011
1 January	-	-	170,133	94,725	(7,290)	(6,398)	162,843	88,327
Profit/(loss) for the year	-	-	-	-	759	(892)	759	(892)
Premium on share issued during the year	-	-	1,700	77,935	-	-	1,700	77,935
Capital raising costs	-	-	(11)	(2,527)	-	-	(11)	(2,527)
Capital contribution	2,339	-	-	-	-	-	2,339	-
31 December	<u>2,339</u>	<u>-</u>	<u>171,822</u>	<u>170,133</u>	<u>(6,531)</u>	<u>(7,290)</u>	<u>167,630</u>	<u>162,843</u>

During the year a non-returnable capital contribution of £2,200,000 was received on the issue of share warrants by the ultimate parent company AC Acquisitions Limited. This amount is distributable. In addition, five 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. This gives rise to a capital contribution reserve in the Bank of £139,000 which is distributable. Full details of the share based payment programme are contained in the financial statements of the Bank's ultimate parent undertaking. The charge in the Bank's profit and loss account for the year in relation to all share based payment transactions was £139,000.

30 Reconciliation of movements in shareholders' funds

	2012	2011
	£'000	£'000
Profit/(loss) for the year	759	(892)
Shares issued during the year	-	-
Premium on shares issued during the year	1,700	77,935
Capital raising costs	(11)	(2,527)
Capital contribution during the year	2,339	-
Net additions to shareholders' funds	<u>4,787</u>	<u>74,516</u>
Opening shareholders' funds	166,143	91,627
Closing shareholders' funds	<u>170,930</u>	<u>166,143</u>

31 Financial commitments

At 31 December 2012 the Bank was committed to making the following payments under non-cancellable operating leases:

	2012	2011
	£'000	£'000
Operating leases which expire:		
In less than one year	357	196
Between two and five years	913	828
In over five years	-	-
	<u>1,270</u>	<u>1,024</u>

Notes to the financial statements (continued)**31 Financial commitments (continued)****Plant and equipment**

	2012	2011
	£'000	£'000
Operating leases which expire:		
In less than one year	-	-
Between two and five years	435	437
In over five years	-	-
	<u>435</u>	<u>437</u>

At 31 December 2012 the majority of plant and equipment related to 74 cars that the Bank held under lease (2011: 82). The majority of these leases are due to expire in 2014.

32 Memorandum items

At 31 December 2012 the Bank had contingent liabilities of £nil (2011: £nil).

At 31 December 2012 the Bank had undrawn commitments of £213.6 million (2011: £190.6 million). These relate mostly to irrevocable lines of credit granted to customers.

33 Assets and liabilities denominated in foreign currency

As at 31 December 2012, there were assets of £2,047,000 (2011: £1,851,000) and liabilities of £nil (2011: £84,000) denominated in Euros. There were assets of £2,331,000 (2011: £725,000) and liabilities of £229,000 (2011: £nil) denominated in US Dollars. There were no other foreign currency assets or liabilities at the balance sheet date.

34 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 2012 were £113,000 (2011: £39,000).

Phillip Monks, a director of the Bank, received a loan during the year totalling £67,000 (2011: £36,000) for the purposes of enabling him to satisfy his personal tax liability in respect of shares issued. Interest was charged at a rate of 2.16% p.a. with the total amount outstanding at the year end being £105,000 (2011: £36,000) and no repayments were made during the year.

Paul Myers, a director of the Bank, received a loan during the year totalling £5,000 (2011: £3,000) for the purposes of enabling him to satisfy his personal tax liability in respect of shares issued. Interest was charged at a rate of 2.16% p.a. with the total amount outstanding at the year end being £8,000 (2011: £3,000) and no repayments were made during the year.

The Bank is controlled by AnaCap Financial Partners, II L.P. (52.3%) and AnaCap Financial Partners, L.P. (47.7%) who are the main shareholders of AC Acquisitions Limited. The following agreements are in place with a company under their common control.

Notes to the financial statements (continued)**34 Related parties (continued)**

The Bank provides £5 million of Block Discounting facilities to Syscap Limited. The facilities commenced in September 2009 and are secured by underlying receivables of short term loans, primarily to solicitors' practices which are funded at a discount to the face value of the loans. The facilities contain appropriate conditions relating to performance, non-performing deal substitution rights and default provisions in line with Aldermore's standard commercial policies. Pricing on the facilities is subject to normal commercial terms.

During the year Syscap Limited introduced business of £32.3 million (2011: £49.2 million) and received commission of £0.4 million (2011: £0.4 million) of which £nil is outstanding at year end (2011: £nil).

In addition the Bank has been charged investment monitoring fees and capital raising costs by AnaCap Financial Partners of £75,000 for the year (2011: £825,000). The balance outstanding at the year end is £120,150 (2011: £125,000).

35 Financial instruments

The Bank's financial instruments comprise borrowings from banks, loan notes, 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, regulatory risk, funding 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. Credit exposures are reviewed 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. The Bank has no direct exposure to any distressed Eurozone countries.

Liquidity risk

Liquidity risk is the risk that the Bank is not able to meet its liabilities when they are due under normal conditions, and under a 91-day liquidity stress as defined by the Bank's internal stress requirements and FSA stress requirements, or can do so only at excessive cost. The Bank maintains a liquidity buffer of eligible liquid assets, such as UK government treasury bills, gilts, multinational development bank bonds and unencumbered cash. The Bank's liquidity buffer includes only sterling denominated instruments.

The Bank monitors the adequacy of its liquidity buffer on a regular basis to ensure it is sufficient at all times to meet the Bank's liquidity risk appetites as stated above. The ALCo 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.

Notes to the financial statements (continued)

35 Financial instruments (continued)

Regulatory risk

Regulatory risk is the risk that the Bank does not adhere to the changing regulatory environment in which it operates. Key changes on the horizon include the implementation of those recommendations made by the Independent Commission on Banking reforms which the UK government chooses to bring into law, the imminent implementation of the 'Twin Peaks' regulatory approach, the replacement of Basel II by CRD IV (Basel III) and the impact upon the Bank's capital base, the practical impact of the Retail Distribution Review and the Mortgage Market Review. The Bank has allocated resource to ensure continued compliance in these and other areas and the directors consider the Bank is well placed to meet the new requirements.

Funding risk

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. The Bank raises an appropriate retail and SME deposit mix to meet on-going asset creation and replacement of maturing deposits. The deposits raised are fit for purpose and meet all of the requirements as governed in the Bank's risk appetite framework, and go further to conform to forward looking early warning indicators as governed by the Bank's ALCo. 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.

The Bank is also participating in the Funding for Lending Scheme (FLS) launched by the Bank of England and HM Treasury, which expands the funding mix utilised by the Bank. In order to access the facility, the Bank pre-positions certain lending assets in exchange for UK government treasury bills ("FLS T-bills") which are then converted to cash via repurchase agreements with other counterparties. The FLS T-bills have a fixed maturity of four years from drawdown. The volume of funding available from the scheme is dependent on the Bank's net new lending and on availability of collateral.

The FLS Repurchase agreements encumber the FLS T-bills, and have variable maturity dates according to the Bank's liquidity requirements. Further information is contained within note 23.

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 2012, there were 96 swaps outstanding (2011: 75). There were unrealised losses outstanding at the year end of £21.1 million (2011: £12.8 million), of which £3.5 million (2011: £1.7 million) is expected to be realised in the year ending 31 December 2013.

Notes to the financial statements (continued)

35 Financial instruments (continued)

Funding risk (continued)

	Interest rate swaps		Others	
	Notional values	Fair values	Notional values	Fair values
	£'million	£'000	£'million	£'000
2012				
Maturity				
1 year or less	962.0	3,533	9.6	(6)
5 years or less but over 1 year	808.8	(4,972)	-	-
More than 5 years	86.9	(19,670)	-	-
	<u>1,857.7</u>	<u>(21,109)</u>	<u>9.6</u>	<u>(6)</u>
2011				
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	(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>

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, the FLS and from customer deposits. At present the Bank has a minimal level of re-pricing mismatches. The table below summarises the re-pricing mismatches on the Bank's non-trading book as at 31 December 2012. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

A positive interest rate sensitivity gap exists when more assets than liabilities re-price 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)

35 Financial instruments (continued)

Interest rate risk (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 2012	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	500	-	-	-	-	1,154	1,654
Loans and advances to banks	83,086	-	-	-	-	-	83,086
Debt securities	139,306	-	-	91,115	86,875	(5,140)	312,156
Loans and advances to customers	1,117,303	52,316	161,776	735,793	8,561	(16,146)	2,059,603
Other assets	21,830	-	-	-	-	41,259	63,089
Total assets	1,362,025	52,316	161,776	826,908	95,436	21,127	2,519,588
Due to banks	44,898	70,181	-	-	-	-	115,079
Customer accounts	828,710	409,439	627,956	274,943	-	150	2,141,198
Other liabilities	-	-	-	-	-	58,233	58,233
Subordinated notes	-	-	-	34,148	-	-	34,148
Shareholders' funds	-	-	-	-	-	170,930	170,930
Total liabilities	873,608	479,620	627,956	309,091	-	229,313	2,519,588
Off balance sheet items	(135,982)	254,944	406,886	(438,973)	(86,875)	-	-
Interest rate sensitivity gap	352,435	(172,360)	(59,294)	78,844	8,561	(208,186)	-
Cumulative gap	352,435	180,075	120,781	199,625	208,186	-	-

Notes to the financial statements (continued)**35 Financial instruments (continued)***Interest rate risk (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
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2011							
Cash and balances at central banks	-	-	-	-	-	125	125
Loans and advances to banks	115,774	-	-	-	-	7,348	123,122
Debt securities	130,908	5,000	-	10,000	91,875	(9,825)	227,958
Loans and 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
Customers 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	-	-

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 assets and liabilities and non-trading derivatives used for hedging and funding purposes.

	Book Value 2012 £'000	Fair Value 2012 £'000	Book Value 2011 £'000	Fair Value 2011 £'000
On balance sheet instruments				
Asset backed securities	64,995	68,655	61,094	60,875
Corporate bonds	-	-	5,473	5,473
UK Government debt securities	131,176	144,699	60,102	65,190
Supranational bonds	115,985	126,931	101,289	109,392
Subordinated notes	(34,148)	(34,148)	-	-
Off balance sheet instruments				
Interest rate swaps	2,418	(21,109)	1,880	(12,803)
Other off balance sheet	-	(6)	-	22
	280,426	285,022	229,838	228,149

36 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 Financial Partners, II LP (52.3%) and AnaCap Financial Partners, L.P. (47.7%).

Notes to the Financial Statements (continued)

36 Ultimate parent company (continued)

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.

37 Post balance sheet events

There have been no material post balance sheet events.